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

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

2020 ANNUAL REPORT


1905
延长石油
YANCHANG PETROLEUM
G-17-Q

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Li Yi *(Chairman)*
Ms. Sha Chunzhi
Mr. Feng Yinguo
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

BDO Limited
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
Certified Public Accountants
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Hong Kong

REGISTERED OFFICE

Clarendon House
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Hamilton HM 11
Bermuda

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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STOCK CODE

00346

WEBSITE

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CHAIRMAN'S STATEMENT

In 2020, the global pandemic of COVID-19 continued its rampage and most of the world's major economies had experienced negative growth. The acute contraction in demand in the oil and gas industry continued to cause a downturn in oil prices. With so many unfavourable factors, the survival and development of the energy industry faced unprecedented challenges. Challenges and opportunities always co-exist. The upstream business of Yanchang Petroleum International Limited (the "Company") is centralized in Saskatchewan and Alberta, Canada, which is one of the most matured oil and gas markets in the world, while its downstream business includes the People's Republic of China (the "PRC") refined oil distribution in Henan, and domestic and international oil and by-products trade in Zhejiang. In the past few years, the Company has initially formed a comprehensive business chain integrating the oil and gas production, import, sub-contracted processing and distribution sectors.

UPSTREAM OIL AND GAS PRODUCTION BUSINESS IN CANADA

In the first half of 2020, Novus Energy Inc. ("Novus") lowered its costs to the greatest extent through increasing single well tanks and gathering stations inventory, and further leveraged the favourable oil price rising situation when entering the third quarter to increase crude oil sales, reduced inventory and increased income. Novus produced 445,000 barrels of equivalent ("BOE") for the year when compared with 746,000 BOE of last year, of which 363,000 barrels of crude oil and 13.99 million cubic meters of natural gas. The annual average crude oil selling price in the "Viking" play and the "Success" play were CAD41.16/barrel and CAD31.74/barrel respectively, and natural gas selling price was CAD0.07/m^3. Sales revenue for the year was CAD15.84 million.

Production and Operation

The net well drilling by Novus in 2020 was 2.5, of which one well was a co-operation project in which Novus owned 50% equity, while the other two were new drillings and were put into production in late December. As of December 2020, we had 402.5 horizontal wells and 75.4 vertical wells were in production.

Novus implemented the most stringent measures in 2020 through adjusting and optimizing staff deployment and temporarily closed down some wells with poor productivity performance, so as to minimize losses and ensure the liquidity to the greatest extent during the pandemic and plummet crude oil price period.

The operating expenses in 2020 were CAD9 million in total, down by CAD3.2 million when compared with CAD12.2 million in 2019. The Novus site staff strived to cut down costs while keeping as many wells as possible in normal operation. Many on-site workers worked for Novus without pay to ensure the normal and safe operation of the oil fields.

The administrative and management expenses in 2020 were CAD2.6 million, a decrease of CAD1.2 million or 31.6% when compared with CAD3.8 million in 2019. By cutting down administrative expenses and applying for federal subsidies, the administrative and management expenses of Novus in 2020 were reduced to its lowest level in history.

Novus re-negotiated and signed a pipeline transportation agreement with Inter Pipeline, a pipeline transportation company, in April 2020. According to the new agreement, Novus receives approximately CAD2 per barrel discount until July 2021. As of the end of 2020, the new agreement has saved Novus about CAD600,000 and will save another CAD150,000 in 2021.

DOWNSTREAM OIL AND BY-PRODUCTS SALES BUSINESS IN CHINA

(i) Henan Yanchang refined oil business

In 2020, Henan Yanchang Petroleum Sales Co., Limited ("Henan Yanchang") sold a total of 6.024 million tonnes of refined oil, a year-on-year increase of 49% and achieved operating income of RMB22.18 billion, total profit of RMB17.043 million. Receivables recovery was 100%. Integrated controls on production and financial operations have been conducted in a safe and efficient manner with no accidents reported.

Expanding direct sales business scale with quantity and efficiency both increasing

Sales along highways are mainly selling external sourcing products, and is supplemented by direct factory sales. The development of direct sales selling external sourcing products has broadened our procurement channels and improved factory sales potential. In 2020, the proportion of sales along highways to external sourcing sales was 1:3. While fortifying the dominant position in the south-western PRC market, railway direct sales deepened the strategic co-operation with Sinopec beyond Henan Province, and gradually developed towards north-western PRC, Hubei and Hunan. Sales in north-western PRC have increased significantly, accounted for 22.77%. The monthly sales volume of railway direct sales exceeded 100,000 tonnes, hitting historic high.

Sales from external sourcing advancing optimistically, achieving transformation and breakthrough

In 2020, Henan Yanchang continued to deepen the partnerships with key customers, accelerated business transformation, forged professional teams, paid close attention to risk management and control, and extended business chain, with sales volume and results both achieved substantive breakthrough. Especially in terms of non-oil products trade, Henan Yanchang opened up the non-ferrous metals, liquid wax, residual oil, LNG and other business sectors of new non-oil products during the year. In 2020, the cumulative sales volume from external sourcing was 3.266 million tonnes, over 200% increase year-on-year. Sales revenue was RMB18.069 billion and gross profit was RMB30.88 million, both of which had dominantly accounted for over 50% of total business of Henan Yanchang.

Terminal development leaping forward to foster brand equity

Resting on the development concept of "mutual facilitation among tanks and gas stations" and with precise market positioning, a total of 3 oil tanks and 4 gas stations were added in 2020. 2 strategic co-operative oil tanks were layout in Ningxia, and completed the signing of 1 franchised gas station. The annual sales of oil products were over 60,000 tonnes, of which gasoline monthly sales reached more than 3,000 tonnes, which had accumulated valuable experience for the co-operation business of oil tanks for Henan Yanchang beyond Henan Province, while also effectively enhanced the brand effect of Shaanxi Yanchang Petroleum (Group) Co., Limited ("Yanchang Petroleum Group") in the north-western PRC market. Henan Yanchang completed the leasing co-operation of one oil tank and three gas stations in Zhoukou, Henan, and marched a big step forward in the terminal business expansion of the Henan regional market. Henan Yanchang became the first company under Yanchang Petroleum Group to carry out franchising and gas station leasing business, and has accumulated experience for the multi-channel oil tanks and gas stations layout of Yanchang Petroleum Group. Henan Yanchang continued to strengthen the operation and management of the existing 4 gas stations, enhance branding, service and marketing promotion. Since the second quarter, the average daily sales of gas stations have remained at about 40 tonnes, with good word of mouth, brand strength and reputation in the regional market.

(ii) Yanchang Zhejiang oil and by-products business

In 2020, Yanchang Petroleum (Zhejiang FTZ) Limited ("Yanchang Zhejiang") achieved sales volume of 333,000 tonnes, which were mainly bitumen products, achieving an 18-fold increase year-on-year. Sales revenue was RMB680 million, including revenue of raw oil import business of RMB350 million, domestic trade sales revenue of RMB230 million, and revenue from factory finished product sales of RMB100 million. Achieved profit of RMB7.66 million in 2020, and receivables recovery rate was 100%.

Expand trade to ensure survival, and double-wheel drive mode to improve results

In order to effectively cope with the impact of low oil prices and win the battle, Yanchang Zhejiang built timely position in the import trade link, which hedged the cost of goods in high-priced range, and realized profit in 2020. Meanwhile, Yanchang Zhejiang seized the market opportunity of funds shortage and inability to start production in many high-quality local refineries in the PRC, and successfully carried out in-depth co-operation with Chongqing Longhai Refinery in the face of fierce competition, to realize the "double-wheel drive" mode of trade plus sub-contracted processing.

Comprehensively plan risks control, and dig deep into the high-price regional markets

In accordance with the strategic deployment of "guaranteeing production, operation for further development", Yanchang Zhejiang made strict control of major risks, improved the management and control principles and transaction mode of trading business, and established internal management and control systems and risk prevention and control measures. At present, Yanchang Zhejiang has seized the favourable opportunity of rising market prices to actively carry out sales in the high-priced regions of Yunnan, Guizhou, Sichuan, and Chongqing, while rapidly establishing a sales team.

OUTLOOK

In May 2020, after the US$60 million convertible bonds held by Yanchang Petroleum Group (Hong Kong) Co., Limited ("Yanchang Petroleum HK") were fully converted, the Company's financial position has been significantly improved. In order to further consolidate the capital structure, optimize equity structure, and enrich the Company's capital strengths, our management team proactively explored different aspects, and discussed strategic co-operation possibility with numerous fund and investment companies, striving for early implementation of strategic co-operation.

The world's major economies have already adapted to the impact of COVID-19, and as vaccinations are already rollout all over the world, major economies have adjusted their economic growth targets upwards for 2021, and market confidence has increased and also stabilised international crude oil prices. Through the efforts in the past few years, the Company has consolidated its existing assets, improved its financial situation, and built a basic framework for future development. The Company will grasp the favourable environment of global economic and crude oil prices bounce back to increase revenue, earn profit, establish an intrinsic regime for sustainable profitability, continuous business expansion, and seek maximum benefits for shareholders of the Company.

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 2020 together with the comparative figures as follows:

Highlights on financial results

	2020 HK$'000	2019 HK$'000	Change in %
Revenue	**27,256,800**	8,197,422	233%
Other revenue	**4,120**	11,484	(64%)
Purchases	**(27,007,663)**	(7,878,319)	243%
Royalties	**(9,144)**	(26,700)	(66%)
Field operation expenses	**(54,688)**	(72,007)	(24%)
Exploration and evaluation expenses	**(2,047)**	(2,337)	(12%)
Selling and distribution expenses	**(46,030)**	(13,347)	245%
Administrative expenses	**(66,532)**	(75,974)	(12%)
Depreciation, depletion and amortisation	**(98,178)**	(145,585)	(33%)
Other gains and losses	**(705,121)**	(304,891)	131%
Finance costs	**(51,013)**	(61,850)	(18%)
Taxation	**(13,173)**	(62,660)	(79%)
Loss for the year	**(792,669)**	(434,764)	82%

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 2020, the Group's turnover was mainly derived from the production of oil and natural gas in Canada as well as the trading of oil and by-products in the PRC.

Novus is engaged in the business of exploration, exploitation and production of oil and natural gas in Western Canada. Novus achieved production of oil and gas of 463,000 BOE and contributed production income of HK$95,827,000 during the year under review as compared to production of 746,000 BOE and production income of HK$228,803,000 of the previous year. Due to the suppressed demand and sharp decline in oil prices as a result of the COVID-19 pandemic persisted during the year under review, the exploration, exploitation and operation business recorded an operating loss of HK$68,239,000 this year as compared to an operating loss of HK$52,173,000 last year.

Due to an increase in sales volume from the previous year of 3.70 million tonnes to this year of 6.36 million tonnes, the revenue of oil and by-products trading business of the PRC increased by 240.8% from the previous year of HK$7,968,619,000 to this year of HK$27,160,973,000 and contributed a segment operating profit of HK$57,342,000, as compared to a profit of HK$42,370,000 in the previous year.

FINANCIAL REVIEW *(Continued)*

Highlights on financial results *(Continued)*

Other revenue

Apart from the aforesaid segment results, other revenue of HK$4,120,000 which mainly represented interest income from bank deposits and storage fee, oil card income from the PRC was recorded for the year under review, compared to that of HK$11,484,000 in the previous year.

Purchases

Purchases were wholly derived from the oil and by-products trading business in the PRC, which increased from the previous year of HK$7,878,319,000 to this year of HK$27,007,663,000. 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 the last year of HK$26,700,000 to the current year of HK$9,144,000 due to drop in oil prices and sale volume.

Field operation expenses

Due to the austerity measures by Novus, field operation expenses decreased to this year of HK$54,688,000 from the previous year of HK$72,007,000. 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$2,047,000 which represented the holding costs, mainly lease rentals, on the interests of non-producing lands held by Novus, compared to that of HK$2,337,000 in the previous year.

Selling and distribution expenses

Selling and distribution expenses, increased from the previous year of HK$13,347,000 to the current year of HK$46,030,000. Such increase in the expenses was mainly incurred by Henan Yanchang and Yanchang Zhejiang as a result of increase in trading volume of oil and by-products trading business in the PRC.

Administrative expenses

Administrative expenses including directors' remuneration, staff costs, office rentals, professional fees and listing fee etc., amounted to HK$66,532,000 this year, compared to HK$75,974,000 of the previous year. Such decrease was mainly attributable to the saving of expenditure for the year under review.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation decreased from the previous year of HK$145,585,000 to the current year of HK$98,178,000. This was mainly due to the decrease in depletion of Novus in Canada during the year under review.

Other gains and losses

Other losses of HK$705,121,000 recorded this year mainly including (i) the impairment loss on the oil and gas assets of the Group amounting to HK$706,608,000, (ii) written off of expired exploration and evaluation assets of HK$3,107,000, (iii) share of loss on other non-current assets of HK$1,148,000, and after offsetting (iv) net foreign exchange gains of HK$6,000,000.

