



延長石油國際有限公司

YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 00346



2022

ANNUAL REPORT





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CORPORATE INFORMATION

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

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. Feng Yinguo

NOMINATION COMMITTEE

Mr. Ng Wing Ka (*Chairman*)
Mr. Sun Liming
Mr. Feng Yinguo

AUTHORISED REPRESENTATIVES

Mr. Feng Yinguo
Mr. Law Hing Lam

AUDITORS

BDO Limited
Public Interest Entity Auditor registered in accordance
with the Financial Reporting Council Ordinance
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
17/F, Far East Finance Centre
16 Harcourt Road
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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Lee Garden One
33 Hysan Avenue, Causeway Bay
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STOCK CODE

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WEBSITE

www.yanchanginternational.com

CHAIRMAN'S STATEMENT

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. Capitalizing on the opportunity of high oil prices, Yanchang Petroleum International Limited (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 Petroleum (Zhejiang FTZ) Limited ("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/m³ 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.

CHAIRMAN'S STATEMENT

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, the Henan Yanchang Petroleum Sales Co., Limited ("Henan Yanchang") achieved total cumulative 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 (河南壳牌), 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.

CHAIRMAN'S STATEMENT

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 flexibility 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.

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.

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



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 Company and its subsidiaries (together the "Group") for the year ended 31 December 2022 together with the comparative figures as follows:

Highlights on financial results

	2022 HK\$'000	2021 HK\$'000	Change in %
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.

MANAGEMENT DISCUSSION AND ANALYSIS



FINANCIAL REVIEW *(Continued)*

Highlights on financial results *(Continued)*

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.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Highlights on financial results *(Continued)*

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 and 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\$36,576,000, (ii) accretion expenses totalling HK\$2,653,000, (iii) imputed interest of HK\$5,120,000, and (iv) interest expenses on other loans of HK\$6,292,000.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Highlights on financial position

	2022 HK\$'000	2021 HK\$'000	Change in %
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.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Highlights on financial position *(Continued)*

Inventories

Inventories of HK\$846,178,000 mainly represented the refined oil held in oil storage tanks of Henan Yanchang in the PRC as at 31 December 2022 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 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 for 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 for financing the refined oil trading business in the PRC and other unsecured loans from Shaanxi Yanchang Petroleum (Group) Co., Limited ("Yanchang Petroleum Group") and third parties.

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 Group (Hong Kong) Co., Limited ("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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 HK\$'000	2021 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 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 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%).

MANAGEMENT DISCUSSION AND ANALYSIS

COMMODITY PRICE MANAGEMENT

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

MANAGEMENT DISCUSSION AND ANALYSIS

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 16.67% 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.

MANAGEMENT DISCUSSION AND ANALYSIS

EVENTS AFTER THE END OF THE REPORTING PERIOD *(Continued)*

(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 dated with 6 March 2023 the Guangzhou Provincial People's Court (the "Court") in the Guangdong Province of the PRC. 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 was 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 2022 and its opinion that the reserve estimates are reasonable.

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

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

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

Net proved reserves	Canada		
	Oil and natural gas liquids (Mbbbl)	Natural gas (MMcf)	Total (Mboe)
At 1 January 2022	9,813.4	17,749.0	12,771.7
Acquisition	–	–	–
Production	(661.8)	(725.0)	(782.6)
Disposals	–	–	–
Discoveries & revisions	546.2	888.0	694.2
At 31 December 2022	9,697.8	17,912.0	12,683.3

Net probable reserves	Canada		
	Oil and natural gas liquids (Mbbbl)	Natural gas (MMcf)	Total (Mboe)
At 1 January 2022	3,870.5	7,517.0	5,123.2
Acquisition	–	–	–
Disposals	–	–	–
Discoveries & revisions	171.5	713.0	290.3
At 31 December 2022	4,042.0	8,230.0	5,413.5

Net proved + probable reserves	Canada		
	Oil and natural gas liquids (Mbbbl)	Natural gas (MMcf)	Total (Mboe)
At 1 January 2022	13,683.9	25,266.0	17,894.9
Acquisition	–	–	–
Production	(661.8)	(725.0)	(782.6)
Disposals	–	–	–
Discoveries & revisions	717.7	1,601.0	984.5
At 31 December 2022	13,739.8	26,142.0	18,096.8

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
Mbbbl = thousand barrels
Mboe = thousand barrels of oil equivalent
Mcf = thousand cubic feet
MMcf = million cubic feet

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

B. MAJOR EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES

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

	Canada	Madagascar
Exploration activities:	4,273 hectares unproved land acquired	Nil
Development activities:	52 wells drilled 53 wells completed	Nil
Production activities:	Average daily net production Oil: 1,789 bbl Gas: 2,548 mcf	Nil

Note: 52 wells were drilled, whereas 4 wells were pre-drilling wells for 2023 and 48 wells were actually drilled during the year of 2022.

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 2022:

	Canada HK\$'000	Madagascar HK\$'000	Total HK\$'000
Exploration costs	2,620	–	2,620
Developments costs	451,892	–	451,892
Production costs (<i>note</i>)	77,877	–	77,877

Note: Production costs excluding depletion, depreciation and amortisation, government tax and selling expenses.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

EXECUTIVE DIRECTORS

Mr. Feng Yinguo

Aged 57, was appointed as an executive Director on 9 June 2020 and was also appointed as the chairman of the Board and an authorised representative of the Company on 1 April 2021. Mr. Feng is currently the executive director and the deputy secretary of the Party Committee of Shaanxi Yanchang Petroleum International Energy & Chemical Co., Limited under Shaanxi Yanchang Petroleum (Group) Co., Limited ("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. Save as the aforesaid, Mr. Feng did not hold directorship in other listed companies in the past three years.

Mr. Zhang Jianmin

Aged 57, was appointed as an executive Director on 1 April 2021. Mr. Zhang is currently the deputy chief accountant, deputy supervisor of the finance center and a member of the Party Committee of Yanchang Petroleum Group. At the same time, he is also the director and general manager of Yanchang Petroleum Group (Hong Kong) Co., Limited. Mr. Zhang joined the finance department of Yanchang Petroleum Management Bureau under Yanchang Petroleum Group in July 1987. Since August 2011, he has served as the deputy supervisor of the finance center of Yanchang Petroleum Group, and is mainly responsible for the financial control and accounting and formulating of the Company's financial works. He obtained a master's degree in economic

management from the Party School of the Shaanxi Provincial Party Committee of the Communist Party of China, and is a semi-senior accountant. Mr. Zhang has been engaged in financial management in the petroleum industry for a long period of time and has many years of solid experience in finance and financial management, as well as petroleum operation governance. Save as the aforesaid, Mr. Zhang did not hold any directorship in other listed companies in the past three years.

Mr. Ding Jiasheng

Aged 35, was appointed as an executive Director on 1 April 2021. Mr. Ding is currently the executive chairman of Novus, an indirect wholly-owned subsidiary of the Company in Canada. Mr. Ding joined Novus in May 2014 and has served as the production engineer, exploration and development engineer, vice president and executive chairman of Novus. He has extensive technical and management experience. He holds a bachelor's degree in petroleum engineering from the University of Alberta in Canada and a master's degree in Earth and Environment from the Columbia University in U.S.A., and is a registered professional engineer in Canada. Save as the aforesaid, Mr. Ding did not hold any directorship in other listed companies in the past three years.

NON-EXECUTIVE DIRECTOR

Sun Jian

Aged 29, was appointed as a non-executive Director on 8 February 2023. Mr. Sun is currently the director of the Shenzhen office of Changan Huitong Co., Ltd., the executive director and general manager of Changan Huitong (Shenzhen) Investment Co., Ltd., and the director of Changan Huitong Investment (Hong Kong) Co., Ltd. He worked in Orient Securities Co., Limited and Research Institute of Guotai Junan Securities Co., Limited during 2017 to 2021. Mr. Sun graduated from Beijing Foreign Studies University with a Master's Degree in International Finance and Trade. Mr. Sun has extensive experience and professional knowledge in finance, investment and capital market. Save as the aforesaid, Mr. Sun did not hold any directorship in other listed companies in the past three years.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Wing Ka

Aged 53, 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 was elected as a member of the 14th Hong Kong delegation to the National People's Congress of the People's Republic of China in December 2022. Mr. Ng has been elected as a member of Court and was appointed as a member of the Council 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 and The Hong Kong Mortgage Corporation Limited, a member of Competition Commission and a member of the Chinese People's Political Consultative Conference of Shaanxi Province, the PRC. Mr. Ng has been appointed as an independent non-executive director of MTR Corporation Limited (a company listed on the Stock Exchange) since May 2019. Mr. Ng has also been appointed as an independent non-executive director of Glorious Sun Enterprises Limited (a company listed on the Stock Exchange) since June 2019. He has been re-elected as a member of the Legislative Council (Industrial (Second) Functional Constituency) on 20 December 2021. 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.

Mr. Leung Ting Yuk

Aged 48, was appointed as an independent non-executive Director on 3 December 2009. Mr. Leung is also the chairman of the audit committee and a member of the remuneration committee of the Company. Mr. Leung holds a bachelor of Commerce with major in accounting in University of Wollongong, Australia. He is a member of the Certified Practising Accountants, Australia and the Hong Kong Institute of Certified Public Accountants. He has over 20 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 The Stock Exchange of Hong Kong Limited ("Stock Exchange")) since November 2018. Save as the aforesaid, Mr. Leung did not hold any directorship in other listed companies in the past three years.

Mr. Sun Liming

Aged 69, 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 has been appointed as an executive director, a co-chief executive officer and the chairman of the investment committee of DTXS Silk Road Investment Holdings Company Limited (a company listed on the Stock Exchange) since February 2023. 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.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Dr. Mu Guodong

Aged 65, 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 has been appointed as an independent non-executive director of Shaanxi Energy Investment Co., Limited. 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, 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 59, 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, taxation, finance and company secretarial matters. Prior to joining the Company, Mr. Law held the position of financial controller in certain listed companies in Hong Kong. Mr. Law is currently the financial controller and an authorised representative of the Company. He is also currently the chief financial officer and the director of certain subsidiaries of the Company.



REPORT OF THE DIRECTORS

The Board has pleasure in presenting the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2022.

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 2022 is set out in note 7 to the consolidated financial statements on pages 94 to 98.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2022 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 50 to 135. The state of affairs of the Company on 31 December 2022 is set out in note 38 to the consolidated financial statements.

The Directors do not recommend the payment of any dividends for the year (2021: nil).

REPORT OF THE DIRECTORS

SUMMARY OF FINANCIAL INFORMATION

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

Results

	2022 HK\$'000	Year ended 31 December			
		2021 HK\$'000	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000 (note)
Revenue	29,936,206	19,776,474	27,256,800	8,197,422	5,933,388
(Loss)/profit before taxation	(608,271)	377,556	(779,496)	(372,104)	40,479
Taxation	(10,828)	(19,101)	(13,173)	(62,660)	(34,211)
(Loss)/profit for the year	(619,099)	358,455	(792,669)	(434,764)	6,268
(Loss)/profit attributable to					
– Owners of the Company	(199,510)	353,601	(795,765)	(443,742)	(741)
– Non-controlling interests	(419,589)	4,854	3,096	8,978	7,009
	(619,099)	358,455	(792,669)	(434,764)	6,268

Assets and liabilities

	2022 HK\$'000	At 31 December			
		2021 HK\$'000	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000 (note)
Non-current assets	2,050,401	1,653,596	1,136,873	1,776,739	2,096,430
Current assets	2,467,808	2,855,109	1,499,139	768,645	893,252
Total assets	4,518,209	4,508,705	2,636,012	2,545,384	2,989,682
Current liabilities	(3,600,546)	(2,906,621)	(1,324,754)	(1,032,930)	(914,849)
Non-current liabilities	(448,237)	(434,640)	(510,122)	(419,108)	(603,896)
Total liabilities	(4,048,783)	(3,341,261)	(1,834,876)	(1,452,038)	(1,518,745)
Total equity	469,426	1,167,444	801,136	1,093,346	1,470,937

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

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



REPORT OF THE DIRECTORS

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 17 and 18 to the consolidated financial statements respectively on pages 106 to 110.

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 on pages 117 to 119.

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 54 and 55.

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 2022, 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 2022, the Company's reserve available for distribution and/or distribution in specie, calculated in accordance with the Companies Act of Bermuda, is HK\$137,536,000 (2021: Nil) which is the sum of the Company's share premium, contribution surplus and accumulated losses as stated in note 38 to the consolidated financial statements on page 135 which may only be distributed in certain circumstances.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

For the year under review, the percentages of sales and purchases attributable to the Group's major customers and suppliers were as follows:

- (1) The aggregate amount of sales attributable to the Group's five largest customers represented approximately 59% of the Group's total sales for the year. The amount of sales to the Group's largest customer included therein represented approximately 21%.
- (2) The aggregate amount of purchases attributable to the Group's five largest suppliers represented approximately 50% of the Group's total purchases for the year. The amount of purchases from the Group's largest supplier included therein represented approximately 34%.

As far as the Directors are aware, neither the Directors, their associates nor the shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interests in the Group's five largest customers or five largest suppliers during the year.

MATERIAL RELATED PARTY TRANSACTIONS

Details of the material related party transactions of the Group are set out in note 36 to the consolidated financial statements on pages 126 and 127.

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 33 to the consolidated financial statements.

At 31 December 2022, the Group did not have any significant obligations for long service payments to its employees pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong.



REPORT OF THE DIRECTORS

DIRECTORS

The Directors of the Company during the year and at the date of this report were as follows:

Executive Directors

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

Non-executive Director

Mr. Sun Jian (*appointed on 8 February 2023*)

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. Sun Jian is subject to re-election at the forthcoming annual general meeting ("2023 AGM") of the Company.

Pursuant to Bye-law 87 of the Company's Bye-laws, Mr. Ng Wing Ka, Mr. Leung Ting Yuk, Mr. Sun Liming and Dr. Mu Guodong will retire by rotation and, being eligible, offer themselves for re-election at 2023 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 in the section "Directors' and Senior Management's Biographies" on pages 19 to 21 of the annual report.

REPORT OF THE DIRECTORS

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 2023 AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACT

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

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT AND CONTRACT

Save as disclosed in note 36 to the consolidated financial statements, no transaction, arrangement and contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTEREST IN COMPETING BUSINESS

As far as the Directors are aware of, none of the Directors has any interest in a business which competes or may compete with the business of the Group or has any other conflict of interest with the Group during the year.

PERMITTED INDEMNITY

Pursuant to the Bye-laws of the Company, every Director shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by or by reason of any act done, concurred in or omitted by or about the execution of their duty. Such permitted indemnity provision has been in force throughout the year. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Group.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARE CAPITAL

At 31 December 2022, 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 (<i>note</i>)	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 2022, 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 adopted a share option scheme (the "2012 Scheme") pursuant to the resolution passed by the shareholders of the Company at the annual general meeting held on 25 May 2012. The 2012 Scheme expired on the tenth anniversary of its adoption (i.e. 25 May 2022).

In order to enable the Company to continue to grant share options to eligible participants as incentives or rewards for their contributions or potential contribution to the success of the Group, a new share option scheme (the "2022 Scheme") was adopted by the Board on 27 May 2022.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Continued)*

As at 31 December 2022, no share options had been granted and remained outstanding under the 2012 Scheme or 2022 Scheme (the 2012 Scheme as at 31 December 2021: Nil), representing 0% (31 December 2021: 0%) of the total number of the Shares of the Company in issue at that date, further details of which are set out in note 26 to the consolidated financial statements on pages 118 and 119.

EQUITY-LINKED AGREEMENTS

Save for the 2012 Scheme and the 2022 Scheme as disclosed above, the Company has not entered into any other equity-linked agreements for the year ended 31 December 2022.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2022, 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 <i>(note 1)</i>	Interest of controlled corporation	Long position	12,686,203,231	69.19%
Yanchang Petroleum HK <i>(note 1)</i>	Directly owned	Long position	12,686,203,231	69.19%

Note 1: Yanchang Petroleum Group beneficially held these 12,686,203,231 shares through its direct wholly owned subsidiary, Yanchang Petroleum HK.

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 2022.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS

Yanchang Petroleum Group and Henan Yanchang (an indirect non-wholly owned subsidiary of the Company) renewed and entered into a new supply agreement dated 18 November 2022, pursuant to which Yanchang Petroleum Group agreed to supply and Henan Yanchang agreed to purchase refined oil and by-products (including chemical products) for the three years ending 31 December 2025 (the “New Supply Agreement”).

On 20 April 2022, Henan Yanchang and Shaanxi Yanchang Petroleum Xinghua New Energy Co., Limited (“Xinghua New Energy”), a limited company incorporated under the PRC laws which is a wholly owned subsidiary of Yanchang Petroleum Group, entered into the supply agreement, pursuant to which Xinghua New Energy will supply the chemical products to Henan Yanchang for the year ending 31 December 2022 (the “Xinghua Supply Agreement”).

On 13 May 2021, Henan Yanchang entered into sales agreements with Shaanxi Yanchang Petroleum Yanan Energy Chemical Company Limited (“Yanan Energy Chemical”) and Yanchang Shell Henan Petroleum Limited (“Yanchang Shell Henan”) in respect of the sales of refined oil and by-products (the “Sales Agreements”) from the Henan Yanchang to Yanan Energy Chemical and Yanchang Shell Henan, respectively for the three years ending 31 December 2023.

The aforesaid transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The independent non-executive Directors of the Company had reviewed the continuing connected transactions contemplated under the New Supply Agreement, the Xinghua Supply Agreement and the Sales Agreements mentioned above and had confirmed that the Company had 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 New Supply Agreement for the year ended 31 December 2022 as indicated above did not exceed the 2022 annual cap amount of RMB12,600,000,000 (equivalent to approximately HK\$14,057,820,000);
- (2) the aggregate value of the continuing connected transactions contemplated under the Xinghua Supply Agreement for the year ended 31 December 2022 as indicated above was RMB40,000,000 (equivalent to approximately HK\$44,628,000).
- (3) the aggregate value of continuing connected transactions contemplated under the Sales Agreements for the year ended 31 December 2022 from the Henan Yanchang to Yanan Energy Chemical and Yanchang Shell Henan as indicated above did not exceed the 2022 annual cap amount of RMB32,000,000 (equivalent to approximately HK\$35,702,000) and RMB340,000,000 (equivalent to approximately HK\$379,338,000) respectively; and
- (4) 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 or to independent third parties; and (c) in accordance with the terms of the New Supply Agreement, the Xinghua Supply Agreement and the Sales Agreements governing such transactions, which were fair and reasonable and in the interests of the Company and its shareholders as a whole.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS *(Continued)*

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 had 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 had been provided by the Company to the Stock Exchange.

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 2022.

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 33 to 44.

COMPLIANCE WITH LAWS AND REGULATIONS

As at 31 December 2022 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 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 annual general meeting 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.



REPORT OF THE DIRECTORS

AUDITORS

With effect from 8 October 2020, KPMG resigned as the auditors of the Company. Following the resignation of KPMG, BDO Limited was appointed as the new auditors of the Company with the recommendation of the audit committee of the Company on 9 October 2020.

A resolution will be proposed at the 2023 AGM to re-appoint BDO Limited as the auditors of the Company for the ensuing year.

On behalf of the Board

Mr. Feng Yinguo
Chairman

Hong Kong, 30 March 2023

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICE

The Board is committed to achieve a high standard of corporate governance practices and procedures with a view to enhance the management of the Company as well as to safeguard the interests of 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 report, the Company has not yet identified 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, the non-executive Director and the 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.

BOARD OF DIRECTORS

Board Composition

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

- (a) three executive Directors, namely Mr. Feng Yinguo (chairman), Mr. Zhang Jianmin and Mr. Ding Jiasheng;
- (b) one non-executive Director, namely Mr. Sun Jian; and
- (c) 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.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Board Composition *(Continued)*

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 responsibilities as a Director of the Company and of the conduct, business activities and development of the Company.

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

The Board is responsible for the leadership and overall control of the Company, oversees the Group’s business, formulates strategic plans/decisions and monitors financial and operational performances, and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. In practice, the Board takes responsibilities for decision making in all major matters of the Company which include, approving and monitoring all policy matters, setting of objectives, annual budgets and overall strategies, material transactions, appointment of directors and other significant financial and operational matters.

The day-to-day management, administration and operation of the Company are delegated to the senior executives under the direction and supervision of the chief executive officer of the Company. These responsibilities include the implementation of decisions of the Board, the co-ordination and direction of day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by these senior executives and the Board has the full support from them to discharge its duties and responsibilities.

Corporate Governance Functions

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions including (i) to develop and review the Company’s policies, practices on corporate governance and make recommendations thereof; (ii) to review and monitor the training and continuous professional development of Directors and senior management; (iii) to review and monitor the Company’s policies and practices on compliance with legal and regulatory requirements; to develop, review and monitor the code of conduct and companies manual (in any) applicable to employees and Directors; and (iv) to review the Company’s compliance with the CG Code and disclosure in the corporate governance report.

Appointment and Re-election of Directors

Upon the appointment of a new Director, the Company will provide a formal letter to the Director, setting out his/her duties and obligations. Such Directors are given appropriate briefings when they are first appointed to the Board. Appropriate orientations are conducted for all new Directors to ensure that they are familiar with the Company’s business, operations, governance practice and regulatory requirements. The company secretary or the external lawyers also provide trainings to new Director on his/her fiduciary duties and responsibilities as a Director in accordance with the Listing Rules and all other applicable laws and the Company’s on going obligations as a company listed on the Stock Exchange.

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

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

BOARD OF DIRECTORS *(Continued)*

Board Diversity Policy

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

Having reviewed the Board composition, the Board recognises the importance and benefits of gender diversity at the Board level and shall continue to take initiatives to identify suitable female candidate(s) to enhance the gender diversity among the Board members. The Board will appoint, subject to the above, at least one female member into the Board before 31 December 2024.

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, to include matters in the agenda and accompanying board papers were given to all Directors in a timely manner before the appointed date of the Board meetings. Every Board member has full access to the advice and services of the company secretary with a view to ensuring that Board procedures, and all applicable rules and regulations are followed. Sufficient information was also supplied by the management to the Board to enable it to discharge its duties and to make decisions, which are in the best interests of the Company.

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

Directors' Continuous Professional Development

The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company has been encouraging the Directors and senior executives to enroll in a wide range of professional development courses and seminars relating to the Listing Rules, Companies Ordinance/Act and corporate governance practices organised by external professional bodies in Hong Kong so that they can continuously update and further improve their relevant knowledge and skills.

From time to time, Directors are provided with written materials to develop and refresh their professional knowledge and skills; whereas the company secretary also arranges seminars on the latest updates and development of the applicable laws, rules and regulations for the Directors to assist them in discharging their duties and to enhance their awareness of good corporate governance practices. During the year under review, the Company has arranged a seminar for all Directors presented by BMI Professional Training Centre Limited on the topic of "How to respond to investigations by Securities and Futures Commission and Other Law Enforcement Agencies". A record of the training received by the respective Directors are kept and updated by the company secretary of the Company.



CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The chairman is responsible for exercising control over the quality and timeliness of the flow of information between the management of the Company and the Board and ensuring compliance with the Group's guidelines on corporate governance. The chairman ensures that Board meetings are held regularly in accordance with the agreed schedule and sets the agenda of the Board meetings.

The chairman also builds constructive relations within the Board and between the Board and the management of the Company, and facilitates the effective participation of the non-executive Director and the independent non-executive Directors by promoting a culture of openness and debate of the Board. The chairman further ensures effective communication with the shareholders and promotes high standards of corporate governance.

The duties of the chief executive officer include taking responsibility for the Group's operation and management, implementing decisions and plans approved by the Board, making day-to-day operational and managerial decisions and co-ordinating overall business operations.

The Board is of the view that there are sufficient safeguards and checks to ensure that the process of decision-making by the Board is independent and based on collective decisions without any individual exercising any considerable concentration of power or influence.

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.

The Board considers that the vacancy will not impair the balance of power and authority between the Board and the management as the Board comprises eight experienced individuals including three executive Directors, one non-executive Director 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 DIRECTOR

The non-executive Director, Mr. Sun Jian has brought to the Board outside perspective and objective judgement, independent of the management, on the development, performance and risk management of the Company. He was appointed for a term of three years.

INDEPENDENT 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 have served more than nine years on the Board and were appointed for a term of three years. No equity-based remuneration with performance-related elements have been granted to the independent non-executive Directors so that the independent non-executive Directors' objectivity and independence will not be impaired. They are also subject to retirement by rotation at least once every three years in accordance with the Bye-laws of the Company at the annual general meeting of the Company.

CORPORATE GOVERNANCE REPORT

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

The independence of each Director is assessed and reviewed annually by the nomination committee and the board as provided in the CG Code. The Board considers, an independent Director as one who is independent in conduct, character and judgement and has no relationship with the Group, its related corporations, its 5% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgment in the best interest of the Company and the Group.

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 Board considers that all the four independent non-executive Directors are independent under these independence criteria and are capable to effectively exercise independent judgment.

The Board is able to exercise objective judgment on corporate affairs independently from the management of the Company. No individual or group of individuals is allowed to dominate the Board's decision-making. Currently, a majority of the Board members are independent non-executive Directors. The Company has also met the requirements of Rule 3.10 of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one of them possessing appropriate professional qualifications, accounting or related financial management expertise. The Board is therefore of the view that there is sufficiently strong independent elements on the Board to enable independent Directors to exercise independent, constructive and informed comments on the Company's strategy and policies, taking into account factors such as the number of independent Directors and the size and scope of the affairs and operations of the Group.

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. Upon reasonable request, the Directors and each committee can engage outside consultants or experts to seek independent professional advice, at the Company's expense, as they consider necessary to discharge their 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 2022.

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 senior management and external auditors. Its written terms of reference are available on the websites of the Stock Exchange and the Company.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

During the year ended 31 December, 2022, the audit committee held four meetings. At the meetings, the committee reviewed (i) positive profit alert announcement in relation to the financial year ended 31 December 2021; (ii) the annual results for the year ended 31 December 2021 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 2022; and (iv) the interim results for the period ended 30 June 2022.

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. Feng Yinguo. 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 code provision E.1.2(c)(ii) of the CG Code 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 2022, the remuneration committee held four meetings. At the meetings, the committee reviewed and approved (i) the remuneration under the new service contracts for the Directors; (ii) the remuneration management method of the Company; (iii) the 1st revised 2022 performance bonus program of Novus; and (iv) the 2nd revised 2022 performance bonus program of Novus.

The remuneration paid to the senior management by band for the year ended 31 December 2022 and 31 December 2021 is set out as below:

	Number of individuals	
	2022	2021
HK\$		
1,000,001–1,500,000	–	–
1,500,001–2,000,000	3	2
2,000,001–2,500,000	1	3
2,500,001–3,000,000	–	–
3,000,001–3,500,000	–	–
3,500,001–4,000,000	1	–
	5	5

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (Continued)

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. Feng Yinguo. 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 2022, the nomination committee held two meetings. At the meetings, the committee reviewed and assessed (i) the new service contracts of the Directors; and (ii) 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 2022 annual general meeting of the Company.

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 2022 are set out in the table below:

Directors	No. of meetings attended/entitled to attend					
	Annual General Meeting	Special General Meeting	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors:						
Mr. Feng Yinguo	0/1	0/1	15/16	–	4/4	2/2
Mr. Zhang Jianmin	0/1	0/1	14/16	–	–	–
Mr. Ding Jiasheng	0/1	0/1	11/16	–	–	–
Independent Non-executive Directors:						
Mr. Ng Wing Ka	1/1	0/1	15/16	4/4	–	2/2
Mr. Leung Ting Yuk	1/1	1/1	15/16	4/4	4/4	–
Mr. Sun Liming	1/1	1/1	16/16	4/4	4/4	2/2
Dr. Mu Guodong	1/1	1/1	14/16	–	–	–

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

Mr. Law Hing Lam was appointed as the company secretary of the Company with effect from 21 March 2011. He is responsible to support the Board by ensuring good information flow within the Board and that Board 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, SFO and other applicable laws, rules and regulations.

Mr. Law is also the financial controller 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' 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.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The financial statements of the Company for the year ended 31 December 2022 have been reviewed by the audit committee and audited by the external auditors, BDO Limited. The Directors acknowledge their responsibilities for preparing the financial statements of the Group which give a true and fair view. The Directors' responsibilities for the accounts are set out in the independent auditor's report on pages 45 to 49.

The Directors would like to draw attention to Note 3(b) to the consolidated financial statements set out on pages 63 and 64, which indicates that the Group had net current liabilities of HK\$1,132,738,000 as at 31 December 2022. As stated in Note 3(b) the conditions, indicate that a material uncertainty exists that 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 (see note 39(b)) and 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 Zhejiang, a non-wholly owned subsidiary of the Company in the PRC (see note 35) 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. The independent auditor's opinion is not modified in respect of this matter, the consolidated financial statements of the Group give a true and fair view.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL

The management has the responsibility to maintain appropriate and effective risk management and internal control systems, and the Board has the responsibility 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 considers that it is more cost-effective to engage external independent consultants to perform such annual internal audit function.

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

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

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

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

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.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

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 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 breach of disclosure requirements in relation to the Group, which include:

- The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.
- Confidentiality covenants will be in place when the Group enters into significant negotiations.

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

AUDITORS' REMUNERATION

Auditors' remuneration for the year amounted to a total of HK\$3,272,000, of which HK\$2,856,000 was incurred for audit service and HK\$416,000 for non-audit services, including internal control review services.

ANTI-CORRUPTION POLICES

The Company has always been operating its businesses with integrity and ethics. The Company requires all staff to adhere to professional and ethical standards, and set standards for staff's behaviour. The Company does not tolerate any form of corruption, including bribery and extortion, fraud, and money laundering. As such, the Group has established an effective internal monitoring and management systems to ensure that employees act with integrity, impartiality, and honesty. During the year under review, no prosecutions were brought against the Company and its subsidiaries or any of their employee, in relation to corruption.

To take forward a corporate culture of integrity and anti-corruption, the Group has established a clear standard of conduct to guide our employees and partners, which provides rules and guidelines for dealing with gifts, treats, transactions, financial management. The Group has in place internal anti-corruption policies that employees are required to comply. The Group has also formulated fair, open and impartial procedures for product or service procurement and tendering to inhibit any potential corruption.

WHISTLE-BLOWING POLICY

To avoid the occurrence of corruption and frauds, the Company has put in place the whistle-blowing policy that encourages employees and other stakeholders to report any suspected improper or illegal activities via anonymous ways such as by mail, email, telephone, etc. The Company will investigate and handle the case once fraud or malpractice related information is received. The investigations are administered on a confidential basis and there will be no reprisal against employees. The identity of the whistle-blower and all the concerns or irregularities raised will be treated with confidence and every effort will be made to ensure that confidentiality is maintained throughout the process.

The investigations are conducted by the chief executive officer (if chief executive officer is involved, the case will be passed to the chairman) or any designated person by the Directors, and notify the complainant the result of investigation. The complainant may raise the matter directly to the Directors. If there is evidence of criminal activity, activity on solicitation and acceptance of advantages or breach of legal and regulatory requirements, the person responsible for the internal investigation may legally be obliged to inform the relevant public or regulatory bodies, as appropriate. The chief executive officer shall summarise the complaints received and report any matter of significance to the audit committee at appropriate time.

SHAREHOLDERS' RIGHTS

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

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

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

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

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

Yanchang Petroleum International Limited
Room 3403, 34/F, Lee Garden One
33 Hysan Avenue, Causeway Bay, Hong Kong
Telephone: 3528 5228
Fax: 3528 5238
Email: info@yanchanginternational.com

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

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

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS *(Continued)*

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

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

CONSTITUTIONAL DOCUMENTS

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

COMMUNICATION WITH SHAREHOLDERS

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

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

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

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

Shareholders' Communication Policy

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

INDEPENDENT AUDITOR'S REPORT



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

OPINION

We have audited the consolidated financial statements of Yanchang Petroleum International Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 50 to 135, which comprise the consolidated statement of financial position as at 31 December 2022, 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 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.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), 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\$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.

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.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

Provision for litigations

As further described in note 35, the Group is involved in various legal proceedings including processing fee claim from a subcontractor, purchase procurement fee claims from its suppliers, transportation fee claims from service providers, and purchase fee claims from its customers relating to conduct of its supply and procurement business in the Mainland China. 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.

The Group assesses the need to make provision or to disclose contingent liability on a case-to-case basis by considering the underlying facts of each litigation.

We identified it as a key audit matter as the amounts involved in the litigation provision were significant and the eventual outcome of claims is uncertain and the positions taken by the Directors are based on the application of material judgement and estimation including input from the management external legal counsel. Accordingly, any unexpected outcomes, both favourable and unfavourable to the Group, could significantly impact the Group's results and consolidated statement of financial position.

Our response:

- Obtaining and reviewing the relevant correspondences in relation to arbitration and litigation cases;
- Comparing the legal opinion provided by the Group's external legal counsels against management's assessment on the measurement and/or disclosures for the contingent liabilities;
- assessing the independence, reputation and capabilities of the external legal counsels;
- Obtaining legal confirmations from the Group's external legal counsels;
- Involving the auditor's external legal expert to assist us in assessing whether the opinion provided by the Group's external legal counsels was reasonable; and
- Considering whether the Group's disclosures of the application of judgement in estimating provisions and contingent liabilities adequately reflected the uncertainties associated with legal and regulatory matters.

Assessing impairment of petroleum and natural gas properties

As at 31 December 2022, the Group had petroleum and gas properties with the carrying amount of approximately HK\$1,698,727,000 (see note 17), which contributed 37.6% of the Group's total assets. Management reviewed petroleum and natural gas properties, which comprise different cash-generating units ("CGUs"), for indicators of possible impairment or reversal of impairment by considering events or changes in circumstances. Such events and changes in circumstances included the economic impact on these CGUs resulting from fluctuation of oil and gas prices, production costs and change in production and oil and gas reserve volumes.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

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

For those CGUs where an indicator of impairment or reversal of impairment was identified, management compared the carrying amount of each CGU with its recoverable amount, which was estimated by calculating the fair value less costs of disposal using a discounted cash flow forecast, to determine the amount of impairment or reversal of impairment, if any. The preparation of discounted cash flow forecasts involves the exercise of significant management judgement, particularly in estimating future selling prices for crude oil and natural gas, future production profiles and in determining appropriate discount rates.

As a result of the impairment assessment exercise, a reversal of impairment loss of petroleum and natural gas properties of HK\$194,992,000 was recognised in profit or loss for the year ended 31 December 2022.

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.

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 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.



INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION IN THE ANNUAL REPORT *(Continued)*

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 HKSA's 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 HKSA's, 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.

INDEPENDENT AUDITOR'S REPORT

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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, 30 March 2023

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	8	29,936,206	19,776,474
Other revenue	8	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	10	(169,571)	(86,296)
Provision for expected credit loss	5(b)	(115,136)	–
Other gains and losses	9	(340,841)	332,302
		(30,506,035)	(19,361,673)
(Loss)/profit from operating activities	10	(557,630)	423,346
Finance costs	13	(50,641)	(45,790)
(Loss)/profit before taxation		(608,271)	377,556
Taxation	14	(10,828)	(19,101)
(Loss)/profit for the year		(619,099)	358,455
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong			
– Exchange differences arising during the year		(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	37(b)	(419,589)	4,854
		(619,099)	358,455

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	<i>Notes</i>	2022 HK\$'000	2021 HK\$'000
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	16	(1.09)	1.93

The notes on pages 58 to 135 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Notes	2022 HK\$'000	2021 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	1,865,290	1,480,631
Investment properties	18	13,633	17,890
Exploration and evaluation assets	19	5,273	592
Right-of-use assets	20	108,056	94,334
Goodwill and intangible asset	21	58,149	58,149
Other non-current assets		–	2,000
		2,050,401	1,653,596
Current assets			
Inventories	22	846,178	460,653
Trade receivables	23	722,285	664,890
Prepayments, deposits and other receivables	24	460,277	1,335,434
Tax recoverable		2,453	–
Restricted cash	25	303,406	–
Cash and bank balances	25	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	26	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	37(b)	(303,530)	131,077
Total equity		469,426	1,167,444

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Notes	2022 HK\$'000	2021 HK\$'000
LIABILITIES			
Current liabilities			
Trade and other payables	27	2,167,196	2,198,499
Lease liabilities	28	6,941	5,270
Tax payables		–	5,204
Bank borrowings and other loans	29	700,032	427,350
Provision for litigations	35	453,330	–
Secured term loans	32	273,047	270,298
		3,600,546	2,906,621
Non-current liabilities			
Decommissioning liabilities	30	169,779	169,863
Lease liabilities	28	94,509	79,643
Deferred tax liabilities	31	11,249	12,434
Secured term loans	32	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

Approved and authorised for issue by the board of directors on 30 March 2023.

Mr. Feng Yinguo
Chairman

Mr. Zhang Jianmin
Director

The notes on pages 58 to 135 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Attributable to the owners of the Company										
	Share capital	Share premium	Contribution surplus	Exchange reserve	Reserves				Sub-total	Non-controlling interests	Total
					Share options reserve	Statutory reserve	Other reserve	Accumulated losses			
HK\$'000	HK\$'000 (note i)	HK\$'000 (note ii)	HK\$'000	HK\$'000 (note iii)	HK\$'000 (note iv)	HK\$'000 (note v)	HK\$'000 (note vi)	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2021	366,701	2,115,311	6,400,652	(310,677)	-	32,399	3,387	(7,936,648)	304,424	130,011	801,136
Profit for the year	-	-	-	-	-	-	-	353,601	353,601	4,854	358,455
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	-	-	-	21,235	-	-	-	-	21,235	3,555	24,790
Total comprehensive income for the year	-	-	-	21,235	-	-	-	353,601	374,836	8,409	383,245
Deregistration of a subsidiary	-	-	-	-	-	(9,594)	-	-	(9,594)	-	(9,594)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(7,343)	(7,343)
Transfer of reserves	-	-	-	-	-	1,739	(553)	(1,186)	-	-	-
At 31 December 2021 and 1 January 2022	366,701	2,115,311	6,400,652	(289,442)	-	24,544	2,834	(7,584,233)	669,666	131,077	1,167,444
Loss for the year	-	-	-	-	-	-	-	(199,510)	(199,510)	(419,589)	(619,099)
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	-	-	-	(63,824)	-	-	-	-	(63,824)	(15,018)	(78,842)
Total comprehensive income for the year	-	-	-	(63,824)	-	-	-	(199,510)	(263,334)	(434,607)	(697,941)
Transfer of reserves	-	-	-	-	-	-	(1,013)	1,013	-	-	-
Others	-	-	-	-	-	(77)	-	-	(77)	-	(77)
At 31 December 2022	366,701	2,115,311	6,400,652	(353,266)	-	24,467	1,821	(7,782,730)	406,255	(303,530)	469,426

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

Notes:

- (i) The share premium represents the difference between the nominal value and the fair 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.
- (iii) The share options reserve represents the fair value of the actual or estimated number of unexercised share options granted and recognised in accordance with the accounting policy adopted for share-based payments set out in note 3(p).

No share options were granted, lapsed or forfeited during the years ended 31 December 2022 and 2021.

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

The notes on pages 58 to 135 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Notes	2022 HK\$'000	2021 HK\$'000
(Loss)/profit before taxation		(608,271)	377,556
Adjustments for:			
Interest income	8	(4,734)	(4,949)
Depreciation and depletion of property, plant and equipment	17	161,221	78,392
Depreciation of right-of-use assets	20	8,350	7,904
Fair value change on investment properties	18	251	122
Written off of property, plant and equipment	10	–	3,667
Net reversal of impairment loss of property, plant and equipment	17	(169,786)	(333,161)
Reversal of impairment loss of exploration and evaluation assets	19	(934)	–
Write down of inventories	9	24,550	–
Provision for litigations	9	448,347	–
Provision for expected credit loss	5(b)	115,136	–
Net foreign exchange loss/(gain)	9	30,618	(2,882)
Finance costs	13	50,641	45,790
Operating cash flows before movements in working capital		55,389	172,439
Increase in trade receivables	5(b)	(223,021)	(311,016)
Increase in inventories		(441,705)	(259,215)
Decrease/(increase) in prepayments, deposits and other receivables		761,577	(798,243)
Increase in restricted cash		(303,406)	–
Increase in trade and other payables		246,487	1,434,529
Decommissioning expenditure		7,463	(3,234)
Cash generated from operations		102,784	235,260
Interest received	8	4,734	4,949
Tax paid		(18,374)	(16,282)
Net cash generated from operating activities		89,144	223,927
Cash flows from investing activities			
Purchases of exploration and evaluation assets	19	(5,749)	(588)
Purchases of property, plant and equipment		(460,736)	(232,831)
Net cash used in investing activities		(466,485)	(233,419)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Notes	2022 HK\$'000	2021 HK\$'000
Cash flows from financing activities			
Proceeds from new bank borrowings	25(b)	391,611	708,754
Proceeds from secured term loans	25(b)	–	172,700
Proceeds from other loans	25(b)	278,925	–
Interest paid	25(b)	(40,712)	(39,992)
Repayment of bank borrowings	25(b)	(477,520)	(869,111)
Dividend paid to non-controlling interests		–	(7,343)
Capital element of lease rentals paid	25(b)	(5,865)	(6,137)
Interest element of lease rentals paid	25(b)	(5,120)	(4,421)
Net cash generated from/(used in) financing activities		141,319	(45,550)
Net decrease in cash and cash equivalents		(236,022)	(55,042)
Cash and cash equivalents at the beginning of the year		394,132	436,084
Effect of exchange rate changes on cash and cash equivalents		(24,901)	13,090
Cash and cash equivalents at the end of the year	25(a)	133,209	394,132

The notes on pages 58 to 135 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 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 (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

(Continued)

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

(Continued)

(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-current²
- Amendments to HKAS 1 – Non-current Liabilities with Covenants²
- Amendments to HKAS 1 and HKFRS Practice Statement 2 – Disclosure of Accounting Policies¹
- Amendments to HKAS 8 – Definition of Accounting Estimates¹
- Amendments to HKAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction¹
- Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

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 waiver 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction *(Continued)*

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 and going concern assumption

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 as explained in the accounting policies set out in note 3(h).

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 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, as disclosed in note 5(b), the Group has financial liabilities totaling HK\$2,695,868,000 that are on demand or have a contractual maturities within one year (note 5(b)). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the consolidated financial statements and going concern assumption *(Continued)*

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 (see note 39(b)) 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 PRC (see note 35), 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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 in 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 HKFRS 9 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

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

(d) Business combination

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

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

- (i) deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;
- (ii) liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy below);
- (iii) lease liabilities shall be measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired lease were a new lease at the acquisition date. Right-of-use assets shall be measured at the same amount as the lease liability, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms; and
- (iv) assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 or within equity where such treatment would be appropriate if that interest were disposed of.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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). Any impairment loss is recognised in profit or loss and is not reversed in subsequent periods.

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 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.

Revenue from sales of goods 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.

A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gains or losses arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year in which the property is derecognised.

(i) Exploration and evaluation assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 or an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss or reversal (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 non-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 non-refundable consideration before the Group recognised the related revenue. In such cases, a corresponding receivable would also be recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 which do not contain purchase option 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Leased assets *(Continued)*

(ii) As a lessor

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

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 entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The Company’s functional currency is US dollars (“US\$”). The consolidated financial statements are presented in Hong Kong dollars for the convenience of the shareholders, as the Company is listed in Hong Kong.

(ii) Foreign currencies translation

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Retirement benefits schemes

- (i) Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirements plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Payments to Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance are made based on a percentage of the employee’s basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme.
- (iii) The Group contributes to various employee retirement benefit plans organised by PRC municipal and provincial government under which it is required to make monthly contributions to these plans at described rates for its employees in the PRC. The relevant PRC municipal and provincial governments undertake to assume the retirement benefit obligations of existing and future retired employees of the Group in the PRC. The Group has similar retirement benefit plans for its employees in its overseas operations. Contributions to these PRC and overseas plans are charged to expenses as incurred. The Group currently has no additional material obligations outstanding for the payment of retirement and other post retirement benefits of employees in the PRC or overseas other than the monthly contributions described above.
- (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.

(p) Share-based payment arrangements

Equity-settled share-based payment transactions

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

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

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share capital and share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit/(loss) differs from profit/(loss) before taxation as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Taxation (Continued)

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.

Financial assets

Financial assets are classified into financial assets at amortised cost. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit or loss, of which interest income is included in net gains or losses.

Accounts receivable

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Financial instruments *(Continued)*

Credit losses from financial instruments

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

Measurement of ECLs

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

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

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

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

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

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

ECLs are measured on either of the following bases:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 30 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable including historical experience and forward-looking information that is available without undue cost or effort.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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, lease liabilities, bank borrowings and other loans and secured term loans are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis other than those financial liabilities classified as at fair value through profit or loss, of which the interest expense is included in net gain or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Financial instruments *(Continued)*

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.

(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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Provisions *(Continued)*

Decommissioning liabilities

Decommissioning liabilities are recognised for decommissioning and restoration obligations associated with the Group's exploration and evaluation assets and property, plant and equipment. The best estimate of the expenditure required to settle the present obligation at the end of the reporting period is recorded on a discounted basis using the pre-tax risk-free interest rate. The future cash flow estimates are adjusted to reflect the risks specific to the liability. The value of the obligation is added to the carrying amount of the associated exploration and evaluation assets or property, plant and equipment and is depleted as part of the cost of exploration and evaluation assets or property, plant and equipment. The provision is accreted over time through charges to finance costs with actual expenditures charged against the accumulated obligation. Changes in the future cash flow estimates resulting from revisions to the estimated timing or amount of undiscounted cash flows or the discount rate are recognised as changes in the decommissioning provision and related asset. Actual decommissioning expenditures up to the recorded liability at the time are charged against the provision as the costs are incurred. Any differences between the recorded provision and the actual costs incurred is recorded as a gain or loss on asset derecognition in profit or loss.

(t) Cash and cash equivalents

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

(u) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 Company'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 Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

(a) Going concern

As disclosed in note 3(b), the Directors have prepared the financial statements 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 assumptions would affect the Group's ability to continue as a going concern.

(b) Impairment of exploration and evaluation assets

Exploration and evaluation assets are reviewed for possible impairment or reversal when events or changes in circumstances indicate that the carrying amount may not be recoverable or an impairment loss previously recognised no longer exists or may have decreased. 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 based on reasonable and supportable assumptions and projections of future oil prices and production profile.

As at 31 December 2022 and 31 December 2021, the recoverable amount of exploration and evaluation assets have been determined based on future drilling plans.

(c) Fair value of investment properties

The fair value of investment properties is determined using a combination of income and market comparison approach. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

(c) Fair value of investment properties *(Continued)*

The principal assumption underlying management's estimation of fair value is related to the estimated amount for which the property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and without compulsion.

The Group assesses the fair value of investment properties based on valuation determined by independent qualified professional valuers.

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

The amounts recorded for depletion and impairment of petroleum and natural gas properties are based on estimates. These estimates include proved and probable reserves, production rates, future petroleum and natural gas prices, future development costs, remaining lives and periods of future benefits of the related assets and other relevant assumptions.

The Group's reserve estimates are evaluated annually pursuant to the parameters and guidelines stipulated under the Canadian Oil and Gas Evaluation Handbook ("COGEH"). Changes in reserve estimates impact the financial results of the Group as reserves and estimated future development costs are used to calculate depletion and are also used in impairment calculations.

The decision to transfer exploration and evaluation assets to petroleum and natural gas properties is based on the estimated proved and probable reserves which are in part used to determine a project's technical feasibility and commercial viability.

For impairment testing, petroleum and natural gas properties and exploration and evaluation assets are aggregated into CGUs, based on management's judgment in defining the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash flows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.

The discount rate used to calculate the net present value of future 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

(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 of oil related products.

Determining whether goodwill and other assets 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 in 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 and termination options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal and termination 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.

(h) Litigations

The Group considers each case involving litigation individually to assess the probability of any outflow of resources. If in the opinion of the directors, an outflow of resources embodying economic benefits will be required to settle the litigation, a provision will be made to the extent of the probable outflow. In other cases, unless the possibility of an outflow of resources embodying economic benefits is remote, a contingent liability will be disclosed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2022 HK\$'000	2021 HK\$'000
Financial assets		
At amortised cost		
– Trade receivables (note 23)	722,285	664,890
– Other deposits (note 24)	6,480	1,035
– Other receivables (note 24)	10,348	27,160
– Restricted cash (note 25)	303,406	–
– Cash and bank balances (note 25)	133,209	394,132
	1,175,728	1,087,217
Financial liabilities		
At amortised cost		
– Trade and other payables (note 27)	1,687,674	632,742
– Lease liabilities (note 28)	101,450	84,913
– Bank borrowings and other loans (note 29)	700,032	427,350
– Secured term loans (note 32)	445,747	442,998
	2,934,903	1,588,003

(b) Financial risk management objectives

The Group's financial instruments include trade and other receivables, other deposits, restricted cash, cash and bank balances, trade and other payables, lease liabilities, bank borrowings and other loans and secured term loans. 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 currency 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 risk 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 risk and interest rate risk.

Market risk exposures are measured by sensitivity analysis. There has been no change to the Group's exposure to market risk or the manner in which these risks are managed and measured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 currency risk arising from various currency exposures, primarily with respect to US dollars ("USD"), Canadian dollars ("CAD") and Renminbi ("RMB"). