延長石油國際有限公司
YANCHANG PETROLEUM INTERNATIONAL LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 00346)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

The board (the "Board") of directors (the "Director(s)") of Yanchang Petroleum International Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2022 together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Notes	**2022** **HK$'000**	2021 HK$'000
Revenue	*4*	**29,936,206**	19,776,474
Other revenue	*4*	**12,199**	8,545
		29,948,405	19,785,019
Expenses			
Purchases		**(29,472,861)**	(19,315,716)
Royalties		**(60,305)**	(25,088)
Field operation expenses		**(77,877)**	(56,695)
Exploration and evaluation expenses		**(2,620)**	(2,512)
Selling and distribution expenses		**(167,426)**	(97,203)
Administrative expenses		**(99,398)**	(110,465)
Depreciation, depletion and amortisation		**(169,571)**	(86,296)
Provision for expected credit loss		**(115,136)**	–
Other gains and losses	*5*	**(340,841)**	332,302
		(30,506,035)	(19,361,673)

	Notes	**2022** *HK$'000*	2021 *HK$'000*
(Loss)/profit from operating activities	*6*	**(557,630)**	423,346
Finance costs	*7*	**(50,641)**	(45,790)
(Loss)/profit before taxation		**(608,271)**	377,556
Taxation	*8*	**(10,828)**	(19,101)
(Loss)/profit for the year		**(619,099)**	358,455
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		**(78,842)**	24,790
Other comprehensive income for the year, with nil tax effect		**(78,842)**	24,790
Total comprehensive income for the year		**(697,941)**	383,245
(Loss)/profit for the year attributable to:			
Owners of the Company		**(199,510)**	353,601
Non-controlling interests		**(419,589)**	4,854
		(619,099)	358,455
Total comprehensive income for the year attributable to:			
Owners of the Company		**(263,334)**	374,836
Non-controlling interests		**(434,607)**	8,409
		(697,941)	383,245
(Loss)/earnings per share			
Basic and diluted, HK cents	*10*	**(1.09)**	1.93

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*11*	**1,865,290**	1,480,631
Investment properties		**13,633**	17,890
Exploration and evaluation assets		**5,273**	592
Right-of-use assets		**108,056**	94,334
Goodwill and intangible asset		**58,149**	58,149
Other non-current assets		**–**	2,000
		2,050,401	1,653,596
Current assets			
Inventories		**846,178**	460,653
Trade receivables	*12*	**722,285**	664,890
Prepayments, deposits and other receivables		**460,277**	1,335,434
Tax recoverable		**2,453**	–
Restricted cash		**303,406**	–
Cash and bank balances		**133,209**	394,132
		2,467,808	2,855,109
Total assets		**4,518,209**	4,508,705
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital		**366,701**	366,701
Reserves		**406,255**	669,666
Total equity attributable to the owners of the Company		**772,956**	1,036,367
Non-controlling interests		**(303,530)**	131,077
Total equity		**469,426**	1,167,444

	Notes	**2022**	2021
		HK$'000	*HK$'000*
LIABILITIES			
Current liabilities			
Trade and other payables	*13*	**2,167,196**	2,198,499
Lease liabilities		**6,941**	5,270
Tax payables		**–**	5,204
Bank borrowings and other loans		**700,032**	427,350
Provision for litigations		**453,330**	–
Secured term loans		**273,047**	270,298
		3,600,546	2,906,621
Non-current liabilities			
Decommissioning liabilities		**169,779**	169,863
Lease liabilities		**94,509**	79,643
Deferred tax liabilities		**11,249**	12,434
Secured term loans		**172,700**	172,700
		448,237	434,640
Total liabilities		**4,048,783**	3,341,261
Total equity and liabilities		**4,518,209**	4,508,705
Net current liabilities		**(1,132,738)**	(51,512)
Total assets less current liabilities		**917,663**	1,602,084

NOTES TO THE ANNUAL RESULTS ANNOUNCEMENT

1. BASIS OF PREPARATION

The financial information set out in this announcement does not constitute the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2022, but is extracted from those consolidated financial statements.

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The consolidated financial statements for the year ended 31 December 2022 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 investment properties are stated at their fair value.

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.

The Group incurred loss of HK$619,099,000 for the year ended 31 December 2022 and had net current liabilities of HK$1,132,738,000 as at that date. In addition, the Group has financial liabilities totaling HK$2,695,868,000 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. In addition, the Group had a provision for litigations of HK$453,330,000. However, as at 31 December 2022, the Group only had cash and cash equivalents of HK$133,209,000.

These events or conditions may cast significant doubt about the Group's ability to continue as a going concern. In assessing the appropriateness of the use of the going concern basis in the preparation of the consolidated financial statements, the Directors have prepared a cash flow forecast covering a period of twelve months from the date of approval of these consolidated financial statements with careful consideration of the past and future financial performance and liquidity after taking account of the following:

(i) the Group expects to generate operating cash inflows;

(ii) the Group would be able to obtain additional finance from various sources including but not limited to banks, shareholders and other potential investors. On 13 January 2023, the Company completed a placing of shares and a net proceeds of approximately HK$281 million was obtained for the purpose of financing the development of upstream oil and gas production business in Canada;

(iii) the Group is able to renew the existing banking facilities from the banks;

(iv) disposal of certain assets to obtain funding; and

(v) Planned pre-restructuring of Yanchang Petroleum (Zhejiang FTZ) Limited ("Yanchang Zhejiang"), a non-wholly owned subsidiary of the Company in the People's Republic of China ("PRC") with the expected improvement of the net asset position of the Group upon the completion of the pre-restructuring.

On the assumption of successful implementation of the above, the Directors considered that the Group would have sufficient financial resources to finance its operations and to meet financial obligations as and when they fall due. Accordingly, the consolidated financial statements are prepared on going concern basis notwithstanding that there is a material uncertainty related to the above events and conditions that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

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.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKAS 16 – Property, Plant and Equipment: Proceeds before intended use
- Amendments to HKFRS 3 – Reference to the Conceptual Framework
- Amendments to HKAS 37 – Onerous Contracts – Cost of Fulfilling a Contract
- Annual Improvements to HKFRS Standards 2018–2020

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.

Amendments to HKAS 16 – Property, Plant and Equipment: Proceeds before intended use

The amendment to HKAS 16 Property, Plant and Equipment prohibits an entity from deducting from the cost of an item of Property, Plant and Equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.

Amendments to HKFRS 3 – Reference to the Conceptual Framework

Minor amendments were made to HKFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and to add an exception for the recognition of liabilities and contingent liabilities within the scope of HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date.

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

The amendment to HKAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.

Annual Improvements to HKFRS Standards 2018–2020

The following improvements were finalised in June 2020:

- HKFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.

- HKFRS 16 Leases – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

- HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same HKFRS 1 exemption.

- HKAS 41 Agriculture – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under HKAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

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[2]

- Amendments to HKAS 1 – Non-current Liabilities with Covenants[2]

- Amendments to HKAS 1 and HKFRS Practice Statement 2 – Disclosure of Accounting Policies[1]

- Amendments to HKAS 8 – Definition of Accounting Estimates[1]

- Amendments to HKAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

- Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

[1] Effective for annual periods beginning on or after 1 January 2023.
[2] Effective for annual periods beginning on or after 1 January 2024.
[3] The amendment shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

Amendments to HKAS 1 – Classification of Liabilities as Current or Non-current

The narrow-scope amendments to HKAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the entity's expectations or events after the reporting date (e.g. the receipt of a waver or a breach of covenant). The amendments also clarify what HKAS 1 means when it refers to the 'settlement' of a liability.

The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity.

They must be applied retrospectively in accordance with the normal requirements in HKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Amendments to HKAS 1 – Non-current Liabilities with Covenants

The amendments further clarify that among covenants of a liability arising from a loan agreement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period.

Amendments to HKAS 1 and HKFRS Practice Statement 2 – Disclosure of Accounting Policies

The HKICPA amended HKAS 1 to require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

To support this amendment, the HKICPA also amended HKFRS Practice Statement 2 Making Materiality Judgements to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

Amendments to HKAS 8 – Definition of Accounting Estimates

The amendment to HKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, whereas changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

Amendments to HKAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments to HKAS 12 Income Taxes require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations, and will require the recognition of additional deferred tax assets and liabilities.

The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with:

- right-of-use assets and lease liabilities, and

- decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets.

The cumulative effect of recognising these adjustments is recognised in retained earnings, or another component of equity, as appropriate.

HKAS 12 did not previously address how to account for the tax effects of on-balance sheet leases and similar transactions and various approaches were considered acceptable. Some entities may have already accounted for such transactions consistent with the new requirements. These entities will not be affected by the amendments.

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

The HKICPA has made limited scope amendments to HKFRS 10 Consolidated Financial Statements and HKAS 28 Investments in Associates and Joint Ventures.

The amendments clarify the accounting treatment for sales or contribution of assets between an investor and their associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in HKFRS 3 Business Combinations).

Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interests in the associate or joint venture. The amendments apply prospectively.

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

3. 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.

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	
	2022	2021	**2022**	2021	**2022**	2021
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers	**443,881**	199,774	**29,492,325**	19,576,700	**29,936,206**	19,776,474
Segment profit/(loss)	**124,157**	23,913	**(786,982)**	81,687	**(662,825)**	105,600
Other revenue					**12,199**	8,545
Fair value change on investment properties					**(251)**	(122)
Net foreign exchange (loss)/gain					**(30,618)**	2,882
Net reversal of impairment loss of property, plant and equipment					**169,786**	333,161
Reversal of impairment loss of exploration and evaluation assets					**934**	–
Write down of inventories					**(24,550)**	–
Unallocated corporate expenses					**(22,305)**	(26,720)
(Loss)/profit from operating activities					**(557,630)**	423,346
Finance costs					**(50,641)**	(45,790)
(Loss)/profit before taxation					**(608,271)**	377,556
Taxation					**(10,828)**	(19,101)
(Loss)/profit for the year					**(619,099)**	358,455

Revenue reported was generated from external customers. There were no inter-segment sales for the year (2021: nil).

Segment profit/(loss) represents the profit earned/loss incurred by each segment without allocation of other revenue, fair value change on investment properties, net foreign exchange (loss)/gain, net reversal of impairment loss of property, plant and equipment, reversal of impairment loss of exploration and evaluation assets, write down of inventories, 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.

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**	
	2022	2021	**2022**	2021	**2022**	2021
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**1,835,313**	1,379,631	**2,667,969**	3,113,345	**4,503,282**	4,492,976
Unallocated assets					**14,927**	15,729
Total assets					**4,518,209**	4,508,705
Segment liabilities	**911,518**	676,923	**3,124,988**	2,658,103	**4,036,506**	3,335,026
Unallocated liabilities					**12,277**	6,235
Total liabilities					**4,048,783**	3,341,261

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

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

Other segment information

	Exploration, exploitation and operation		**Supply and procurement**		**Unallocated**		**Consolidated**	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
	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	**142**	101	**12,421**	11,391	**534**	1,357	**13,097**	12,849
Depreciation of right-of-use assets	**193**	205	**6,000**	5,145	**2,157**	2,554	**8,350**	7,904
Depletion of property, plant and equipment	**148,124**	65,543	**–**	–	**–**	–	**148,124**	65,543
Written off of property, plant and equipment	**–**	–	**–**	3,667	**–**	–	**–**	3,667
Reversal of impairment loss of exploration and evaluation assets	**–**	–	**–**	–	**(934)**	–	**(934)**	–
(Reversal)/impairment of loss of property, plant and equipment	**–**	–	**–**	–	**(169,786)**	(333,161)	**(169,786)**	(333,161)
Write down of inventories	**–**	–	**–**	–	**24,550**	–	**24,550**	–
Provision for litigations	**–**	–	**448,347**	–	**–**	–	**448,347**	–
Provision for expected credit loss	**–**	–	**115,136**	–	**–**	–	**115,136**	–
Additions to non-current assets*	**457,842**	240,797	**34,156**	18,537	**5,621**	27	**497,619**	259,361

* The amount represents additions to property, plant and equipment, right-of-use assets and exploration and evaluation assets for the years ended 31 December 2022 and 31 December 2021.

Revenue from major products and services

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

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)*	
	2022	2021	**2022**	2021
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC	**29,492,325**	19,576,700	**341,130**	376,369
Canada	**443,881**	199,774	**1,704,663**	1,273,581
Hong Kong and others	**–**	–	**4,608**	1,646
	29,936,206	19,776,474	**2,050,401**	1,651,596

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$29,492,325,000 (2021: HK$19,576,700,000) are revenue of HK$15,385,401,000 (2021: HK$2,355,468,000) which arose from two (2021: one) 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:

	2022	2021
	HK$'000	*HK$'000*
Customer A *(note 1)*	**9,047,668**	N/A
Customer B *(note 1)*	**6,337,733**	N/A
Customer C *(note 2)*	**N/A**	2,355,468

Notes:

1. The corresponding revenues from customers A and B did not contribute over 10% of the total revenue of the Group during the year ended 31 December 2021.

2. The corresponding revenues from customer C did not contribute over 10% of the total revenue of the Group during the year ended 31 December 2022.

4. 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 were 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:

	2022	2021
	HK$'000	*HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of crude oil and natural gas	**443,881**	199,774
Trading and distribution of oil related products	**29,492,325**	19,576,700
	29,936,206	19,776,474

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 3.

	2022	2021
	HK$'000	*HK$'000*
Other revenue		
Bank interest income	**4,734**	4,949
Rental income	**435**	721
Storage fee income	**1,177**	–
Others	**5,853**	2,875
	12,199	8,545

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:

	2022	2021
	HK$'000	*HK$'000*
Not later than one year	**82**	724
Later than one year and not later than two years	**17**	210
Later than two years and not later than three years	**–**	–
	99	934

5. OTHER GAINS AND LOSSES

	2022 *HK$'000*	2021 *HK$'000*
Net foreign exchange (loss)/gain	**(30,618)**	2,882
Fair value change on investment properties	**(251)**	(122)
Net reversal of impairment loss of property, plant and equipment	**169,786**	333,161
Reversal of impairment loss of exploration and evaluation assets	**934**	–
Write down of inventories	**(24,550)**	–
Provision for litigations	**(448,347)**	–
Others	**(7,795)**	(3,619)
	(340,841)	332,302

6. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

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

	2022 *HK$'000*	2021 *HK$'000*
Auditors' remuneration		
– Audit services	**2,856**	2,624
– Non-audit services	**416**	413
Cost of inventories sold	**29,472,861**	19,315,716
Depreciation and depletion of property, plant and equipment	**161,221**	78,392
Depreciation of right-of-use assets	**8,350**	7,904
	169,571	86,296
Written off of property, plant and equipment	**–**	3,667
Expense relating to variable lease payments not included in the measurement of lease liabilities	**52,668**	36,240
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	**3,259**	2,447
Staff costs (including Directors' remuneration)		
– Salaries and wages	**79,010**	74,366
– Pension scheme contributions	**4,505**	4,288

7. FINANCE COSTS

	2022 *HK$'000*	2021 *HK$'000*
Interest expenses on bank borrowings and secured term loans wholly repayable within five years	**36,576**	39,992
Interest expenses on lease liabilities	**5,120**	4,421
Interest expenses on other loans	**6,292**	–
Accretion expenses of decommissioning liabilities	**2,653**	1,377
	50,641	45,790

8. TAXATION

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

	2022	2021
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	**–**	86
Current tax – Outside Hong Kong		
Over-provision in prior year	**(667)**	–
Provision for the year	**11,558**	18,293
	10,891	18,293
Deferred tax		
(Reversal)/origination of temporary differences	**(63)**	722
	10,828	19,101

The provision for Hong Kong Profits tax for 2022 is calculated at 16.5% (2021: 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% (2021: 25%) and 25% (2021: 25%) respectively.

9. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders during the year ended 31 December 2022, nor has any dividend been proposed since the end of the reporting period (2021: nil).

10. (LOSS)/EARNINGS PER SHARE

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

	2022	2021
	HK$'000	*HK$'000*
(Loss)/profit		
(Loss)/profit for the year attributable to the owners of the Company for the purpose of basic and diluted (loss)/earnings per share	**(199,510)**	353,601

	2022	2021
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted (loss)/earnings per share	**18,335,047**	18,335,047

Diluted (loss)/earnings per share for the years ended 31 December 2022 and 31 December 2021 were the same as the basic (loss)/earnings per share as the Company had no dilutive potential ordinary shares in existence during the years ended 31 December 2022 and 31 December 2021.

11. PROPERTY, PLANT AND EQUIPMENT

Impairment loss of petroleum and natural gas properties

The Group's petroleum and natural gas properties are aggregated into different cash-generating units ("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. Oil and natural gas prices beyond the fourth year are escalated at 2% per annum (2021: escalated at 2% per annum). All fair values less costs of disposal use post-tax future cash flow projection based on the drilling proposals on proved and probable reserves approved by management and discounted at 10.5% (2021: 10.5%). 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 2022 and 31 December 2021, 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 reversal at 31 December 2022 and 31 December 2021 at its CGUs. The main indicator of reversal of impairment loss was the third party reserves evaluation which included an increase in the forward price deck resulting in an increase in reserve and net present values across all CGUs. During the years ended 31 December 2022 and 31 December 2021, the Group recognised an impairment reversal on petroleum and natural gas properties of HK$194,992,000 (2021: HK$373,169,000). The recoverable amount of the petroleum and natural gas properties has been determined on the basis of their fair values less costs of disposal, which is assessed to be higher than their value in use.

The aggregate recoverable amount of the Group's petroleum and natural gas properties amounted to HK$1,699 million (2021: HK$1,272 million).

12. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of up to 90 days (2021: 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:

	2022 ***HK$'000***	2021 *HK$'000*
0 to 30 days	**585,905**	597,539
31 to 60 days	**86,638**	64,151
61 to 90 days	**1,352**	1,402
Over 90 days	**48,390**	1,798
	722,285	664,890

13. TRADE AND OTHER PAYABLES

	2022	2021
	HK$'000	*HK$'000*
Trade payables	**1,362,027**	315,589
Contract liabilities	**479,522**	1,565,757
Refund liabilities	**207,969**	–
Other payables	**117,678**	317,153
	2,167,196	2,198,499

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

	2022	2021
	HK$'000	*HK$'000*
0 to 30 days	**731,908**	242,785
31 to 60 days	**97,130**	34,126
61 to 90 days	**182,944**	850
Over 90 days	**350,045**	37,828
	1,362,027	315,589

As at 31 December 2022 and 31 December 2021, the trade payables are non-interest bearing and have an average credit period on purchases of up to 90 days.

14. LITIGATIONS

Referring to the Company's announcement dated 2 June 2022, a claim was made by Chongqing Longhai Petroleum and Chemical Company Limited (重慶龍海石化有限公司, "Chongqing Longhai") against Yanchang Zhejiang, a non-wholly owned subsidiary of the Company in the PRC, for processing fees of approximately RMB442,696,000 and the relevant costs and interest so arisen. Yanchang Zhejiang also made a counter claim against Chongqing Longhai on the liquidated damages arising from the failure in completion of the processing contract and the amount of such counter claim was approximately RMB45,483,000. In December 2022, the court announced its judgement that Yanchang Zhejiang was required to bear the alleged damage (including processing fees, storage fee, interest and court processing fee) to Chongqing Longhai with a total of approximately RMB266,514,000 (equivalent to HK$297,350,000). In February 2023, Yanchang Zhejiang lodged appeal against the decision by the court.

Referring to the Company's announcements dated 2 June 2022, 9 June 2022, 8 July 2022, 22 July 2022, 3 August 2022, 12 August 2022, 19 August 2022, 14 September 2022, 15 September 2022, 28 October 2022, 14 November 2022 and 21 December 2022, various customers and suppliers of Yanchang Zhejiang sued for outstanding purchase procurement fees, transportation fees, purchase amounts. Penalties and interests of approximately RMB135,339,000 (equivalent to HK$150,997,000) in aggregate were arisen from the outstanding balances from the suppliers and customers.

As at 31 December 2022, the Directors of the Company are of the view that the above claims and the legal proceedings are likely to result in material outflows of economic benefit from the Group. The provision for these litigations in the amount of HK$448,347,000 was made during the year.

As at 31 December 2022, assets of Yanchang Zhejiang (including inventories with carrying amounts of HK$152,720,000, bank balances with carrying amounts of HK$303,406,000) have been frozen by the relevant court orders (31 December 2021: HK$ nil).

Yanchang Zhejiang had initially filed the bankruptcy re-organisation application to the court on 7 November 2022 in order to revive its business and safeguard the interests of the Group. Subsequently, Yanchang Zhejiang had resubmitted a pre-restructuring application on 6 March 2023 in accordance with the pre-restructuring procedures as proposed by the court in order to have greater flexibilities in handling the debt restructuring of Yanchang Zhejiang. Yancheng Zhejiang received the court's civil ruling dated 17 March 2023 and the court accepted the pre-restructuring application. Further details were set out in the respective announcements of the Company dated 7 November 2022 and 17 March 2023.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

The following is an extract of the independent auditor's report on the Group's annual financial statements for the year ended 31 December 2022:

"**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$619,099,000 for the year ended 31 December 2022 and had net current liabilities of HK$1,132,738,000 as at that date. This condition, along with other conditions stated in note 3(b), indicates 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.

Opinion

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 2022 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."

BUSINESS REVIEW AND PROSPECTS

During 2022, the international oil prices were affected by the Russia-Ukraine conflict, however, the international oil and gas market had basically digested this major geopolitical event. Crude oil prices continued to go up starting in the first quarter of 2022, reaching nearly US$120/barrel in the second quarter. The oil prices then fell back but was still able to maintain over US$70/barrel afterwards during the year. The crude oil prices continued to fluctuate due to short-term factors such as confidence in economic recovery in the post-pandemic era and intensified geopolitical tension, but overall, it remained at a high level in recent years as fostered by economic recovery of the PRC. Capitalising on the opportunity of high oil prices, the Company increased its capital expenditure on new drillings in due course, actively facilitated the increase in oil and gas reserves and production ramp-up, and maintained the growth of oil and gas production. Notwithstanding the substantial loss of Yanchang Zhejiang due to litigations and business suspension, the Group remained profitable and recorded a profit of around HK$230 million for the year under review.

UPSTREAM OIL AND GAS PRODUCTION BUSINESS IN CANADA

In 2022, Novus Energy Inc ("Novus") accelerated the commissioning of new wells, and reasonably adjusted its inventory volume in light of the operation status of the oilfields, kept the costs under control and optimised economic benefits. During the year ended 31 December 2022, Novus produced a total of 808,000 barrels of oil equivalent ("BOE"), representing an increase of 75.6% from 2021 and sold 783,000 BOE in 2022, up 63% from 2021. Novus sold 662,000 barrels of crude oil and 20.61 million cubic meters of natural gas. The average selling price of crude oil was CAD114/barrel, and the selling average price of natural gas was CAD0.14/m^3 in 2022. Sales revenue was CAD77.46 million in 2022, representing an increase of CAD44.66 million, or 136%, as compared to 2021.

The oilfield operating expenses were CAD17.35/BOE in 2022, as compared with CAD19.31/BOE in 2021. The site staff of Novus strived to cut down costs while keeping as many wells as possible in normal operation, thus reducing field operating expenses by 10% from 2021. The administrative and management expenses were CAD6.26/BOE, as compared with CAD8.32/BOE in 2021, representing a decrease of 24%. In 2022, Novus recorded after-tax income of CAD66.94 million, site operating expenses of CAD13.59 million, administrative and management expenses of CAD4.9 million, impairment reversal of CAD34.19 million, finance costs of CAD4.09 million and net income of CAD46.92 million. For the year ended 31 December 2022, net income, excluding impairment reversal, increased by CAD11.52 million, or 951%, as compared to 2021. Revenue per barrel, excluding impairment reversal, reached a new high of CAD16.26 in 2022, the highest level since the Company's acquisition of Novus in 2014.

In 2022, Novus operated steadily and safely throughout the year despite adversely affected by inflation and tight service resources as it overcame various headwinds in the market, actively prepared for the implementation of production ramp-up programme, and eventually consummated the full-year production target and development programme.

Fully leveraging the opportunity of high oil prices, Novus strived to secure its oil and gas production. During the year ended 31 December 2022, Novus completed the drilling of 52 wells and 53 wells were put into production. Whereas 4 wells were pre-drilling wells for 2023 and 48 wells were actually drilled during the year of 2022, including 33 half-mile conventional wells, 11 3/4-mile extended wells, and 8 1-mile extended wells, with a total horizontal length of 47 kilometers, surpassing the budgeted length by 25.3%. Novus made active effort in achieving emission reduction as its target by completing the pipelines tie-in of 27 new wells and building 5.5 kilometers of new pipelines, reducing carbon dioxide emission by 555,000 tonnes throughout the year of 2022. The number of horizontal wells implemented by Novus increased year by year, which reflected Novus capturing higher economic benefits and reduced operating costs and well decommissioning liabilities. As at 31 December 2022, Novus had 475.5 net horizontal wells and 70.2 net vertical wells.

In respect of cost control, in the first quarter of 2022, with keen insight of market changes, Novus purchased oil casing in advance to ensure successful implementation of the drilling plan and achieved a cost saving of CAD1.85 million. Leveraging the high mobility of small surface drilling rigs, Novus benefited a saving of about CAD2 million in drilling costs. While ensuring production and reducing costs, Novus still gave first priority to drilling quality. According to the capital market report issued by Alberta Department of Finance in August 2022, which summed up the production volume of 540 new wells in Viking Play in 2022, Novus had three wells on the top 10 list, ranking 1st, 2nd and 10th, respectively, outperforming many of its larger competitors.

Novus successfully completed 6 exploration wells, 4 Court Viking wells and 2 "Success" wells throughout the year of 2022, achieving good results in formation testing. In 2022, Novus also successfully won the bidding of the 8.5 blocks (21.7 square kilometers) of state-owned mining rights in the Court area. Novus' net area under the mining rights increased by 19.7 square kilometers. Novus' proved plus probable (2P) reserves increased by 200,000 barrels, or 1.1%, to 18.09 million barrels in 2022.

DOWNSTREAM OIL AND BY-PRODUCTS SALES BUSINESS IN CHINA

(i) Henan Yanchang refined oil business

In 2022, Henan Yancheng Petroleum Sales Co., Limited ("Henan Yanchang") achieved total sales of refined oil of 3.25 million tonnes, including sales of 1.41 million tonnes through strategic channel; sales through highway and railway channel of 870,600 tonnes (152,200 tonnes through highway and 718,400 tonnes through railway); sales at oil depots of 237,000 tonnes; sales at gas stations of 14,500 tonnes; sale from external sourcing of 719,400 tonnes. In 2022, Henan Yanchang recorded an operating income of RMB25 billion with total profit before tax of RMB26.5 million.

Since 2022, in actively responding to the challenging circumstances of supply and demand of refined oil mismatch, market ups and downs and resurgence of COVID-19 in the PRC, especially the closed-loop management for nearly three months resulting from the epidemic onslaught in the fourth quarter, Henan Yanchang strived to fight against the pandemic to ensure stability overall, made concerted efforts to meet the annual targets and achieved remarkable results in consummating tasks.

(1) Stable refined oil distribution

Firstly, while strengthening its presence in the southwest regional market (accounting for 49%), Henan Yanchang increased its effort in developing the markets in Hunan and Hubei, and the annual sales volume in 2022 from the Hunan and Hubei markets were 206,200 tonnes (accounting for more than 30%). Secondly, leveraging the advantages of supplier of provincial and municipal branches of Sinopec, Henan Yanchang entered into the direct refined oil supply co-operation with Sinopec North China Branch for the first time in 2022, with a total sales volume of 12,900 tonnes and sales revenue of RMB115 million, reaching a new three-year record high for sales of direct supply to Sinopec in Henan.

(2) Effective increase in sales of inventory

In Henan, firstly, Henan Yanchang developed over 80 new customers and sold 16,900 tonnes of inventory diesel by seizing the opportunity of high market price spread, achieving a price spread of RMB11.60 million. The price spread for every tonne of diesel was RMB686.85, way above the industry average in 2022. Secondly, Henan Yanchang boosted efforts in providing marketing services to its strategic customers. Henan Yanchang sold a total of 3,710 tonnes of refined oil to CNAF Henan (中航油河南), representing a year-on-year increase of 540%, a new historical high. Henan Yanchang sold 7,500 tonnes of refined oil to Henan Shell (河南殼牌), representing a year-on-year increase of 102.7%. Thirdly, Henan Yanchang actively explored new business models during the year of 2022. Henan Yanchang connected upstream and downstream customers and sold over 5,000 tonnes of No. 95 gasoline through multiple rail transportation. Henan Yanchang recorded a revenue of RMB980,000 through the co-operation with Sinofert Henan (中化河南) on oil product storage. Henan Yanchang reached strategic co-operation with Yanchang Xinghua (延長興化), trading over 1,200 tonnes of ethanol. In Ningxia, Henan Yanchang vigorously expanded large industrial and mining enterprises and surrounding gas stations. Newly-developed customers contributed a sales growth of nearly 20,000 tonnes.

In Hunan, Henan Yanchang reached strategic co-operation with Hunan Guochu (湖南國儲), Hunan Heshun (湖南和順), Xiandao (先導) and other local terminal customers. Henan Yanchang successfully entered the Hunan high-speed service region as a supplier of refined oil products and participated in the oil products supply of 14 gas stations, achieving breakthroughs in sales of inventory. In 2022, Henan Yanchang's annual sales in Hunan market reached 129,300 tonnes (sales of inventory of 21,000 tonnes and distribution of 108,300 tonnes), representing an over two-fold year-on-year increase as compared with 41,000 tonnes in 2021.

(3) New paths in terminal sales

Firstly, Henan Yanchang actively responded to impacts of the static-pandemic control, adopted flexible strategies in vigorously expanding the market and developed four big customers with a monthly consumption of over RMB100,000 in 2022. Henan Yanchang co-ordinated with private gas stations in the neighborhood areas in establishing a gasoline price alliance, achieving an overall growth in terminal retail prices for the whole year with a year-on-year increase of 12% in price spread for every tonne of refined oil. Secondly, Henan Yanchang increasingly improved the membership system and continuously developed new customer resources. The number of members increased to 40,000 and solid big customers such as gas stations reached over 120. Sales to solid customers were 3,700 tonnes in 2022. Thirdly, Henan Yanchang actively explored opportunities for incremental growth and provided small-volume deliveries to construction sites, factories and enterprises and gas stations in the same industry within a range of 10 kilometers. Henan Yanchang completed over 5,430 tonnes of small-volume deliveries during the year under review and created a revenue of over RMB2.40 million, further enhancing its brand influence. Fourthly, sales to gas stations in Xiangcheng increased significantly with an annual sales volume of 5,465 tonnes in 2022, representing a year-on-year increase of 33%.

(4) Trading business increased amid stability

Firstly, Henan Yanchang conducted comprehensive calibration and adjustment to sales from external sourcing and successfully achieved the revenue targets. The gross profit for every tonne of oil products in sales from external sourcing achieved a year-on-year increase of 46%. Secondly, Henan Yanchang focused on expanding the markets in Hunan and Hubei, riverside and coastal markets in 2022. The sales of the water transportation business reached 304,600 tonnes during the year under review, accounting for 39% of its total sales.

(ii) Yanchang Zhejiang oil business

Yanchang Zhejiang sold 347,800 tonnes of oil products in the entire 2022, which were mainly bitumen products, with sales revenue of RMB1,415 million. Yanchang Zhejiang recorded losses of RMB762 million for the year.

The business of Yanchang Zhejiang has been suspended due to the litigation with sub-contracted processing plant, whereby it also affected other trading businesses and led to litigations against Yanchang Zhejiang by various customers and suppliers. Yanchang Zhejiang had initially filed the application for bankruptcy re-organisation with the court which was subsequently approved as a pre-restructuring application. The pre-restructuring would give greater fexibility in handling the debt restructuring of Yanchang Zhejiang in order to revitalise its business and safeguard the interest of the Group.

Further details of the bankruptcy re-organisation application were set out in the respective announcements of the Company dated 7 November 2022 and 17 March 2023.

OUTLOOK

In 2023, the global economic growth will impede while the global demand for oil will maintain a recovery growth due to the dampening impact of the epidemic. Under the circumstances that OPEC+ maintains the existing production policy, Russian oil has limited volume reduction, and Iranian oil has not returned, it is expected that the international oil and gas market will maintain a tight balance in 2023. At the same time, the PRC's relaxation of epidemic prevention policies has provided strong support for the international oil and gas market, and therefore the international oil prices are expected to continue to fluctuate at a high level. The Company will fully grasp the opportunity of high oil prices, actively promote the optimization of business structure and capital structure, and formulate scientific and appropriate investment strategies. Recovery and transformation are the main theme in international development of oil and gas industry going forward. While increasing traditional oil and gas investment, the Company will continue to implement energy transformation, actively explore photovoltaic business opportunity, and take the initiative in business layout, organizational structure, asset management and other aspects.

FINANCIAL REVIEW

Highlights on financial results

	2022	2021	Change in
	HK$'000	*HK$'000*	%
Revenue	**29,936,206**	19,776,474	51%
Other revenue	**12,199**	8,545	43%
Purchases	**(29,472,861)**	(19,315,716)	53%
Royalties	**(60,305)**	(25,088)	140%
Field operation expenses	**(77,877)**	(56,695)	37%
Exploration and evaluation expenses	**(2,620)**	(2,512)	4%
Selling and distribution expenses	**(167,426)**	(97,203)	72%
Administrative expenses	**(99,398)**	(110,465)	(10%)
Depreciation, depletion and amortisation	**(169,571)**	(86,296)	96%
Provision for expected credit loss	**(115,136)**	–	N/A
Other gains and losses	**(340,841)**	332,302	N/A
Finance costs	**(50,641)**	(45,790)	11%
Taxation	**(10,828)**	(19,101)	(43%)
(Loss)/profit for the year	**(619,099)**	358,455	

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 2022, the Group's turnover was mainly derived from the production of oil and natural gas business in Canada as well as the oil and by-products trading business in the PRC.

Novus is engaged in the business of exploration, exploitation and production of oil and natural gas in Western Canada. Novus achieved sales volume of oil and gas of 808,000 BOE and contributed revenue of HK$443,881,000 during the year under review as compared to sale volume of 482,000 BOE and revenue of HK$199,774,000 of the previous year. Due to the high oil prices in 2022, the exploration, exploitation and operation business recorded an operating profit of HK$124,157,000, as compared to an operating profit of HK$23,913,000 in 2021.

Although sales volume decreased from the previous year of 4.89 million tonnes to this year of 3.60 million tonnes, the revenue of oil and by-products trading business in the PRC increased from the previous year of HK$19,576,700,000 to this year of HK$29,492,325,000 because of higher selling prices. For the year under review, supply and procurement business incurred an operating loss of HK$786,982,000 which was mainly attributable to the substantial loss of Yanchang Zhejiang which has involved in a number of litigations, as against an operating profit of HK$81,687,000 in 2021.

Other revenue

Apart from the aforesaid segment results, the Group recorded other revenue of HK$12,199,000 this year which mainly represented interest income from bank deposits and oil card income from the PRC, as compared to that of HK$8,545,000 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$19,315,716,000 to this year of HK$29,472,861,000. The increase of purchases was mainly due to the increase in sales of the refined oil trading business in the PRC.

Royalties

Royalties, including crown, freehold and overriding royalties were incurred by Novus for the oil and natural gas production business in Canada, increased from the last year of HK$25,088,000 to the current year of HK$60,305,000 due to increase in oil prices and sale volume.

Field operation expenses

Due to increase in production, field operation expenses increased to this year of HK$77,877,000 from the previous year of HK$56,695,000. 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$2,620,000 this year which represented the holding costs, mainly lease rentals, on the interests of non-producing lands held by Novus, compared to that of HK$2,512,000 in the previous year.

Selling and distribution expenses

Selling and distribution expenses, increased from the previous year of HK$97,203,000 to the current year of HK$167,426,000. Most of the expenses were incurred by Yanchang Zhejiang, which has involved in a number of litigations during the year under review.

Administrative expenses

Administrative expenses including directors' remuneration, staff costs, office rentals, professional fees, listing fee, etc., amounted to HK$99,398,000 this year, compared to HK$110,465,000 of the previous year. Such decrease was mainly attributable to the decrease in the expenses incurred by Yanchang Zhejiang as its business came to a halt due to the litigations during the year under review.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation increased from the previous year of HK$86,296,000 to the current year of HK$169,571,000. It was mainly due to the increase in depletion of oil and gas assets of Novus in Canada alongside with the increase in production during the year under review.

Provision for expected credit loss

The Company recognised the loss provision of HK$115,136,000 for trade receivables based on the expected credit losses for oil trading business in the PRC.

Other gains and losses

Other losses of HK$340,841,000 recorded this year mainly including (i) the net impairment reversal on the oil and gas assets of the Group amounting to HK$170,720,000, offset by (ii) net foreign exchange loss of HK$30,618,000, (iii) provision for litigations of HK$448,347,000 and (iv) write down of inventories of HK$24,550,000.

Finance costs

Finance costs of HK$50,641,000 mainly comprised (i) bank borrowing costs and secured term loan interests totalling HK$40,713,000, (ii) accretion expenses totalling HK$2,653,000, and (iii) imputed interest of HK$5,120,000.

Taxation

Taxation of HK$10,828,000 comprised (i) provision for the PRC enterprise income tax on the profit earned from the oil and by-products trading business amounted to HK$10,891,000, and offset by (ii) recognition of deferred tax assets amounted to HK$63,000.

(Loss)/profit for the year

During the year under review, both the oil and gas production business in Canada and the refined oil trading business in PRC remained robust and recorded profits HK$268,876,000 and HK$15,839,000, respectively. As a result of the substantial loss of HK$850,570,000 incurred by Yanchang Zhejiang, the Group as a whole recorded a loss of HK$619,099,000 for the year ended 31 December 2022, as against a profit of HK$358,455,000 for 2021.

Highlights on financial position

	2022	2021	Change in
	HK$'000	*HK$'000*	*%*
Property, plant and equipment	**1,865,290**	1,480,631	26%
Investment properties	**13,633**	17,890	(24%)
Exploration and evaluation assets	**5,273**	592	791%
Right-of-use assets	**108,056**	94,334	15%
Goodwill and intangible asset	**58,149**	58,149	–
Inventories	**846,178**	460,653	84%
Trade receivables	**722,285**	664,890	9%
Prepayments, deposits and other receivables	**460,277**	1,335,434	(66%)
Restricted cash	**303,406**	–	N/A
Cash and bank balances	**133,209**	394,132	(66%)
Trade and other payables	**(2,167,196)**	(2,198,499)	(1%)
Bank borrowings and other loans	**(700,032)**	(427,350)	64%
Provision for litigations	**(453,330)**	–	N/A
Decommissioning liabilities	**(169,779)**	(169,863)	–
Lease liabilities	**(101,450)**	(84,913)	19%
Secured term loans	**(445,747)**	(442,998)	1%

Property, plant and equipment

Property, plant and equipment consisted of buildings, furniture, fixtures and equipment, plant and machineries, motor vehicles, petroleum and natural gas properties and construction-in-progress amounted to HK$1,865,290,000 as at 31 December 2022. The increase in the amount for the year was mainly attributable to the additions of assets and the reversal of impairment loss on petroleum and natural gas properties of Novus in Canada.

Investment properties

Investment properties as at the year end 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 lands held by Novus as at 31 December 2022.

Right-of-use assets

Right-of-use assets amounted to HK$108,056,000 as at 31 December 2022, 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.

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 of HK$846,178,000 mainly represented the refined oil held in oil storage tanks of Henan Yanchang and inventory of oil products of Yanchang Zhejiang in which balance of RMB135,378,000 (equivalent to HK$152,720,000) has been frozen by relevant court orders in the PRC as at 31 December 2022 in relation to certain litigations against Yanchang Zhejiang.

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 2022. Except for the trade receivables of Yanchang Zhejiang, the outstanding amounts had been mostly recovered in February 2023.

Prepayments, deposits and other receivables

Prepayments, deposits and other receivables decreased to this year of HK$460,277,000 from the previous year of HK$1,335,434,000. Such decrease was mainly due to the decrease in prepayments made for the purchases of oil products by Yanchang Zhejiang as its business has been suspended due to the litigations in the PRC.

Restricted cash

As at 31 December 2022, restricted cash of RMB268,953,000 (equivalent to HK$303,406,000) was frozen by the relevant court orders in relation to certain litigations against Yanchang Zhejiang.

Cash and bank balances

As at 31 December 2022, cash and bank balances maintained at HK$133,209,000 as compared to the last year of HK$394,132,000.

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 2022.

Bank borrowings and other loans

The amount represented loans from banks of the PRC and other unsecured loans from Shaanxi Yanchang Petroleum (Group) Co., Limited ("Yanchang Petroleum Group") and third parties to finance the refined oil trading business in the PRC.

Provision for litigations

As at 31 December 2022, there were a number of litigations against Yanchang Zhejiang and claims were made by various plaintiffs for processing fees, purchase procurement fees, transportation fees, purchase amounts and relevant cost and interests of HK$453,330,000 in aggregate.

Decommissioning liabilities

Decommissioning liabilities amounted to HK$169,779,000 as at 31 December 2022, representing the expected future costs associated with the plugging and abandonment of wells, facilities dismantlement and site reclamation in Canada incurred by Novus.

Lease liabilities

Lease liabilities amounted to HK$101,450,000 as at 31 December 2022, representing the obligation to make lease payments in relation to leasehold lands in the PRC and office rentals in the PRC, Hong Kong and Canada.

Secured term loans

Secured term loans included the US$35,000,000 3-year secured term loan granted to Novus by Yanchang Petroleum HK and US$22,000,000 3-year secured term loan granted to the Company 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 and secured term loans for the year ended 31 December 2022.

	2022	2021
	HK$'000	*HK$'000*
Current assets	**2,467,808**	2,855,109
Total assets	**4,518,209**	4,508,705
Current liabilities	**3,600,546**	2,906,621
Total liabilities	**4,048,783**	3,341,261
Total equity	**469,426**	1,167,444
Gearing ratio	**862.5%**	286.2%
Current ratio	**68.5%**	98.2%

The Group had outstanding variable interest rates bank borrowings amounted to HK$306,843,000 (equivalent to RMB272,000,000) as at 31 December 2022 (31 December 2021: HK$427,350,000) under Henan Yanchang. The Group has obtained bank facilities of HK$671,219,000 (equivalent to RMB595,000,000) from banks in the PRC.

On 20 December 2019, Novus drew down a 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. On 6 December 2022, Novus entered into a supplemental facility agreement with Yanchang Petroleum HK, pursuant to which Novus has renewed the secured term loan of US$35,000,000 which bears interest rate at 4.8% per annum and is repayable in 3 years. The principal amount of relevant secured term loan was still outstanding as at 31 December 2022.

On 3 September 2021, the Company drew down a secured term loan of US$22,000,000, granted by Yanchang Petroleum HK which bears interest rate at 4.8% per annum and is repayable in 3 years. The secured term loan granted to the Company by Yanchang Petroleum HK as general working capital for operation. The principal amount of relevant secured term loan was still outstanding as at 31 December 2022.

As at 31 December 2022, the Group had cash and bank balances of HK$133,209,000 and restricted cash of HK$303,406,000 (31 December 2021: HK$394,132,000). In view of the cash on hand together with the available bank facilities, the Group has sufficient working capital to finance its business operation.

As at 31 December 2022, the gearing ratio of the Group, measured on the basis of total liabilities as a percentage of total equity, was 862.5% as compared to 286.2% 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 68.5% as at 31 December 2022 (31 December 2021: 98.2%).

COMMODITY PRICE MANAGEMENT

Novus is engaged in crude oil and gas development, production and selling activities. Prices of crude oil and gas are affected by both domestic and global factors which are beyond the control of Novus. The fluctuations in such prices may have favourable or unfavourable impacts to the Group. Therefore the Group was exposed to general price fluctuations of crude oil and gas. No commodity contract was entered for the year ended 31 December 2022 (31 December 2021: nil).

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 2022 (31 December 2021: nil).

SIGNIFICANT INVESTMENTS

The Group did not hold any significant investments as at 31 December 2022 (31 December 2021: nil).

CAPITAL COMMITMENTS

As at 31 December 2022, the Group had commitments related to property, plant and equipment amounted to HK$8,296,000 (31 December 2021: HK$4,144,000).

Save as the aforesaid, the Group did not have any other material commitments as at 31 December 2022.

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' right, title and interest, with floating charge over all assets of Novus.

US$22,000,000 secured term loan granted by Yanchang Petroleum HK, available to the Company, is secured by 350 ordinary shares of Sino Union Energy International Limited ("Sino Union Energy") (representing 35% of the issued share capital of Sino Union Energy which is a direct wholly-owned subsidiary of the Company) under the share charge deed pursuant to which the Company agreed to provide a guarantee in favour of Yanchang Petroleum HK that the Company shall procure on the best effort basis the carrying valuation of Henan Yanchang will be not less than US$104,800,000.

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 2022, the Group did not have any significant contingent liabilities (31 December 2021: nil).

LITIGATIONS

Yanchang Zhejiang is a party to a number of litigations incidental to its business, it faces exposure from actual or potential claims. Up to the date of this report, claims were made by various plaintiffs against Yanchang Zhejiang for processing fees, purchase procurement fees, transportation fees, purchases amounts and relevant costs and interests amounted to RMB401,853,000 (equivalent to HK$448,347,000) in aggregate. The assets of Yanchang Zhejiang in the amount of RMB725,576,000 (equivalent to HK$818,522,000) had been frozen by the relevant court orders.

Yanchang Zhejiang had initially filed the bankruptcy re-organisation application to the court on 7 November 2022 in order to revive its business and safeguard the interests of the Company. Subsequently, Yanchang Zhejiang had resubmitted a pre-restructuring application on 6 March 2023 in accordance with the pre-restructuring procedures as proposed by the court in order to have greater flexibilities in handling the debt restructuring of Yanchang Zhejiang. Yanchang Zhejiang received the court's civil ruling dated 17 March 2023 and the court accepted the pre-restructuring application. Further details were set out in the respective announcements of the Company dated 7 November 2022 and 17 March 2023.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2022, the Group's total number of staff was 229 (2021: 240). Salaries of employees were maintained at a competitive level with total staff costs for the year ended 31 December 2022 amounted to HK$83,515,000 (2021: HK$78,654,000). 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, etc. There is also a share option scheme offered to employees and eligible participants. No share option was granted under the Company's share option scheme during the year ended 31 December 2022 (31 December 2021: nil).

DIVIDENDS

The Board does not recommend the payment of any dividends for the year ended 31 December 2022 (31 December 2021: nil).

EVENTS AFTER THE END OF THE REPORTING PERIOD

(i) Renewal of secured term loan

On 6 December 2022, Novus entered into a supplemental facility agreement with Yanchang Petroleum HK, pursuant to which Yanchang Petroleum HK agreed to renew the secured term loan of US$35,000,000 under terms and conditions with reference to the original facility agreement dated 5 November 2019. The precedent conditions of the supplemental facility agreement had been fulfilled and the utilization of the facility effected from 18 January 2023. The secured term loan has been extended for an additional three years up to and due on 17 January 2026, bearing interest rate of 4.8% per annum.

(ii) Completion of shares subscription

On 13 January 2023, the Company announced that all conditions precedent set out in a subscription agreement dated 30 December 2022 entered with ChangAn HuiTong Investment (Hong Kong) Company Limited ("ChangAn HuiTong") had been fulfilled, the completion of subscription of new shares took place on 13 January 2023 in accordance with the terms and conditions of the subscription agreement. An aggregate of 3,667,009,346 subscription shares had been allotted and issued to ChangAn HuiTong at the subscription price of HK$0.0766 per subscription share, representing approximately 16.667% of the enlarge issued share capital of the Company. Further details of share subscriptions were set out in the respective announcements of the Company dated 30 December 2022 and 13 January 2023.

(iii) Pre-restructuring application of Yanchang Zhejiang

On 17 March 2023, the Company announced that Yanchang Zhejiang filed the pre-restructuring (the "Pre-restructuring") application with the Guangzhou Provincial People's Court (the "Court") in the Guangdong Province of the PRC on 6 March 2023. Yanchang Zhejiang received the Court's civil ruling dated 17 March 2023. According to the civil ruling, the Court has accepted the Pre-restructuring and granted Yanchang Zhejiang, the applicant, a fifteen-day period to negotiate with creditors to recommend a provisional administrator.

Save as aforesaid, there was no other significant event relevant to the business or financial performance of the Group after the year ended 31 December 2022.

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 2022 and 2021.

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.

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 its 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 long-term value and return for the shareholders of the Company.

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 2022, except for the following deviations:

1. code provision B.2.4(b) of the CG Code provides that all the independent non-executive Directors have served more than nine years on the Board, the Company should appoint a new independent non-executive Director on the Board. Mr. Ng Wing Ka, Mr. Leung Ting Yuk, Mr. Sun Liming and Dr. Mu Guodong have served as the independent non-executive Directors for more than nine years. The Company would appoint an additional new independent non-executive Director as soon as practicable as the Company needs time to identify a qualified and suitable candidate. As at the date of this results announcement, the Company has not yet indentified a suitable candidate to assume the role of the new independent non-executive Director as provided by the code provision B.2.4(b).

2. code provision C.1.6 of the CG Code provides that the independent non-executive Directors and other non-executive Directors should also attend general meetings and develop a balance understanding of the views of shareholders. One of the independent non-executive Directors, Mr. Ng Wing Ka was unable to attend at the special general meeting ("2022 SGM") of the Company held on 30 December 2022 due to other ad hoc engagements.

3. code provision C.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 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 time to identify a suitable candidate to assume the role of the chief executive officer. In addition, the Board considers that the balance of power and authority, accountability and independent decision-making under present arrangement is not impaired because of the diverse background and experience of the executive Directors, non-executive Director and independent non-executive Directors. The audit committee of the Company has free and direct access to the Company's senior management, external auditors and independent professional advisers when it considers necessary. Therefore, the Board considers that the deviation from code provision C.2.1 of the CG Code is not significant in such circumstance.

4. code provision F.2.2 of the CG Code provides that the chairman of the Board should attend the annual general meeting. 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. Feng Yinguo was unable to attend the annual general meeting held on 27 May 2022 due to the impact of the COVID-19 pandemic.

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, the Directors confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2022.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2022, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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 2022.

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been compared by the Group's auditor, BDO Limited, to the amounts set out in the Group's consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by BDO Limited, Certified Public Accountants, in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement for the year ended 31 December 2022 is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.yanchanginternational.com). The Company's annual report for 2022 will be despatched to the shareholders of the Company and available on the above websites in due course.

ANNUAL GENERAL MEETING

The annual general meeting (the "AGM") of the Company will be held on 30 June 2023 and the notice of the 2023 AGM of the Company will be published and despatched to the shareholders of the Company in the manner as required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 27 June 2023 to 30 June 2023 (both days inclusive), during which period, no transfer of share(s) will be registered. In order to qualify for attending the AGM of the Company to be held on 30 June 2023, 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration, not later than 4:30 p.m. on 26 June 2023.

By Order of the Board
Yanchang Petroleum International Limited
Feng Yinguo
Chairman

Hong Kong, 30 March 2023

Executive Directors:

Mr. Feng Yinguo *(Chairman)*
Mr. Zhang Jianmin
Mr. Ding Jiasheng

Non-Executive Director:
Mr. Sun Jian

Independent Non-Executive Directors:

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