FINANCIAL REVIEW *(Continued)*

Highlights on financial results *(Continued)*

Finance costs

Finance costs of HK$51,013,000 comprised (i) bank borrowing costs and secured term loan interest totalling HK$32,696,000 related to the businesses of Henan Yanchang and Novus, (ii) accretion expenses totaling HK$2,156,000 related to the provision of the decommissioning liabilities incurred by Novus, (iii) imputed interest of HK$11,858,000 arising from the issue of the convertible bonds, and (iv) imputed interest of HK$4,303,000 related to lease liabilities.

Taxation

Taxation of HK$13,173,000 comprised (i) provision for the PRC enterprise income tax on the profit earned from the oil and by-products trading business of the PRC amounted to HK$13,977,000 and after off-setting (ii) recognition of deferred tax assets amounted to HK$804,000.

Loss for the year

During the year under review, oil and by-products trading business of the PRC still performed well and remained profitable. However, due to the suppressed demand in crude oil and sharp decline in oil prices, the exploration, exploitation and operation business in Canada recorded an operating loss and the significant impairment of oil and gas assets. The Group as a whole recorded a loss of HK$792,669,000 for the year as compared to a loss of HK$434,764,000 for the previous year.

FINANCIAL REVIEW *(Continued)*

Highlights on financial position

	2020 HK$'000	2019 HK$'000	Change in %
Property, plant and equipment	**955,951**	1,653,657	(42%)
Investment properties	**17,533**	16,718	5%
Exploration and evaluation assets	**–**	16,802	N/A
Right-of-use assets	**99,631**	24,656	304%
Goodwill and intangible asset	**58,149**	58,149	–
Inventories	**195,992**	31,541	521%
Trade receivables	**344,351**	170,711	102%
Prepayments, deposits and other receivables	**522,712**	267,705	95%
Cash and bank balances	**436,084**	298,688	46%
Trade and other payables	**(743,764)**	(302,846)	146%
Bank borrowings	**(572,112)**	(257,025)	123%
Convertible bonds	**–**	(467,755)	N/A
Decommissioning liabilities	**(144,667)**	(129,114)	12%
Lease liabilities	**(88,668)**	(10,400)	753%
Secured term loan	**(271,384)**	(271,384)	–

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$955,951,000. The decrease for the year was mainly attributable to the recognition of impairment loss on petroleum and natural gas properties of Novus in Canada and recognition of impairment loss on construction-in-progress in the PRC.

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 2020, and the amount had been fully impaired.

Right-of-use assets

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

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 and inventory of oil products of Yanchang Zhejiang in the PRC as at 31 December 2020.

Trade receivables

Trade receivables represented account receivables from customers of Novus in Canada, Henan Yanchang and Yanchang Zhejiang in the PRC as at 31 December 2020. The outstanding amounts had been mostly recovered in February 2021.

Prepayments, deposits and other receivables

Prepayments, deposits and other receivables increased to this year of HK$522,712,000 from the previous year of HK$267,705,000. Such increase was mainly due to the increase in prepayments made for the purchases of refined oil by Henan Yanchang and for the purchases of oil and by-products by Yanchang Zhejiang, for the trading business in the PRC.

Cash and bank balances

As at 31 December 2020, cash and bank balances increased by HK$137,396,000 and maintained at HK$436,084,000 as compared to the last year of HK$298,688,000.

Trade and other payables

Trade and other payables mainly represented trade payables to suppliers and prepayments received in advance from customers of oil and by-products trading business in the PRC as at 31 December 2020.

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$60,000,000 2-year convertible bonds with coupon interest rate of 6% issued to Yanchang Petroleum HK in November 2018. The aggregate principal amount of US$60,000,000 convertible bonds were fully converted into ordinary shares of the Company on 15 May 2020.

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 leasehold lands in the PRC owned by Henan Yanchang and office rentals in the PRC, Hong Kong and Canada.

Secured term loan

The amount represented the US$35,000,000 3-year secured term loan granted to Novus by Yanchang Petroleum HK as general working capital for operation.

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 2020.

	2020 **HK$'000**	2019 HK$'000
Current assets	**1,499,139**	768,645
Total assets	**2,636,012**	2,545,384
Current liabilities	**1,324,754**	1,032,930
Total liabilities	**1,834,876**	1,452,038
Total equity	**801,136**	1,093,346
Gearing ratio	**229.0%**	132.8%
Current ratio	**113.2%**	74.4%

The Group had outstanding variable interest rates bank borrowings amounted to HK$572,112,000 (equivalent to RMB480,000,000) as at 31 December 2020 (31 December 2019: HK$257,025,000) under Henan Yanchang. The Group has obtained bank facilities of HK$750,897,000 (equivalent to RMB630,000,000) from banks in the PRC in 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 aggregate principal amount of US$60,000,000 convertible bonds were fully converted into ordinary shares on 15 May 2020.

On 20 December 2019, Novus has drawn down the secured term loan of US$35,000,000 granted by Yanchang Petroleum HK 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. The principal amount of secured term loan was still outstanding as at 31 December 2020.

As at 31 December 2020, the Group had cash and bank balances of HK$436,084,000 (31 December 2019: HK$298,688,000). 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 2020, the gearing ratio of the Group, measured on the basis of total liabilities as a percentage of total equity, was 229.0% as compared to 132.8% 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 113.2% as at 31 December 2020 (31 December 2019: 74.4%).

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. No commodity contract was entered for the year ended 31 December 2020.

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 2020 (31 December 2019: nil).

SIGNIFICANT INVESTMENTS

The Group did not hold any significant investments as at 31 December 2020 (31 December 2019: nil).

CAPITAL COMMITMENTS

As at 31 December 2020, the Group had commitments related to property, plant and equipment amounted to HK$8,585,000 (31 December 2019: HK$1,713,000).

Save as the aforesaid, the Group did not have any other material commitments as at 31 December 2020.

PLEDGE OF ASSETS

US$35,000,000 secured term loan granted by Yanchang Petroleum HK, available to Novus, is secured by the debenture of US$70,000,000 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 2020, the Group did not have any significant contingent liabilities (31 December 2019: nil).

LITIGATION

As at 31 December 2020, the Group had no material litigation (31 December 2019: nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the Group's total number of staff was 218 (2019: 163). Salaries of employees are maintained at a competitive level with total staff costs for the year ended 31 December 2020 amounted to HK$55,026,000 (2019: HK$63,719,000). 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 include 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 years ended 31 December 2020 and 2019.

DIVIDENDS

The Board does not recommend the payment of any dividends for the year ended 31 December 2020 (31 December 2019: 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 2020 and 2019.

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 2020 and its opinion that the reserve estimates are reasonable.

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

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

	Canada		
Net proved reserves	**Oil and natural gas liquids** (Mbbl)	**Natural gas** (MMcf)	**Total** (Mboe)
At 1 January 2020	11,127.5	21,026.0	14,631.8
Acquisition	–	–	–
Production	(370.5)	(556.0)	(463.2)
Disposals	–	–	–
Discoveries & revisions	(1,866.0)	(3,757.0)	(2,492.1)
At 31 December 2020	8,891.0	16,713.0	11,676.5

	Canada		
Net probable reserves	**Oil and natural gas liquids** (Mbbl)	**Natural gas** (MMcf)	**Total** (Mboe)
At 1 January 2020	4,217.5	8,295.0	5,600.0
Acquisition	–	–	–
Disposals	–	–	–
Discoveries & revisions	401.6	521.0	488.4
At 31 December 2020	4,619.1	8,816.0	6,088.4

	Canada		
Net proved + probable reserves	**Oil and natural gas liquids** (Mbbl)	**Natural gas** (MMcf)	**Total** (Mboe)
At 1 January 2020	15,345.0	29,321.0	20,231.8
Acquisition	–	–	–
Production	(370.5)	(556.0)	(463.2)
Disposals	–	–	–
Discoveries & revisions	(1,464.4)	(3,236.0)	(2,003.7)
At 31 December 2020	13,510.1	25,529.0	17,764.9

Notes:

1. Barrels of oil equivalent ("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. bbl = barrels
   Mbbl = thousand barrels
   Mboe = thousand barrels of oil equivalent
   Mcf = thousand cubic feet
   MMcf = million cubic feet

B. MAJOR EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES

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

	Canada	**Madagascar**
Exploration activities:	1,295 hectares unproved land acquired	nil
Development activities:	2.5 wells drilled 2.5 wells completed	nil
Production activities:	Average daily net production Oil: 1,012 bbl Gas: 1,520 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 2020:

	Canada HK$'000	**Madagascar** HK$'000	**Total** HK$'000
Exploration costs	2,047	–	2,047
Developments costs	33,524	–	33,524
Production costs *(note)*	54,688	–	54,688

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 57, 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 the 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 47, 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.

EXECUTIVE DIRECTORS *(continued)*

Mr. Feng Yinguo

Aged 55, was appointed as an executive Director on 9 June 2020. Mr. Feng is currently the executive director and the deputy secretary of the Party Committee of Shaanxi Yanchang Petroleum International Exploration and Development Engineering Co., Limited under Yanchang Petroleum Group. Mr. Feng joined Yanchang Petroleum Management Bureau under Yanchang Petroleum Group in December 1983. He was mainly responsible for oil mine management, exploration and development, and was promoted from technician to deputy officer. From December 2017 to March 2020, he served in Oil And Gas Exploration Company under Yanchang Petroleum Group and was promoted to deputy general manager. Mr. Feng obtained a master's degree in Executive Master of Business Administration at Shaanxi Master of Business Administration Institute, and is also a senior petroleum engineer. Mr. Feng has been engaged in oil and gas exploration, development and management for a long time, and has extensive experience in integrated oil and gas management and business leadership.

Mr. Li Jun

Aged 43, 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 the supervisor and then promoted to 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 51, 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 has been elected as a member of Court of the University of Hong Kong. Mr. Ng is also a Council Member of the Hong Kong Polytechnic University, a director of the Hong Kong Science & Technology Parks Corporation, a chairman of the Hong Kong Taiwan Business Co-operation Committee, a chairman of HKSAR Passports Appeal Board, a vice chairman of Independent Police Complaint Council, a non-executive director of Mandatory Provident Fund Schemes Authority, a member of Competition Commission and a member of the Chinese People's Political Consultative Conference of Chongqing City, the PRC. Mr. Ng has been appointed as an independent non-executive director of MTR Corporation Limited (a company listed on The Stock Exchange of Hong Kong Limited (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 elected as a member of the Legislative Council (Industrial (Second) Functional Constituency) on 4 September 2016. He had 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Mr. Leung Ting Yuk

Aged 46, was appointed as an independent non-executive Director on 3 December 2009. Mr. Leung is also the chairman of the audit committee and a member of the remuneration committee of the Company. Mr. Leung holds a bachelor of Commerce with major in accounting in University of Wollongong, Australia. He is a member of the Certified Practicing Accountants, Australia and the Hong Kong Institute of Certified Public Accountants. He has over 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 67, 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 中國電子進出口陝西公司 (China Electronics Import and Export Shaanxi Company) 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 63, 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 57, 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 the director of certain subsidiaries of the Company.

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 2020.

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 6 and the Management Discussion and Analysis section on pages 7 to 15 of the annual report. This discussion forms part of the directors' report.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activities and geographical area of operations for the year ended 31 December 2020 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 2020 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 51 to 137. The state of affairs of the Company on 31 December 2020 is set out in note 39 to the consolidated financial statements.

The Directors do not recommend the payment of any dividends for the year (2019: nil).

SUMMARY OF FINANCIAL INFORMATION

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

Results

	Year ended 31 December				
	2020	2019	2018	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
				(Restated)	
			(note 2)	*(note 1)*	
Revenue	**27,256,800**	8,197,422	5,933,388	4,092,177	20,568,871
(Loss)/profit before taxation	**(779,496)**	(372,104)	40,479	(49,651)	(331,317)
Taxation	**(13,173)**	(62,660)	(34,211)	(8,974)	61,025
(Loss)/profit for the year	**(792,669)**	(434,764)	6,268	(58,625)	(270,292)
(Loss)/profit attributable to					
– Owners of the Company	**(795,765)**	(443,742)	(741)	(65,289)	(267,722)
– Non-controlling interests	**3,096**	8,978	7,009	6,664	(2,570)
	(792,669)	(434,764)	6,268	(58,625)	(270,292)

Assets and liabilities

	At 31 December				
	2020	2019	2018	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(note 2)		
Non-current assets	**1,136,873**	1,776,739	2,096,430	2,120,180	1,891,790
Current assets	**1,499,139**	768,645	893,252	743,728	750,430
Total assets	**2,636,012**	2,545,384	2,989,682	2,863,908	2,642,220
Current liabilities	**(1,324,754)**	(1,032,930)	(914,849)	(1,118,340)	(635,048)
Non-current liabilities	**(510,122)**	(419,108)	(603,896)	(150,922)	(482,862)
Total liabilities	**(1,834,876)**	(1,452,038)	(1,518,745)	(1,269,262)	(1,117,910)
Total equity	**801,136**	1,093,346	1,470,937	1,594,646	1,524,310

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.

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 18 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 55 and 56.

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, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2020, 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 2020, the Company's reserves available for distribution and/or distribution in specie, calculated in accordance with the Companies Act of Bermuda, is HK$193,975,000 (2019: HK$641,272,000) 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.

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 17%.

(2) The aggregate amount of purchases attributable to the Group's five largest suppliers represented approximately 32% of the Group's total purchases for the year. The amount of purchases from the Group's largest supplier included therein represented approximately 8%.

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 2020, 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.

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)*
Ms. Sha Chunzhi
Mr. Feng Yinguo *(appointed on 9 June 2020)*
Mr. Gao Hairen *(resigned on 9 June 2020)*
Mr. Li Jun

Independent Non-executive Directors

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

Pursuant to Bye-law 86(2) of the Company's Bye-laws, Mr. Feng Yinguo is subject to re-election at the forthcoming annual general meeting ("2021 AGM") of the Company.

Pursuant to Bye-law 87 of the Company's Bye-laws, Mr. Ng Wing Ka, Mr. Sun Liming and Dr. Mu Guodong will retire by rotation and, being eligible, offer themselves for re-election at the 2021 AGM.

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

DIRECTORS' BIOGRAPHIES

Biographical details of the directors of the Company are set out on pages 19 to 21 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 2021 AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACT

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

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT AND CONTRACT

Save as disclosed in note 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.

DIRECTORS' INTERESTS IN SHARE CAPITAL

At 31 December 2020, 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	0.003%
Dr. Mu Guodong ("Dr. Mu")	Personal interest and interest of spouse *(note)*	Long position	300,000	0.002%

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

Save as disclosed above, as at 31 December 2020, none of the Directors or chief executives of the Company or their respective associates had any personal, family, corporate or other interests in the share capital of the Company or any of its associated corporations as defined in the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SHARE OPTION SCHEME

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

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. On 15 May 2020, the aggregate principal amount of US$60,000,000 convertible bonds were fully converted into 6,189,473,684 ordinary shares of HK$0.02 each at the conversion price of HK$0.076 per share pursuant to the subscription agreement entered into on 12 October 2018.

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 2020.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2020, 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)*	Interest of controlled corporation	Long position	12,686,203,231	69.19%
Yanchang Petroleum HK *(note)*	Directly owned	Long position	12,686,203,231	69.19%

Note:

Yanchang Petroleum Group beneficially held these 12,686,203,231 shares through its direct wholly owned subsidiary, Yanchang Petroleum HK. Out of these 12,686,203,231 shares, 6,189,473,684 shares were issued on 15 May 2020.

On 15 May 2020, the aggregate principal amount of US$60,000,000 convertible bonds were fully converted into 6,189,473,684 ordinary shares of HK$0.02 each at the conversion price of HK$0.076 per share pursuant to a subscription agreement entered into on 12 October 2018.

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 2020.

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 12 November 2019 and a supplemental agreement to revise annual caps dated 30 September 2020 (together "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 2022. 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 2020 as indicated above did not exceed the 2020 annual cap amount of RMB7,102,400,000 (equivalent to approximately HK$8,437,651,000); and

CONTINUING CONNECTED TRANSACTIONS *(Continued)*

(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.

BDO Limited, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Review of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. BDO Limited 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.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

RATIFICATION OF CONTINUING CONNECTED TRANSACTIONS RELATED TO SALES OF REFINED OIL TO CONNECTED PARTIES

Reference is made to the announcement (the "Announcement") of the Company dated 22 March 2021, during a review of the trading data for the year ended 31 December 2020 in March 2021, the Group discovered that the highest of applicable percentage ratios in respect of the amount of the sales of refined oil to the connected parties (the "Transactions") for the five years ended 31 December 2020 exceeds 5% and the consideration exceeds HK$10,000,000 on an annual basis. However, due to an inadvertent oversight, the Company did not fulfil the requirement of entering into a written agreement for the Transactions during such period; and reporting, announcement, circular, independent financial advice, approval from the independent shareholders of the Company (the "Independent Shareholders"), annual caps and annual review requirements in respect of the Transactions under Chapter 14A of the Listing Rules. As the Company and its Directors are not aware of the Transactions and the Company has no intention what-so-ever of not complying the requirements of the Listing Rules. The Company is therefore forthwith in the process of re-complying with the reporting, announcement and Independent Shareholders' approval requirements. The Board will seek the approval of the Independent Shareholders, among other things, to approve the ratification of the Transactions (the "Ratification") at the special general meeting (the "SGM").

For the years ended 31 December 2016, 2017, 2018, 2019 and 2020 and up to the date of this report, the Group has conducted the sales of refined oil by Henan Yanchang to the connected parties. The relevant historical transaction amounts of sales of refined oil are set out as follows:

	For the year ended 31 December					For the period from 1 January 2021 to date of this report
	2016	**2017**	**2018**	**2019**	**2020**	
	Approximately RMB million	*Approximately RMB million*	*Approximately RMB million*	*Approximately RMB million*	*Approximately RMB million*	*Approximately RMB million*
Historical transaction amounts	111.4	48.5	141.0	348.6	272.6	7.1

RATIFICATION OF CONTINUING CONNECTED TRANSACTIONS RELATED TO SALES OF REFINED OIL TO CONNECTED PARTIES *(Continued)*

For the period from 1 January 2021 to date of this report, since one or more of the applicable percentage ratios as defined under the Listing Rules calculated for the Company in respect of the Transactions exceed 0.1% but are less than 5%, the Transactions constitutes continuing connected transactions of the Company subject to the reporting, announcement and annual review requirements but exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. However, due to an inadvertent oversight, the Company did not fulfil the requirements of entering into a written agreement for the sales of refined oil, reporting and announcement under Chapter 14A of the Listing Rules.

Henan Yanchang has already ceased the Transactions and no sales of refined oil to the connected parties will be traded from now on. Should there be sales of refined oil to the connected parties are expected to be traded, the Company will comply with the relevant requirements in accordance with the Listing Rules such as by publication of a circular or to seek approval from independent Shareholders, if applicable.

The Company is in the process of re-complying with the reporting, announcement and Independent Shareholders' approval requirements. The Board will seek the approval of the Independent Shareholders, among other things, to approve the Ratification at the SGM.

The Company would like to emphasize that such non-compliance was inadvertent. The Company and its Directors are not aware of the Transactions and has no intention what-so-ever of not complying the requirements of the Listing Rules. The Company is therefore forthwith in the process of re-complying with the said requirements of the Listing Rules. The current internal control measure adopted by the Company to ascertain whether a transaction is a connected transaction involves maintaining a list of connected persons and circulating such list together with copies of the relevant extracts of the Listing Rules to the personnel/senior management of each member of the Group. The personnel/senior management of the relevant subsidiary should update from time to time the connected persons list and report any potential connected transaction to the personnel/senior management of the Company in advance in order to ascertain whether there will be any implications under the Listing Rules.

The Company will take further remedial measures to tighten its internal control procedure with a view to ensuring timely compliance with the Listing Rules and to prevent recurrence of similar events. These measures include (1) relevant internal training session will be arranged for all the personnel/senior management involving in all business departments (especially sales and purchases) of the Company's subsidiaries to reinforce and re-explain the relevant requirements under Chapter 14A of the Listing Rules; and (2) for any potential transaction(s) which may constitute new connected transaction(s) of the Group, the Company will consult legal advisers and the Stock Exchange (where necessary) in a timely manner prior to entering into of such transaction(s).

For Ratification purpose, the 2016 – 2020 Annual Cap was determined based on the historical amounts of Sales of Refined Oil on annul basis.

Please refer to the Announcement for further details.

IMPACT OF THE COVID-19 PANDEMIC

The COVID-19 pandemic persisted during the year resulting in the suppress demand and sharp decline in crude oil price, it brought uncertainty in the Group's operating environment and impacted the Group's operations and financial position. The Group has been actively monitoring the impact of the pandemic on the Group's business and has undertaken numerous unprecedented steps to respond to the global market turmoil.

The Group regularly performs assessment on the liquidity risks, where appropriate, to assess the potential impact on the Group's capital sufficiency and liquidity position. The latest Group's financial position showed that level of capital and liquidity are adequate to mitigate the risks of pandemic on operation. Prompt actions of management will be undertaken to cope with the potential impacts whenever necessary.

The Group has evaluated the accounting estimates and other matters that require the use of projected financial data to assess the impact of the COVID-19 epidemic. Accounting estimate and other matters mainly include the allowance for expected credit losses of trade receivables from customers, valuation of inventories, and impairment assessment of oil and gas assets. The global demand and international oil prices are expected to demonstrate positive trends but may be affected by further COVID-19 development. At the date of this report, the Group continues to assess the impact of the above factors on its financial position and future cash flows as well as thoroughly monitoring market developments. As additional information becomes available, the future assessment of these estimates, including expectations about the severity, duration and scope of the pandemic, could differ materially in the future reporting periods.

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 had complied with the required standard 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 2020.

CORPORATE GOVERNANCE

The Company is committed to maintain 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 35 to 45.

COMPLIANCE WITH LAWS AND REGULATIONS

As at 31 December 2020 and up to the date of this annual report, the Board was unaware of any non-compliance with the relevant laws and regulations that have a significant impact on the Company.

SUFFICIENCY OF PUBLIC FLOAT

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

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 25 May 2021 to 28 May 2021 (both days inclusive), during which period, no transfer of share(s) will be registered. In order to qualify for attending the 2021 AGM of the Company to be held on 28 May 2021, 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 24 May 2021.

AUDITORS

With effect from 8 October 2020, KPMG ("KPMG") resigned as the auditors of the Company. Following the resignation of KPMG, BDO Limited ("BDO") was appointed as the new auditors of the Company with the recommendation of the Audit Committee on 9 October 2020.

A resolution will be proposed at the 2021 AGM to re-appoint BDO as auditors of the Company for the ensuing year.

On behalf of the Board

Mr. Li Yi
Chairman

Hong Kong, 26 March 2021

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 2020, except for the following deviations:

1. 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.

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

3. 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. Ng Wing Ka was unable to attend at the annual general meeting ("2020 AGM") of the Company held on 5 June 2020 due to other ad hoc engagements.

4. code provision E.1.2 of the CG Code provides that the chairman of the board should attend the AGM. He should also invite the chairman of the audit, remuneration, nomination and any other committees (as appropriate) to attend. The chairman of the Board, Mr. Li Yi was unable to attend the AGM due to the impact of the COVID-19 pandemic. Besides, the chairman of the nomination committee, Mr. Ng Wing Ka was unable to attend the 2020 AGM due to other ad hoc engagements.

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 2020.

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. Feng Yinguo 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.

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.

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 "Summary of Listing Rules Update 2019" 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. Ng Wing Ka, Mr. Leung Ting Yuk, Mr. Sun Liming and Dr. Mu Guodong were appointed for a specific term of three years. They are also subject to retirement by rotation at least once every three years in accordance with the Bye-laws of the Company at the annual general meeting of the Company.

BOARD COMMITTEES

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

Audit Committee

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

The audit committee has reviewed the accounting principles and policies adopted by the Company and discussed with management the risk management, internal control systems and financial reporting matters. The audit committee has reviewed the results of the Group for the year ended 31 December 2020.

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, 2020, the audit committee held five meetings. At the meetings, the committee reviewed (i) profit warning announcement in relation to the financial year ended 31 December 2019; (ii) the annual results for the year ended 31 December 2019 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 2020; (iv) the interim results for the period ended 30 June 2020; and (v) reviewed and discussed the proposed change of auditors during the year of 2020.

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 2020, the remuneration committee held two meetings. At the meetings, the committee reviewed and approved (i) the existing remuneration package of all Directors and senior management of the Company and (ii) the remuneration of the newly appointed executive Director.

BOARD COMMITTEES *(Continued)*

Remuneration Committee *(Continued)*

The remuneration paid to the senior management by band for the year ended 31 December 2020 and 31 December 2019 is set out as below:

	Number of individuals	
	2020	2019
HK$		
1,000,001–1,500,000	**1**	–
1,500,001–2,000,000	**3**	2
2,000,001–2,500,000	**1**	1
3,000,001–3,500,000	**–**	1
	5	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 2020, the nomination committee held two meetings. At the meetings, 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 2020 annual general meeting of the Company.

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 2020 are set out in the table below:

	No. of meetings attended/entitled to attend					
Directors	**Annual General Meeting**	**Special General Meeting**	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors:						
Mr. Li Yi	0/1	0/1	8/8	–	2/2	2/2
Ms. Sha Chunzhi	0/1	0/1	3/8	–	–	–
Mr. Feng Yinguo *(appointed on 9 June 2020)*	0/1	0/1	4/5	–	–	–
Mr. Gao Hairen *(resigned on 9 June 2020)*	0/1	0/0	1/4	–	–	–
Mr. Li Jun	1/1	0/1	0/8	–	–	–
Independent Non-executive Directors:						
Mr. Ng Wing Ka	0/1	1/1	8/8	5/5	–	2/2
Mr. Leung Ting Yuk	1/1	1/1	5/8	5/5	2/2	–
Mr. Sun Liming	1/1	1/1	4/8	5/5	2/2	2/2
Dr. Mu Guodong	1/1	1/1	7/8	–	–	–

AUDITORS' REMUNERATION

Auditors' remuneration for the year amounted to a total of HK$2,796,000, of which HK$2,384,000 was incurred for audit service and HK$412,000 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 21 of the annual report.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The financial statements of the Company for the year ended 31 December 2020 have been reviewed by the audit committee and audited by the external auditors, BDO. 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 46 to 50.

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.

SHAREHOLDERS' RIGHTS *(Continued)*

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

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

CONSTITUTIONAL DOCUMENTS

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

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

- Control Environment: A set of standards, processes and structures that provide the basis for carrying out internal control across the Group.

- Risk Assessment: A dynamic and iterative process for identifying and analysing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed.

- Control Activities: Action established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out.

- Information and Communication: Internal and external communication to provide the Group with the information needed to carry out day-to-day controls.

- Monitoring: Ongoing and separate evaluations to ascertain whether each component of internal control is present and functioning.

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

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

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

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

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

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

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

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

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

COMMUNICATION WITH SHAREHOLDERS

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

The annual general meeting provides a useful forum for shareholders to exchange views with the Board. The chairman of the Board as well as the respective chairman of the audit committee, nomination committee and remuneration committee are pleased to answer shareholders' questions.

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

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

Shareholders' Communication Policy

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

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF YANCHANG PETROLEUM INTERNATIONAL LIMITED
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Yanchang Petroleum International Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 51 to 137, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 3(b) in the consolidated financial statements, which indicates that the Group incurred loss of HK$792,669,000 during the year ended 31 December 2020. This condition, along with other matters set forth in Note 3(b) in the consolidation financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the "Material Uncertainty Related to Going Concern" section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Assessing impairment of petroleum and natural gas properties

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

As at 31 December 2020, management reviewed petroleum and natural gas properties, which comprise different cash-generating units ("CGUs"), for indicators of possible 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 was identified, management compared the carrying amount of each CGU with its recoverable amount, which was estimated by calculating the fair value less costs of disposal using a discounted cash flow forecast, to determine the amount of impairment, if any. The preparation of discounted cash flow forecasts involves the exercise of significant management judgement, particularly in estimating future selling prices for crude oil and natural gas, future production profiles and in determining appropriate discount rates.

As a result of the impairment assessment exercise, impairment loss of petroleum and natural gas properties of HK$671,427,000 was recognised in profit or loss for the year ended 31 December 2020.

We identified the assessment 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.

KEY AUDIT MATTERS *(Continued)*

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

Our response:

- assessing management's identification of indicators of potential 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;
- assessing the competence, capabilities, independence and objectivity of the third party reserves specialists engaged by the Group to estimate the oil and gas reserves;
- 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.

OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those statements on 26 March 2020.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include 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.

DIRECTORS' RESPONSIBILITIES 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 Hong Kong Financial Reporting Standards 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 also responsible for overseeing the Group's financial reporting process. The audit committee of the Company (the "Audit Committee") assists the directors in discharging their responsibility in this regard.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

We communicate with the Audit Committee 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, 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.

BDO Limited
Certified Public Accountants

Alfred Lee
Practising Certificate Number P04960

Hong Kong, 26 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
Revenue	8	**27,256,800**	8,197,422
Other revenue	8	**4,120**	11,484
		27,260,920	8,208,906
Expenses			
Purchases		**(27,007,663)**	(7,878,319)
Royalties		**(9,144)**	(26,700)
Field operation expenses		**(54,688)**	(72,007)
Exploration and evaluation expenses		**(2,047)**	(2,337)
Selling and distribution expenses		**(46,030)**	(13,347)
Administrative expenses		**(66,532)**	(75,974)
Depreciation, depletion and amortisation		**(98,178)**	(145,585)
Other gains and losses	9	**(705,121)**	(304,891)
		(27,989,403)	(8,519,160)
Loss from operating activities	10	**(728,483)**	(310,254)
Finance costs	13	**(51,013)**	(61,850)
Loss before taxation		**(779,496)**	(372,104)
Taxation	14	**(13,173)**	(62,660)
Loss for the year		**(792,669)**	(434,764)
Other comprehensive income			
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		**42,090**	41,429
Other comprehensive income for the year, with nil tax effect		**42,090**	41,429
Total comprehensive income for the year		**(750,579)**	(393,335)
(Loss)/profit for the year attributable to:			
Owners of the Company		**(795,765)**	(443,742)
Non-controlling interests	38(b)	**3,096**	8,978
		(792,669)	(434,764)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	**2020** **HK$'000**	2019 HK$'000
Total comprehensive income for the year attributable to:			
Owners of the Company		**(761,997)**	(400,306)
Non-controlling interests		**11,418**	6,971
		(750,579)	(393,335)
Loss per share attributable to the owners of the Company			
Basic and diluted, HK cents	*16*	**(4.96)**	(3.65)

The notes on pages 59 to 137 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*17*	**955,951**	1,653,657
Investment properties	*18*	**17,533**	16,718
Exploration and evaluation assets	*19*	**–**	16,802
Right-of-use assets	*20*	**99,631**	24,656
Goodwill and intangible asset	*21*	**58,149**	58,149
Other non-current assets		**5,609**	6,757
		1,136,873	1,776,739
Current assets			
Inventories	*22*	**195,992**	31,541
Trade receivables	*23*	**344,351**	170,711
Prepayments, deposits and other receivables	*24*	**522,712**	267,705
Cash and bank balances	*25*	**436,084**	298,688
		1,499,139	768,645
Total assets		**2,636,012**	2,545,384
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital	*26*	**366,701**	242,911
Reserves		**304,424**	721,150
Total equity attributable to the owners of the Company		**671,125**	964,061
Non-controlling interests	*38(b)*	**130,011**	129,285
Total equity		**801,136**	1,093,346

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
LIABILITIES			
Current liabilities			
Trade and other payables	*27*	**743,764**	302,846
Lease liabilities	*28*	**5,949**	3,077
Tax payables		**2,929**	2,227
Bank borrowings	*29*	**572,112**	257,025
Convertible bonds	*30*	**–**	467,755
		1,324,754	1,032,930
Non-current liabilities			
Decommissioning liabilities	*31*	**144,667**	129,114
Lease liabilities	*28*	**82,719**	7,323
Deferred tax liabilities	*32*	**11,352**	11,287
Secured term loan	*33*	**271,384**	271,384
		510,122	419,108
Total liabilities		**1,834,876**	1,452,038
Total equity and liabilities		**2,636,012**	2,545,384
Net current assets/(liabilities)		**174,385**	(264,285)
Total assets less current liabilities		**1,311,258**	1,512,454

Approved and authorised for issue by the board of directors on 26 March 2021.

Mr. Li Yi
Chairman

Mr. Feng Yinguo
Director

The notes on pages 59 to 137 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to the owners of the Company											
		Reserves										
	Share capital HK$'000	Share premium HK$'000 *(note i)*	Contribution surplus HK$'000 *(note ii)*	Exchange reserve HK$'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 *(note vi)*	Accumulated losses HK$'000 *(note vii)*	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 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 and 1 January 2020	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
(Loss)/profit for the year	–	–	–	–	–	–	–	–	**(795,765)**	**(795,765)**	**3,096**	**(792,669)**
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	–	–	–	**33,768**	–	–	–	–	–	**33,768**	**8,322**	**42,090**
Total comprehensive income for the year	–	–	–	**33,768**	–	–	–	–	**(795,765)**	**(761,997)**	**11,418**	**(750,579)**
Issue of shares upon conversion of convertible bonds	**123,790**	**352,251**	–	–	–	–	**(6,980)**	–	–	**345,271**	–	**469,061**
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	**(10,692)**	**(10,692)**
Transfer of reserves	–	–	–	–	–	**10,500**	–	**(3,282)**	**(7,218)**	–	–	–
At 31 December 2020	**366,701**	**2,115,311**	**6,400,652**	**(310,677)**	–	**32,399**	–	**3,387**	**(7,936,648)**	**304,424**	**130,011**	**801,136**

Notes:

(i) The share premium represents the difference between the fair value and the contracted value of the consideration shares of the Company (as defined in note 1) paid for acquisition of subsidiaries in prior years.

(ii) The contribution surplus of the Group (as defined in note 1) 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 (as defined in note 1) 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 one of the directors of the Company recognised in accordance with the accounting policy adopted for share-based payments set out in note 3.

All the share options granted to the 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.

No share options were granted, lapsed or forfeited during the year ended 31 December 2020.

(iv) As stipulated by the relevant laws and regulations in the PRC (as defined in note 1), 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 other reserve represents the safety production fund. Under PRC's laws and regulations, the Group is required to accrue safety production fund at a certain percentage of the sale of dangerous goods. The fund is earmarked for improving the safety of production. The fund is accrued from retained earnings to other reserve and converted back to retained earnings when used.

(vii) Accumulated losses represent the cumulative net gains and losses recognised in profit or loss.

The notes on pages 59 to 137 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
Loss before taxation		**(779,496)**	(372,104)
Adjustments for:			
Interest income	*8*	**(1,910)**	(2,945)
Depreciation and depletion of property, plant and equipment	*17*	**94,015**	143,118
Depreciation of right-of-use assets	*20*	**4,163**	2,467
Fair value change on investment properties	*18*	**297**	(1,100)
Gain on disposal of property, plant and equipment	*9*	**(39)**	(76)
Written off of expired exploration and evaluation assets	*9*	**3,107**	6,311
Impairment loss of property, plant and equipment	*17*	**692,563**	286,043
Impairment loss of exploration and evaluation assets	*19*	**14,045**	–
Share-based payment expenses	*10*	**–**	327
Net foreign exchange (gain)/loss		**(6,000)**	77
Unrealised fair value change on derivative financial instruments		**–**	8,977
Finance costs	*13*	**51,013**	61,850
Operating cash flows before movements in working capital		**71,758**	132,945
(Increase)/decrease in trade receivables		**(162,702)**	64,447
(Increase)/decrease in inventories		**(161,820)**	34,354
(Increase)/decrease in prepayments, deposits and other receivables		**(236,570)**	16,787
Increase/(decrease) in trade and other payables		**422,856**	(179,331)
Increase/(decrease) in decommissioning liabilities		**10,717**	(5,765)
Cash (used in)/generated from operations		**(55,761)**	63,437
Interest received	*8*	**1,910**	2,945
Tax paid		**(13,528)**	(12,000)
Net cash (used in)/generated from operating activities		**(67,379)**	54,382
Cash flows from investing activities			
Proceeds from acquisition of a subsidiary		**–**	17,227
Purchases of exploration and evaluation assets	*19*	**(125)**	(3,942)
Purchases of property, plant and equipment	*17*	**(50,088)**	(114,983)
Proceeds from disposal of property, plant and equipment		**884**	75
Net cash used in investing activities		**(49,329)**	(101,623)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
Cash flows from financing activities			
Proceeds from new bank borrowings and secured term loan	*25(b)*	**594,000**	1,094,100
Interest paid	*25(b)*	**(43,248)**	(54,933)
Repayment of bank borrowings	*25(b)*	**(297,000)**	(999,331)
Dividend paid to non-controlling interests		**(10,692)**	(6,679)
Capital element of lease rentals paid	*25(b)*	**(3,741)**	(1,464)
Interest element of lease rentals paid	*25(b)*	**(1,042)**	(381)
Proceeds from cash allowance granted by a lessor		**–**	504
Capital injection by a non-controlling shareholder of a subsidiary		**–**	5
Net cash generated from financing activities		**238,277**	31,821
Net increase/(decrease) in cash and cash equivalents		**121,569**	(15,420)
Cash and cash equivalents at the beginning of the year		**298,688**	316,768
Effect of exchange rate changes		**15,827**	(2,660)
Cash and cash equivalents at the end of the year	*25(a)*	**436,084**	298,688

The notes on pages 59 to 137 form an integral part of these consolidated financial statements.

1. CORPORATE INFORMATION

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

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

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. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new or amended HKFRSs

The Hong Kong Institute of Certified Public Accountants has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKFRS 3, Definition of a Business;
- Amendments to HKAS 1 and HKAS 8, Definition of Material; and
- Amendments to HKAS 39, HKFRS 7 and HKFRS 9, Interest Rate Benchmark Reform.

Other than the amendments to HKFRS 3, none of these new or amended HKFRSs has a material impact on the Group's results and financial position for the current or prior period. The Group has not early applied any new or amended HKFRSs that is not yet effective for the current accounting period. Impact on the applications of these amended HKFRSs are summarised below.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(a) Adoption of new or amended HKFRSs *(Continued)*

Amendments to HKFRS 3, Definition of a Business

The amendments clarify the definition of a business and introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The election to apply the concentration test is made for each transaction. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the concentration test is met, the set of activities and assets is determined not to be a business. If the concentration test is failed, the acquired set of activities and assets is further assessed based on the elements of a business.

The Group elected to apply the amendments prospectively to acquisitions for which the acquisition date is on or after 1 January 2020.

Amendments to HKAS 1 and HKAS 8, Definition of Material

The amendments clarify the definition and explanation of "material", aligning the definition across all HKFRSs and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

(b) New or amended HKFRSs that have been issued but are not yet effective

The following new or amended HKFRSs, potentially relevant to the Group's consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to HKAS 1, Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[5]
Amendments to HKAS 16, Proceeds before Intended Use[3]
Amendments to HKAS 37, Onerous Contracts – Cost of Fulfilling a Contract[3]
Amendments to HKFRS 3, Reference to the Conceptual Framework[4]
Amendments to HKFRS 16, COVID-19-Related Rent Concessions[1]
Amendments to HKFRS 10 and HKAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[6]
Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16, Interest Rate Benchmark Reform – Phase 2[2]
Annual Improvements to HKFRSs 2018–2020[3]

1 Effective for annual periods beginning on or after 1 June 2020.
2 Effective for annual periods beginning on or after 1 January 2021.
3 Effective for annual periods beginning on or after 1 January 2022.
4 Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.
5 Effective for annual periods beginning on or after 1 January 2023.
6 The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) New or amended HKFRSs that have been issued but are not yet effective *(Continued)*

Amendments to HKAS 1, Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and explain that rights are in existence if covenants are complied with at the end of the reporting period. The amendments also introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

HK Int 5 (2020) was revised as a consequence of the Amendments to HKAS 1 issued in August 2020. The revision to HK Int 5 (2020) updates the wordings in the interpretation to align with the Amendments to HKAS 1 with no change in conclusion and do not change the existing requirements.

The Directors do not anticipate that the application of the amendments and revision in the future will have an impact on the consolidated financial statements.

Amendments to HKAS 16, Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items, and the cost of producing those items, is recognised in profit or loss.

The Directors are currently assessing the impact that the application of the amendments will have on the Group's consolidated financial statements. The Directors anticipate that the application of the amendments will not impact on the Group's accounting policies in respect of the construction of assets.

Amendments to HKAS 37, Onerous Contracts – Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labour and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The Directors are currently assessing the impact that the application of the amendments will have on the Group's consolidated financial statements. The Directors anticipate that the application of the amendments will not impact on the Group's accounting policies in respect of the determination of when contracts are onerous, and the measurement of provision for onerous contracts recognised.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) New or amended HKFRSs that have been issued but are not yet effective *(Continued)*

Amendments to HKFRS 3, Reference to the Conceptual Framework

The amendments update HKFRS 3 so that it refers to the revised Conceptual Framework for Financial Reporting 2018 instead of the version issued in 2010. The amendments add to HKFRS 3 a requirement that, for obligations within the scope of HKAS 37, an acquirer applies HKAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of HK(IFRIC)-Int 21 Levies, the acquirer applies HK(IFRIC)-Int 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendments also add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The Directors do not anticipate that the application of the amendments in the future will have an impact on the consolidated financial statements.

Amendment to HKFRS 16, COVID-19-Related Rent Concessions

HKFRS 16 was amended to provide a practical expedient to lessees in accounting for rent concessions arising as a result of the COVID-19 pandemic, by including an additional practical expedient in HKFRS 16 that permits entities to elect not to account for rent concessions as modifications. The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 pandemic and only if all of the following criteria are satisfied:

(a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

(b) the reduction in lease payments affects only payments originally due on or before 30 June 2021; and

(c) there is no substantive change to other terms and conditions of the lease.

The Directors do not anticipate that the application of the amendments in the future will have an impact on the consolidated financial statements.

Amendments to HKFRS 10 and HKAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. When the transaction with an associate or joint venture that is accounted for using the equity method, any gains or losses resulting from the loss of control of a subsidiary that does not contain a business are recognised in the profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, any gains or losses resulting from the remeasurement of retained interest in any former subsidiary (that has become an associate or a joint venture) to fair value are recognised in the profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The Directors anticipate that the application of these amendments may have an impact on the consolidated financial statements in future periods should such transaction arises.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) New or amended HKFRSs that have been issued but are not yet effective *(Continued)*

Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16, Interest Rate Benchmark Reform – Phase 2

The amendments address issues that might affect financial reporting when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the interest rate benchmark reform (the "Reform"). The amendments complement those issued in November 2019 and relate to (a) changes to contractual cash flows in which an entity will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the Reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate; (b) hedge accounting in which an entity will not have to discontinue its hedge accounting solely because it makes changes required by the Reform, if the hedge meets other hedge accounting criteria; and (c) disclosures in which an entity will be required to disclose information about new risks arising from the Reform and how it manages the transition to alternative benchmark rates.

The Directors do not anticipate that the application of the amendments in the future will have an impact on the consolidated financial statements.

Annual Improvements to HKFRSs 2018–2020

The annual improvements amends a number of standards, including:

- HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, which permit a subsidiary that applies paragraph D16(a) of HKFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to HKFRSs.

- HKFRS 9, Financial Instruments, which clarify the fees included in the '10 per cent' test in paragraph B3.3.6 of HKFRS 9 in assessing whether to derecognise a financial liability, explaining that only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on other's behalf are included.

- HKFRS 16, Leases, which amend Illustrative Example 13 to remove the illustration of reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

- HKAS 41, Agriculture, which remove the requirement to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The Directors do not anticipate that the application of the amendments in the future will have an impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2020 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the consolidated 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))

– Petroleum and natural gas properties (see note 3(j))

The preparation of consolidated 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 consolidated financial statements and major sources of estimation uncertainty are discussed in note 4.

The Group incurred a loss of HK$792,669,000, including recognition of an impairment loss of HK$671,427,000 (note 17) in respect of petroleum and natural gas properties for the year ended 31 December 2020. In addition, as disclosed in note 5(b), the Group has financial liabilities totaling HK$841,509,000 that are on demand or have a contractual maturities within one year. 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. As at 31 December 2020, the Group only had cash and cash equivalents of HK$436,084,000.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

These events or conditions indicate the existence of a material uncertainty that may cast significant doubt about 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.

For assessing going concern, the Directors have prepared a cash flow forecast covering a period of one year from the date of approval of these consolidated financial statements. The Directors are of the opinion that the Group will be able to generate sufficient cash flows to finance its operations and meet its financial obligations as and when they fall due over the forecast period after taking account of the followings:

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

(ii) obtaining additional finance from various sources including but not limited to banks, shareholders and other potential investors; and

(iii) disposal 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 consolidated financial statements.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Basis of consolidation *(Continued)*

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

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

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

Profit or loss and each 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Basis of consolidation *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries *(Continued)*

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 acquire are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Business combination *(Continued)*

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") (or groups of 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.

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 fair value through other comprehensive income ("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.

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:

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment on tangible assets and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets and intangible 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. 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.

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

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 consolidated statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Leased assets *(Continued)*

(ii) As a lessor

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

(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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Foreign currencies *(Continued)*

(ii) Foreign currencies translation *(Continued)*

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.

(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.

(iv) The employees of the Group's subsidiary which operates in Canada may make voluntary contributions to a Registered Retirement Savings Plan ("RRSP"). The subsidiary matches the employee contributions up to an annual maximum. The subsidiary has no further payment obligation once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Taxation *(Continued)*

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) Intangible assets

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets with finite useful lives are reported as costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Intangible assets with indefinite useful lives, which are carried at cost less any subsequent accumulated impairment losses, are tested for impairment annually either individually or at the CGU level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(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 2020 and 31 December 2019, the recoverable amount of exploration and evaluation assets have been determined based on recent land sales and future drilling plans.

(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.

(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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

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

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) Impairment of goodwill and intangible asset and property, plant and equipment other than petroleum and natural gas properties

Goodwill and intangible asset and property, plant and equipment other than petroleum and natural gas properties are tested for impairment when indicators exist. Further, irrespective of whether there is any indication of impairment, goodwill are required to be tested annually for impairment. For the purpose of impairment testing, goodwill has been allocated to the CGU operating in the supply and procurement operation of oil related products.

Determining whether goodwill and intangible asset allocated to supply and procurement CGU is impaired requires an estimation of the value-in-use. The value-in-use calculation requires the Directors to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value.

(f) 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.

(g) 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.

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2020 HK$'000	2019 HK$'000
Financial assets		
At amortised cost (including cash and bank balances)		
– Trade receivables *(note 23)*	**344,351**	170,711
– Other deposits *(note 24)*	**963**	848
– Other receivables *(note 24)*	**9,333**	5,819
– Cash and bank balances *(note 25)*	**436,084**	298,688
	790,731	476,066
Financial liabilities		
At amortised cost		
– Trade and other payables *(note 27)*	**232,985**	251,986
– Lease liabilities *(note 28)*	**88,668**	10,400
– Bank borrowings *(note 29)*	**572,112**	257,025
– Convertible bonds *(note 30)*	**–**	467,755
– Secured term loan *(note 33)*	**271,384**	271,384
	1,165,149	1,258,550

(b) Financial risk management objectives

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

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 4.5% as at 31 December 2020 (2019: 4.9%). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of benchmark interest rate published by the People's Bank of China for the Group's RMB denominated borrowings and by the National Bank of Canada for the Group's CAD denominated borrowings.

Sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the amount of financial instruments outstanding at the end of the reporting period was outstanding for the whole year. A 150 basis points (2019: 150 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 (2019: 150 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$8,582,000 (2019: pre-tax loss would increase/decrease by HK$3,855,000). This is mainly attributable to the Group's exposure to interest rates on its bank borrowings.

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, 62% (2019: 71%) and 96% (2019: 96%) 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 2020 and 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 table details 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 is required to pay. The table includes both interest and principal cash flows.

	Weighted average interest rate	On demand or less than 1 year	1–5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2020						
Non-derivative financial liabilities						
Trade and other payables	**–**	**232,985**	**–**	**–**	**232,985**	**232,985**
Lease liabilities	**4.93**	**10,260**	**31,608**	**90,342**	**132,210**	**88,668**
Bank borrowings	**4.49**	**585,238**	**–**	**–**	**585,238**	**572,112**
Secured term loan	**4.80**	**13,026**	**284,409**	**–**	**297,435**	**271,384**
		841,509	**316,017**	**90,342**	**1,247,868**	**1,165,149**
31 December 2019						
Non-derivative financial liabilities						
Trade and other payables	–	251,986	–	–	251,986	251,986
Lease liabilities	5.41	3,566	6,948	1,229	11,743	10,400
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
		1,031,605	304,385	1,229	1,337,219	1,258,550

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 2020 and 31 December 2019 were as follows:

	2020 **HK$'000**	2019 HK$'000
Total liabilities	**1,834,876**	1,452,038
Total equity	**801,136**	1,093,346
Gearing ratio	**229.0%**	132.8%

7. SEGMENT INFORMATION

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

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

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

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

7. SEGMENT INFORMATION *(Continued)*

Segment revenue and results

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

	Exploration, exploitation and operation		Supply and procurement		Consolidated	
	2020	2019	**2020**	2019	**2020**	2019
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:						
Sales to external customers	**95,827**	228,803	**27,160,973**	7,968,619	**27,256,800**	8,197,422
Segment (loss)/profit	**(68,239)**	(52,173)	**57,342**	42,370	**(10,897)**	(9,803)
Other revenue					**4,120**	11,484
Fair value change on investment properties					**(297)**	1,100
Net foreign exchange gain					**6,000**	1,333
Impairment loss of property, plant and equipment					**(692,563)**	(286,043)
Impairment loss of exploration and evaluation assets					**(14,045)**	–
Unallocated corporate expenses					**(20,801)**	(28,325)
Loss from operating activities					**(728,483)**	(310,254)
Finance costs					**(51,013)**	(61,850)
Loss before taxation					**(779,496)**	(372,104)
Taxation					**(13,173)**	(62,660)
Loss for the year					**(792,669)**	(434,764)

Revenue reported was generated from external customers. There were no inter-segment sales for the year (2019: 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, 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.

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	
	2020 HK$'000	2019 HK$'000	2020 HK$'000	2019 HK$'000	2020 HK$'000	2019 HK$'000
Segment assets	751,229	1,489,515	1,854,403	1,003,579	2,605,632	2,493,094
Unallocated assets					30,380	52,290
Total assets					2,636,012	2,545,384
Segment liabilities	445,421	435,914	1,379,320	515,536	1,824,741	951,450
Unallocated liabilities					10,135	500,588
Total liabilities					1,834,876	1,452,038

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.

7. SEGMENT INFORMATION *(Continued)*

Other segment information

	Exploration, exploitation and operation		Supply and procurement		Unallocated		Consolidated	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Other segment information:								
Depreciation of property, plant and equipment	**164**	234	**14,995**	8,210	**1,394**	832	**16,553**	9,276
Depreciation of right-of-use assets	**203**	183	**1,406**	794	**2,554**	1,490	**4,163**	2,467
Depletion of property, plant and equipment	**77,462**	133,842	**–**	–	**–**	–	**77,462**	133,842
Written off of expired exploration and evaluation assets	**3,107**	6,311	**–**	–	**–**	–	**3,107**	6,311
Impairment loss of property, plant and equipment	**671,427**	286,043	**21,136**	–	**–**	–	**692,563**	286,043
Impairment loss of exploration and evaluation assets	**14,045**	–	**–**	–	**–**	–	**14,045**	–
Additions to non-current assets*	**33,775**	100,527	**94,259**	17,471	**137**	11,578	**128,171**	129,576

* The amount represents additions to property, plant and equipment, right-of-use assets and exploration and evaluation assets for the years ended 31 December 2020 and 31 December 2019.

Revenue from major products and services

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

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)*	
	2020	2019	**2020**	2019
	HK$'000	HK$'000	**HK$'000**	HK$'000
PRC	**27,160,973**	7,968,619	**408,581**	333,843
Canada	**95,827**	228,803	**717,154**	1,426,802
Hong Kong and others	**–**	–	**5,529**	9,337
	27,256,800	8,197,422	**1,131,264**	1,769,982

Note: Non-current assets excluded other non-current assets.

Information about major customers

Included in revenue arising from supply and procurement business segment of HK$27,160,973,000 (2019: HK$7,968,619,000) are revenue of HK$7,610,142,000 (2019: HK$2,209,277,000) which arose from two (2019: two) customers of the Group, each of which contributed 10% or more to the Group's total revenue for the year.

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

	2020	2019
	HK$'000	HK$'000
Customer A *(Note 2)*	**4,619,547**	–
Customer B *(Note 2)*	**2,990,595**	152,673
Customer C *(Note 1)*	**1,162,675**	1,283,351
Customer D *(Note 1)*	**687,115**	925,926

Notes:

1. The corresponding revenues from customer C and D did not contribute over 10% of the total revenue of the Group during the year ended 31 December 2020.
2. The corresponding revenues from customer A and B did not contribute over 10% of the total revenue of the Group during 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:

	2020 HK$'000	2019 HK$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of crude oil and gas	95,827	228,803
Trading and distribution of oil related products	27,160,973	7,968,619
	27,256,800	8,197,422

The Group's revenue is 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.

	2020 HK$'000	2019 HK$'000
Other revenue		
Bank interest income	1,910	2,945
Rental income *(note 18)*	571	880
Storage fee income	577	5,777
Others	1,062	1,882
	4,120	11,484

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:

	2020 HK$'000	2019 HK$'000
Not later than one year	470	512
Later than one year and not later than two years	423	47
Later than two years and not later than three years	190	–
Later than three years and not later than four years	–	–
Later than four years and not later than five years	–	–
Later than five years	–	–
	1,083	559

9. OTHER GAINS AND LOSSES

	2020 HK$'000	2019 HK$'000
Net foreign exchange gain	**6,000**	1,333
Fair value change on investment properties *(note 18)*	**(297)**	1,100
Gain on disposal of property, plant and equipment	**39**	76
Written off of expired exploration and evaluation assets *(note 19)*	**(3,107)**	(6,311)
Impairment loss of property, plant and equipment *(note 17)*	**(692,563)**	(286,043)
Impairment loss of exploration and evaluation assets *(note 19)*	**(14,045)**	–
Fair value change on derivative financial instruments	**–**	(15,046)
Others	**(1,148)**	–
	(705,121)	(304,891)

10. LOSS FROM OPERATING ACTIVITIES

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

	2020 HK$'000	2019 HK$'000
Auditors' remuneration		
– Audit services	**2,384**	3,656
– Non-audit services	**412**	507
Cost of inventories sold	**27,007,663**	7,878,319
Depreciation and depletion of property, plant and equipment *(note 17)*	**94,015**	143,118
Depreciation of right-of-use assets *(note 20)*	**4,163**	2,467
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December	**–**	3,134
Expense relating to variable lease payments not included in the measurement of lease liabilities	**27,114**	1,240
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	**2,165**	1,817
Staff costs (including Directors' remuneration)		
– Salaries and wages	**53,607**	60,658
– Share-based payment expenses	**–**	327
– Pension scheme contributions *(note 34)*	**1,419**	2,734

11. DIRECTORS' REMUNERATION

The board of Directors 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 2020

	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)*	–	250	–	–	–	250
Ms. Sha Chunzhi	–	250	–	–	–	250
Mr. Li Jun	–	250	–	–	–	250
Mr. Feng Yinguo *(appointed on 9 June 2020)*	–	140	–	–	–	140
Mr. Gao Hairen *(resigned on 9 June 2020)*	–	110	–	–	–	110
Sub-total	–	1,000	–	–	–	1,000
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	1,000	–	–	–	1,512

11. DIRECTORS' REMUNERATION *(Continued)*

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 *(Chairman)*	–	250	–	–	–	250
Mr. Bruno Guy Charles Deruyck *(Chief executive officer)* *(resigned on 1 June 2019)*	–	1,458	–	–	327	1,785
Ms. Sha Chunzhi	–	250	–	–	–	250
Mr. Li Jun	–	250	–	–	–	250
Mr. Tan Meng Seng *(resigned on 1 March 2019)*	–	42	–	2	–	44
Mr. Gao Hairen	–	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

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.

No Directors waived or agreed to waive any remuneration during the year (2019: 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 (2019: nil).

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

(a) Senior management of the Group

Senior management of the Group represents the executive Directors during the years ended 31 December 2020 and 31 December 2019.

(b) Five highest paid individuals

No Directors (2019: one former Director who resigned on 1 June 2019) included in the five highest paid individuals during the year, details of whose remuneration are set in note 11 above. The remuneration of the five (2019: four) highest paid individuals who are neither a Director nor chief executive of the Company are as follows:

	2020 **HK$'000**	2019 HK$'000
Basic salaries	**7,047**	5,881
Pension scheme contributions	**18**	18
Bonuses	**2,660**	3,108
	9,725	9,007

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	
	2020	2019
HK$		
1,000,001–1,500,000	**1**	–
1,500,001–2,000,000	**3**	2
2,000,001–2,500,000	**1**	1
2,500,001–3,000,000	**–**	–
3,000,001–3,500,000	**–**	1
	5	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 (2019: nil). No five highest paid individuals waived or agreed to waive any remuneration during the year (2019: nil).

During the year ended 31 December 2020, no share options to subscribe for ordinary shares of the Company were granted to these individuals under the Company's share option scheme (2019: nil).

13. FINANCE COSTS

	2020 HK$'000	2019 HK$'000
Interest expenses on bank borrowings and secured term loan wholly repayable within five years	**32,696**	26,683
Interest expenses on convertible bonds *(note 30)*	**11,858**	31,688
Interest expenses on lease liabilities	**4,303**	381
Accretion expenses of decommissioning liabilities *(note 31)*	**2,156**	3,098
	51,013	61,850

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

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represent:

	2020 HK$'000	2019 HK$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**–**	–
Current tax – Outside Hong Kong		
Provision for the year	**13,977**	14,194
Deferred tax		
(Reversal)/origination of temporary differences *(note 32)*	**(804)**	48,466
	13,173	62,660

The provision for Hong Kong Profits tax for 2020 is calculated at 16.5% (2019: 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 25% (2019: 27%) and 25% (2019: 25%) respectively.

14. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

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

	2020 **HK$'000**	2019 HK$'000
Loss before taxation	**(779,496)**	(372,104)
Notional tax on loss before taxation, calculated at the rates applicable to loss in the countries concerned	**(189,028)**	(86,609)
Tax effect of non-deductible expenses	**175,421**	83,984
Tax effect of non-taxable income	**(1,365)**	(937)
Tax effect of unused tax losses not recognised	**26,208**	15,700
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	**1,565**	2,023
Others	**372**	195
Actual tax expense	**13,173**	62,660

15. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders during the year ended 31 December 2020, nor has any dividend been proposed since the end of the reporting period (2019: 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:

	2020 **HK$'000**	2019 HK$'000
Loss		
Loss for the year attributable to the owners of the Company for the purpose of basic and diluted loss per share	**(795,765)**	(443,742)

	2020 **'000**	2019 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**16,052,044**	12,145,573

Diluted loss per share for the years ended 31 December 2020 and 31 December 2019 were the same as the basic loss per share. The computation of diluted loss per share for the years ended 31 December 2020 and 31 December 2019 does not assume the Company's outstanding convertible bonds and the outstanding share options since the assumed conversion of convertible bonds and the assumed exercise of share options would result in a decrease in loss per share.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Petroleum and natural gas properties HK$'000	Construction in progress HK$'000	Total HK$'000
Cost								
At 1 January 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 19)*	–	–	–	–	–	860	–	860
Transfer from investment properties *(note 18)*	866	–	–	–	–	–	–	866
Exchange differences	(2,598)	(243)	83	(69)	13	116,172	(2,144)	111,214
At 31 December 2019 and 1 January 2020	153,945	13,190	12,010	4,226	4,584	3,227,395	113,108	3,528,458
Additions	13,804	1,009	1,614	–	137	33,524	–	50,088
Disposals	–	–	(89)	–	–	(845)	–	(934)
Exchange differences	10,294	881	555	282	33	65,088	7,560	84,693
At 31 December 2020	178,043	15,080	14,090	4,508	4,754	3,325,162	120,668	3,662,305
Accumulated depreciation, depletion and impairment								
At 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 and 1 January 2020	34,646	8,508	9,025	2,779	1,176	1,818,667	–	1,874,801
Charge for the year	11,801	1,276	1,651	336	1,489	77,462	–	94,015
Eliminated on disposals	–	–	(89)	–	–	–	–	(89)
Impairment loss during the year *(note 9)*	–	–	–	–	–	671,427	21,136	692,563
Exchange differences	2,345	571	377	187	8	41,507	69	45,064
At 31 December 2020	48,792	10,355	10,964	3,302	2,673	2,609,063	21,205	2,706,354
Net book value								
At 31 December 2020	**129,251**	**4,725**	**3,126**	**1,206**	**2,081**	**716,099**	**99,463**	**955,951**
At 31 December 2019	119,299	4,682	2,985	1,447	3,408	1,408,728	113,108	1,653,657

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

Impairment loss 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 fair value less costs of disposal calculations for the year ended 31 December 2020 and value-in-use calculations for the year ended 31 December 2019 based on certain assumptions. Oil and natural gas prices beyond the fourth year are escalated at 2.0% per annum (2019: escalated at 2.0% per annum). All fair value less costs of disposal use post-tax and 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 11% 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 methodologies of fair value less costs of disposal and value in use are in compliance with HKAS 36, Impairment of Assets.

At 31 December 2020, 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 (Level 3 of the fair value hierarchy). The Group determined that there were indicators of impairment at 31 December 2020 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 2020, the Group recognised an impairment loss on petroleum and natural gas properties of HK$671,427,000. The recoverable amount of the petroleum and natural gas properties has been determined on the basis of their fair value less costs of disposal.

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.

The aggregate recoverable amount of the Group's petroleum and natural gas properties amounted to HK$716 million (2019: HK$1,409 million).

Impairment loss of construction in progress

During the year ended 31 December 2020, the Group has also recognised an impairment loss on construction in progress of HK$21,136,000 (2019: nil) as further construction work on the construction in progress is subject to relevant government authority's approval. The recoverable amount of the construction in progress has been determined on the basis of its value in use. The pre-tax discount rate used to forecast the cash flows of the asset during the forecast period was 13% (2019: 12%).

18. INVESTMENT PROPERTIES

	HK$'000
Fair values	
At 1 January 2019	16,794
Increase in fair values recognised in profit or loss *(note 9)*	1,100
Transfer to property, plant and equipment *(note 17)*	(866)
Exchange differences	(310)
At 31 December 2019 and 1 January 2020	**16,718**
Decrease in fair values recognised in profit or loss *(note 9)*	**(297)**
Exchange differences	**1,112**
At 31 December 2020	**17,533**

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 in the PRC at 31 December 2020 have been arrived at on the basis of valuations carried out by Vincorn Consulting and Appraisal Limited ("Vincorn") (2019: Vincorn), independent qualified professional valuer not related to the Group. Vincorn has 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) hold 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.

18. 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 "arm's-length" transactions, between willing buyers and sellers, adjustments are made for size, location, time, amenities and other relevant factors when comparing such sales prices to assess the value of the subject properties.

Significant unobservable inputs used to determine fair value

	Fair value at				Range of significant unobservable inputs			
	31 December 2020 HK$'000	31 December 2019 HK$'000	**Valuation technique**	**Fair value hierarchy**	**Monthly market unit rent**	**Market unit value**	**Capitalisation rates**	**Sensitivity**
Investment properties located in the PRC	**17,533**	16,718	Direct sales comparison approach and income approach	Level 3	RMB12.4 to RMB25.6 per square metre (2019: RMB11.6 to RMB36.0 per square metre)	RMB1,274 to RMB8,809 per square metre (2019: RMB1,284 to RMB9,106 per square metre)	3.5% to 7.8% (2019: 4.7% to 7.3%)	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.

18. 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	**Level 3**	**Fair value as at 31 December 2020**
	HK$'000	**HK$'000**	**HK$'000**
Commercial and office buildings located in the PRC	**–**	**17,533**	**17,533**

	Level 2	Level 3	Fair value as at 31 December 2019
	HK$'000	HK$'000	HK$'000
Commercial and office buildings located in the PRC	–	16,718	16,718

The following shows the details of rental income earned by the Group during the years ended 31 December 2020 and 31 December 2019:

	2020	2019
	HK$'000	HK$'000
Gross rental income from investment properties	**571**	880
Less: Direct operating expenses incurred for investment properties that generated rental income during the year	**–**	–
	571	880

19. EXPLORATION AND EVALUATION ASSETS

	HK$'000
Cost	
At 1 January 2019	12,433,762
Additions	3,942
Disposals and written off	(6,311)
Transfer to property, plant and equipment *(note 17)*	(860)
Exchange differences	712
At 31 December 2019 and 1 January 2020	**12,431,245**
Additions	**125**
Written off	**(3,107)**
Exchange differences	**225**
At 31 December 2020	**12,428,488**
Accumulated impairment	
At 1 January 2019, 31 December 2019 and 1 January 2020	**12,414,443**
Impairment loss during the year *(note 9)*	**14,045**
At 31 December 2020	**12,428,488**
Carrying amount	
At 31 December 2020	**–**
At 31 December 2019	16,802

The exploration and evaluation assets represent (i) the unproved properties and capitalised exploration, drilling and completion costs which are pending the determination of commercial viability in Canada ("E&E in Canada"); and (ii) 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, together with the 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.

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.

19. EXPLORATION AND EVALUATION ASSETS *(Continued)*

Impairment test – E&E in Canada

The Group assessed E&E in Canada for any indicators of impairment due to industry pricing fundamentals. Based on recent land sales and future drilling plans, the Group recognised an impairment loss of HK$14,045,000 during the year ended 31 December 2020 (2019: nil).

Impairment test – Two Exploration Blocks

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 Two Exploration Blocks in Madagascar were fully impaired during the year ended 31 December 2016. In November 2017, the rights to explore in the Two Exploration Blocks were expired. There was no impairment loss or reversal of impairment recognised for the years ended 31 December 2020 and 31 December 2019.

20. RIGHT-OF-USE ASSETS

	HK$'000
Cost	
At 1 January 2019	16,769
Additions	10,651
Exchange differences	(353)
At 31 December 2019 and 1 January 2020	**27,067**
Additions	**77,958**
Exchange differences	**1,458**
At 31 December 2020	**106,483**
Accumulated depreciation	
At 1 January 2019	–
Charge for the year	2,467
Exchange differences	(56)
At 31 December 2019 and 1 January 2020	**2,411**
Charge for the year	**4,163**
Exchange differences	**278**
At 31 December 2020	**6,852**
Net book value	
At 31 December 2020	**99,631**
At 31 December 2019	24,656

20. RIGHT-OF-USE ASSETS *(Continued)*

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

	2020 HK$'000	2019 HK$'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Ownership interests in leasehold land	**479**	449
Other properties leased for own use	**3,684**	2,018
	4,163	2,467

The Group entered into a number of lease agreements for use of offices and gas stations, and therefore recognised the additions to right-of-use assets of HK$77,958,000 (2019: HK$10,651,000). The leases of offices and gas stations 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.

21. GOODWILL AND INTANGIBLE ASSET

The carrying amount of goodwill of HK$51,418,000 as at 31 December 2020 (2019: HK$51,418,000) has been allocated to the CGU of trading and distribution of oil related products.

During the year ended 31 December 2020, the Directors determine that no impairment loss should be provided in respect of goodwill (2019: nil).

The recoverable amount of the above CGU was determined on the basis of value-in-use calculation. The recoverable amount is based on certain assumptions. All value-in-use calculations use cash flow projections based on the financial budgets approved by management covering a 3-year period. The pre-tax discount rate used is 15% (2019: 14%). Cash flows beyond 3-year period are extrapolated using a steady rate of 3% per annum. The Directors believe that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

The key assumption used in the value-in-use calculation of the CGU is as follows:

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

Note: Trading and distribution of oil related products belongs to supply and procurement segment to the Group's business for the years ended 31 December 2020 and 31 December 2019.

The intangible asset of HK$6,731,000 (2019: HK$6,731,000) represents Supply Agreements (as defined in note 37) which enable the Group to have stable and sufficient supply of refined oil in the PRC.

22. INVENTORIES

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

23. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of up to 90 days (2019: up to 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:

	2020 **HK$'000**	2019 HK$'000
0 to 30 days	**341,941**	168,429
31 to 60 days	**195**	135
61 to 90 days	**176**	40
Over 90 days	**2,039**	2,107
	344,351	170,711

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$2,039,000 (2019: HK$2,107,000) 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:

	2020 **HK$'000**	2019 HK$'000
Over 90 days	**2,039**	2,107

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2020 HK$'000	2019 HK$'000
Prepayments to suppliers of refined oil products	509,110	259,030
Other prepayments	3,306	2,008
Other deposits	963	848
Other receivables	9,333	5,819
	522,712	267,705

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 2020 and 31 December 2019. 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 2.30% (2019: 0.001% to 3.00%) per annum.

Included in the cash and bank balances as at 31 December 2020 were amounts in RMB equivalent to HK$395,638,000 (2019: HK$223,213,000) which are not freely convertible into other currencies.

(a) Cash and cash equivalents comprise:

	2020 HK$'000	2019 HK$'000
Deposits with banks	436,035	298,639
Cash at bank and on hand	49	49
Cash and cash equivalents in the consolidated statement of financial position and consolidated statement of cash flows	436,084	298,688

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$'000 *(note)*	Convertible bonds HK$'000	Lease liabilities HK$'000	Total HK$'000
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 and 1 January 2020	528,409	467,755	10,400	1,006,564
Changes from financing cash flows:				
Proceeds from new bank borrowings and secured term loan	**594,000**	**–**	**–**	**594,000**
Repayment of bank borrowings	**(297,000)**	**–**	**–**	**(297,000)**
Capital element of lease rentals paid	**–**	**–**	**(3,741)**	**(3,741)**
Interest element of lease rentals paid	**–**	**–**	**(1,042)**	**(1,042)**
Other interest paid	**(32,696)**	**(10,552)**	**–**	**(43,248)**
Total changes from financing cash flows	**264,304**	**(10,552)**	**(4,783)**	**248,969**
Exchange adjustments	**18,087**	**–**	**790**	**18,877**
Other changes:				
Interest expenses	**32,696**	**11,858**	**4,303**	**48,857**
Increase in lease liabilities from entering into new leases during the year	**–**	**–**	**77,958**	**77,958**
Conversion of convertible bonds	**–**	**(469,061)**	**–**	**(469,061)**
Total other changes	**32,696**	**(457,203)**	**82,261**	**(342,246)**
At 31 December 2020	**843,496**	**–**	**88,668**	**932,164**

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

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

Note: 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.

(c) Total cash outflow for leases

Amounts included in the consolidated statement of cash flows for leases comprise the following:

	2020 HK$'000	2019 HK$'000
Within operating cash flows	2,165	4,951
Within financing cash flows	4,783	1,341
	6,948	6,292

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

26. SHARE CAPITAL

	Number of shares		Share capital	
	2020 '000	2019 '000	2020 HK$'000	2019 HK$'000
Ordinary shares of HK$0.02 each				
Issued and fully paid:				
At the beginning of the year	12,145,573	12,145,573	242,911	242,911
Shares issued upon conversion of convertible bonds *(note)*	6,189,474	–	123,790	–
At the end of the year	18,335,047	12,145,573	366,701	242,911

Note: This represents the shares issued in relation to convertible bonds with aggregate principal amount of US$60,000,000 which was issued pursuant to a subscription agreement entered into on 12 October 2018. The convertible bonds were fully converted into 6,189,473,684 ordinary shares of HK$0.02 each at conversion price of HK$0.076 per share of the Company on 15 May 2020. The new shares rank *pari passu* with the shares in all respects.

26. SHARE CAPITAL *(Continued)*

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 2020, none of shares in respect of which options had been granted and remained outstanding under the Scheme (2019: nil).

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

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

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

The maximum number of shares available for issue under options which may be granted under the Scheme of the Company is 684,557,304 (2019: 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 3.7% (2019: 5.6%) of the total number of shares in issue as at the date of this annual report.

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:

	2020		2019	
	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
Granted during the period	–	–	–	–
Lapsed during the period	–	–	HK$0.1901	(75,000,000)
Outstanding at the end of the period	–	–	–	–
Exercisable at the end of the period	–	–	–	–

No options were outstanding as at 31 December 2020 and 31 December 2019.

The Group recognised an expense of nil (2019: HK$327,000) in relation to share options granted by the Company for the year ended 31 December 2020.

27. TRADE AND OTHER PAYABLES

	2020 HK$'000	2019 HK$'000
Trade payables	**115,313**	150,778
Contract liabilities *(note)*	**510,779**	50,860
Other payables	**117,672**	101,208
	743,764	302,846

Note:

Contract liabilities

Contract liabilities as at 31 December 2020 and 31 December 2019 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$510,779,000 were recognised as at 31 December 2020 (2019: HK$50,860,000) 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:

	2020 HK$'000	2019 HK$'000
0 to 30 days	**115,139**	149,099
31 to 60 days	**174**	734
61 to 90 days	**–**	–
Over 90 days	**–**	945
	115,313	150,778

As at 31 December 2020 and 31 December 2019, the trade payables are non-interest bearing and have an average credit period on purchases of up to 90 days.

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 period:

	31 December 2020		31 December 2019	
	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	5,949	10,260	3,077	3,566
After 1 year but within 2 years	5,179	9,190	2,999	3,325
After 2 years but within 5 years	11,575	22,418	3,240	3,623
After 5 years	65,965	90,342	1,084	1,229
	82,719	121,950	7,323	8,177
	88,668	132,210	10,400	11,743
Less: total future interest expenses		(43,542)		(1,343)
Present value of lease liabilities		88,668		10,400

29. BANK BORROWINGS

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

	2020 **HK$'000**	2019 HK$'000
Carrying amount repayable within one year or on demand:		
Unsecured bank borrowings *(Note)*	**572,112**	257,025

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

	2020	2019
Floating rate	**3.65%–4.35%**	4.35%

Note: As at 31 December 2020, Henan Yanchang Petroleum Sales Co., Limited ("Henan Yanchang") a subsidiary of the Company has drawn down unsecured bank borrowings of RMB480,000,000 (equivalent to HK$572,112,000) (2019: RMB230,000,000 (equivalent to HK$257,025,000)). 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.

30. CONVERTIBLE BONDS

On 28 November 2018, the Company issued new convertible bonds to Yanchang Petroleum HK, the immediate parent, 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.

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 bonds.

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

On 15 May 2020, the aggregate principal amount of US$60,000,000 convertible bonds were fully converted into 6,189,473,684 ordinary shares of HK$0.02 each at the conversion price of HK$0.076 per share pursuant to a subscription agreement entered into on 12 October 2018. The new shares issued rank pari passu with the existing shares in all respects.

Liability component:

	HK$'000
Liability component at 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 and 1 January 2020	467,755
Interest expenses *(note 13)*	**11,858**
Interest paid *(note 25(b))*	**(10,552)**
Conversion	**(469,061)**
Liability component at 31 December 2020	**–**

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:

	2020 HK$'000	2019 HK$'000
At the beginning of the year	129,114	128,094
Change in estimates	12,699	(4,627)
Liabilities incurred	556	3,097
Liabilities acquired	–	713
Liabilities settled	(2,535)	(5,765)
Liabilities extinguished on property dispositions	–	(364)
Accretion expenses *(note 13)*	2,156	3,098
Exchange differences	2,677	4,868
At the end of the year	144,667	129,114

The inflated, undiscounted amount of the future cash flows required to settle the obligations is estimated to be CAD27,100,000 (equivalent to HK$165,039,000) (2019: CAD26,900,000 (equivalent to HK$160,593,000)). The obligations were calculated using a risk-free interest rate of 1.76% (2019: 1.76%) and an inflation rate of 1.35% (2019: 1.35%). The risk-free interest rate adopted was referenced to the Bank of Canada Benchmark bond rate.

32. DEFERRED TAX ASSETS/(LIABILITIES)

	2020 HK$'000	2019 HK$'000
Deferred tax assets	–	–
Deferred tax liabilities	(11,352)	(11,287)
	(11,352)	(11,287)

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

	Property, plant and equipment HK$'000	Prepaid lease payments HK$'000	Investment properties HK$'000	Inventory HK$'000	Decommissioning liabilities HK$'000	Non-capital losses HK$'000	Others HK$'000	Total HK$'000
At 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 and 1 January 2020	**(171,593)**	**(1,612)**	**(3,140)**	**–**	**32,118**	**170,610**	**(37,670)**	**(11,287)**
Credited/(debited) to profit or loss during the year *(note 14)*	**165,058**	**–**	**74**	**730**	**(32,118)**	**(170,610)**	**37,670**	**804**
Exchange differences	**(656)**	**(107)**	**(108)**	**2**	**–**	**–**	**–**	**(869)**
At 31 December 2020	**(7,191)**	**(1,719)**	**(3,174)**	**732**	**–**	**–**	**–**	**(11,352)**

The Group did not have any significant unprovided deferred tax liabilities at 31 December 2020 (2019: nil).

33. SECURED TERM LOAN

On 20 December 2019, Novus Energy Inc. ("Novus"), a subsidiary of the Company, 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 2020, this ratio was 1.84:1 (2019: 2.56:1). As at 31 December 2020, the carrying amount of the secured term loan is HK$271,384,000 (2019: HK$271,384,000).

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 employees of the Group's subsidiary which operates in Canada may make voluntary contributions to a RRSP. The subsidiary matches the employee contributions up to an annual maximum. The subsidiary has no further payment obligation once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

The total cost charged to profit or loss of HK$1,419,000 for the year ended 31 December 2020 (2019: HK$2,734,000) represented contributions payable to the above schemes by the Group.

35. CAPITAL COMMITMENTS

The Group had capital commitments to pay property, plant and equipment amounting to HK$8,585,000 (2019: HK$1,713,000) which were contracted but not provided for as at 31 December 2020.

36. CONTINGENT LIABILITIES

As at 31 December 2020, the Group had no material contingent liabilities (2019: nil).

37. MATERIAL RELATED PARTIES TRANSACTIONS AND BALANCES

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

	2020 HK$'000	2019 HK$'000
Salaries and allowances	10,706	11,489
Share-based payment expenses	–	327
Pension scheme contributions	18	20
	10,724	11,836

Purchase and sale of refined oil

Relationship	Nature of transactions	2020 HK$'000	2019 HK$'000
Ultimate holding company	Purchase of refined oil *(notes (a) and (b))*	4,921,427	3,228,122
Related parties	Sale of refined oil *(note (b))*	228,592	233,249
Fellow subsidiaries	Sale of refined oil *(note (b))*	95,229	154,729

Notes:

(a) During the year ended 31 December 2020, the Group had connected transactions with a related party arising from the refined oil supply agreement dated 12 November 2019 and the supplemental agreement to the supply agreement dated 30 September 2020 (together the "Supply Agreements") 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 2022.

(b) These transactions constitute continuing connected transactions under Chapter 14A of the Listing Rules. Please also refer to "Continuing Connected Transactions" and "Ratification of Continuing Connected Transactions related to Sales of Refined Oil to Connected Parties" under "Report of the Directors".

37. MATERIAL RELATED PARTIES TRANSACTIONS AND BALANCES *(Continued)*

Following is a summary of related party balances as at 31 December 2020. These amounts were unsecured, interest-free and repayable on demand.

	2020	2019
	HK$'000	HK$'000
Trade receivables		
– amount due from a related party	**–**	1,531
Prepayments to suppliers of refined oil products		
– prepayment to ultimate holding company	**38,755**	–
– prepayment to fellow subsidiaries	**2,448**	4,626
Other receivables		
– amount due from a related party	**25**	14
Trade payables		
– amount due to ultimate holding company	**6,596**	131,008
Other payables		
– amount due to ultimate holding company	**12,088**	295
– amounts due to fellow subsidiaries	**25**	585

38. PARTICULARS OF SUBSIDIARIES

(a) General information of subsidiaries

Particulars of the principal subsidiaries of the Company as at 31 December 2020 were as follows:

Name of subsidiary	Place of incorporation/ establishment	Place of operation	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	
Forever Peace Investment Limited	Hong Kong	Hong Kong	HK$1	–	100	Investment holding
Shaanxi Hengtai Energy Technology Development Limited^^	PRC	PRC	Registered and paid-up capital of RMB30,000,000	–	100	Investment holding
Xian Guotai Basic Energy Development Co., Limited#	PRC	PRC	Registered and paid-up capital of RMB25,500,000	–	100	Investment holding
Henan Yanchang^	PRC	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	PRC	Registered and paid-up capital of RMB50,000,000	–	70	Transportation of refined oil
Noble Soar Limited	British Virgin Islands	Hong Kong	Ordinary US$1	100	–	Investment holding
Yanchang Petroleum International Trading Limited	Hong Kong	Hong Kong	HK$1	–	100	Provision of management services to the holding company
Yanchang International (Canada) Limited	Canada	Canada	Common CAD314,100,594	–	100	Investment holding
Yanchang Petroleum (Zhejiang FTZ) Limited ("Yanchang Zhejiang")^^	PRC	PRC	Registered and paid-up capital of RMB40,010,000	–	51	Fuel oil and oil related product trading
Yanchang Petroleum International Energy Trading Limited ("Yanchang Energy Trading")	Hong Kong	Hong Kong	HK$10,000	–	51	Investment holding

38. PARTICULARS OF SUBSIDIARIES *(Continued)*

(a) General information of subsidiaries *(Continued)*

Name of subsidiary	Place of incorporation/ establishment	Place of operation	Nominal value of issued and fully paid-up share/ registered capital	Percentage of ownership interests and voting power held by the Company Directly	Indirectly	Principal activities
Novus	Canada	Canada	Common CAD215,371,475	–	100	Acquiring, exploring for, developing and producing crude oil and natural gas

\# 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	
		2020	2019	**2020**	2019	**2020**	2019
				HK$'000	HK$'000	**HK$'000**	HK$'000
Henan Yanchang	PRC	**30%**	30%	**6,074**	9,418	**93,481**	91,990
Henan Yanchang Energy	PRC	**30%**	30%	**(6,730)**	(389)	**9,513**	15,250
Yanchang Zhejiang	PRC	**49%**	49%	**3,752**	(51)	**27,019**	22,040
Total				**3,096**	8,978	**130,013**	129,280

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.

38. PARTICULARS OF SUBSIDIARIES *(Continued)*

Henan Yanchang

	2020 HK$'000	2019 HK$'000
Current assets	**980,514**	632,494
Non-current assets	**258,592**	168,953
Current liabilities	**(830,566)**	(479,495)
Non-current liabilities	**(96,935)**	(15,319)
Equity attributable to the owners of the Company	**218,124**	214,643
Non-controlling interests	**93,481**	91,990
Revenue	**26,353,708**	7,860,875
Cost of sales	**(26,247,190)**	(7,772,602)
Expenses	**(86,271)**	(56,881)
Profit for the year attributable to the owners of the Company	**14,173**	21,974
Profit for the year attributable to the non-controlling interests	**6,074**	9,418
Profit for the year	**20,247**	31,392
Other comprehensive income for the year attributable to the owners of the Company	**14,255**	(3,990)
Other comprehensive income for the year attributable to the non-controlling interests	**6,109**	(1,710)
Other comprehensive income for the year	**20,364**	(5,700)
Total comprehensive income for the year attributable to the owners of the Company	**28,428**	17,984
Total comprehensive income for the year attributable to the non-controlling interests	**12,183**	7,708
Total comprehensive income for the year	**40,611**	25,692
Dividend paid to non-controlling interests	**(10,692)**	(6,679)
Net cash (outflow)/inflow from operating activities	**(54,305)**	30,220
Net cash outflow from investing activities	**(37,291)**	(22,358)
Net cash inflow from financing activities	**256,813**	55,938
Net cash inflow	**165,217**	63,800

38. PARTICULARS OF SUBSIDIARIES *(Continued)*

Henan Yanchang Energy

	2020 HK$'000	2019 HK$'000
Current assets	**3,599**	3,326
Non-current assets	**99,921**	113,566
Current liabilities	**(71,809)**	(66,059)
Equity attributable to the owners of the Company	**22,198**	35,583
Non-controlling interests	**9,513**	15,250
Revenue	**–**	–
Expenses	**(22,433)**	(1,297)
Loss for the year attributable to the owners of the Company	**(15,703)**	(908)
Loss for the year attributable to the non-controlling interests	**(6,730)**	(389)
Loss for the year	**(22,433)**	(1,297)
Other comprehensive income for the year attributable to the owners of the Company	**2,318**	(692)
Other comprehensive income for the year attributable to the non-controlling interests	**993**	(297)
Other comprehensive income for the year	**3,311**	(989)
Total comprehensive income for the year attributable to the owners of the Company	**(13,385)**	(1,600)
Total comprehensive income for the year attributable to the non-controlling interests	**(5,737)**	(686)
Total comprehensive income for the year	**(19,122)**	(2,286)
Net cash outflow from operating activities	**(6,902)**	(9,867)
Net cash outflow from investing activities	**–**	–
Net cash inflow from financing activities	**11,137**	9,995
Net cash inflow	**4,235**	128

38. PARTICULARS OF SUBSIDIARIES *(Continued)*

Yanchang Zhejiang

	2020 HK$'000	2019 HK$'000
Current assets	503,307	55,369
Non-current assets	329	400
Current liabilities	(448,496)	(11,274)
Non-current liabilities	–	–
Equity attributable to the owners of the Company	28,121	22,455
Non-controlling interests	27,019	22,040

	For the year ended 31 December 2020 HK$'000	For the period from 28 February 2019 (date of acquisition) to 31 December 2019 HK$'000
Revenue	807,264	107,744
Cost of sales	(760,472)	(105,717)
Expenses	(39,135)	(2,130)
Profit/(loss) for the year attributable to the owners of the Company	3,905	(52)
Profit/(loss) for the year attributable to the non-controlling interests	3,752	(51)
Profit/(loss) for the year	7,657	(103)
Other comprehensive income for the year attributable to the owners of the Company	1,761	–
Other comprehensive income for the year attributable to the non-controlling interests	1,227	–
Other comprehensive income for the year	2,988	–
Total comprehensive income for the year attributable to the owners of the Company	5,666	(52)
Total comprehensive income for the year attributable to the non-controlling interests	4,979	(51)
Total comprehensive income for the year	10,645	(103)
Net cash outflow from operative activities	(8,805)	(2,196)
Net cash outflow from investing activities	(103)	(326)
Net cash inflow from financing activities	–	17,227
Net cash (outflow)/inflow	(8,908)	14,705

39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Statement of financial position of the Company

	2020 HK$'000	2019 HK$'000
Assets		
Non-current assets		
Interests in subsidiaries	546,771	1,383,085
Property, plant and equipment	1,868	3,125
Right-of-use assets	3,618	6,172
	552,257	1,392,382
Current assets		
Prepayments and other receivables	2,378	1,949
Cash and bank balances	16,027	33,845
	18,405	35,794
Total assets	570,662	1,428,176
Equity		
Capital and reserves attributable to the owners of the Company		
Share capital	366,701	242,911
Reserves	193,975	648,252
Total equity	560,676	891,163
Liabilities		
Current liabilities		
Amount due to a subsidiary	–	36,441
Other payables	5,859	26,284
Lease liabilities	2,555	2,407
Convertible bonds	–	467,755
	8,414	532,887
Non-current liabilities		
Lease liabilities	1,572	4,126
Total liabilities	9,986	537,013
Total equity and liabilities	570,662	1,428,176
Net current assets/(liabilities)	9,991	(497,093)
Total assets less current liabilities	562,248	895,289

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
At 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 and 1 January 2020	1,763,060	6,454,818	–	6,980	(7,576,606)	648,252
Issue of shares upon conversion of convertible bonds	**352,251**	**–**	**–**	**(6,980)**	**–**	**345,271**
Loss and total comprehensive income for the year	**–**	**–**	**–**	**–**	**(799,548)**	**(799,548)**
At 31 December 2020	**2,115,311**	**6,454,818**	**–**	**–**	**(8,376,154)**	**193,975**

40. IMPACT OF THE COVID-19 PANDEMIC

The COVID-19 pandemic persisted during the year resulting in the suppress demand and sharp decline in crude oil price, it brought uncertainty in the Group's operating environment and impacted the Group's operations and financial position. The Group has been actively monitoring the impact of the pandemic on the Group's business and has undertaken numerous unprecedented steps to respond to the global market turmoil.

The Group regularly performs assessment on the liquidity risks, where appropriate, to assess the potential impact on the Group's capital sufficiency and liquidity position. The latest Group's financial position showed that level of capital and liquidity are adequate to mitigate the risks of pandemic on operation. Prompt actions of management will be undertaken to cope with the potential impacts whenever necessary.

The Group has evaluated the accounting estimates and other matters that require the use of projected financial data to assess the impact of the COVID-19 epidemic. Accounting estimates and other matters mainly include the allowance for expected credit losses of trade receivables from customers, valuation of inventories, and impairment assessment of oil and gas assets. The global demand and international oil price are expected to demonstrate positive trends but may be affected by further COVID-19 development. At the date of this report, the Group continues to assess the impact of the above factors on its financial position and future cash flows as well as thoroughly monitoring market developments. As additional information becomes available, the future assessment of these estimates, including expectations about the severity, duration and scope of the pandemic, could differ materially in the future reporting periods.

41. APPROVAL FOR CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of Directors on 26 March 2021.

SCHEDULE OF INVESTMENT PROPERTIES

The particulars of the investment properties at 31 December 2020 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%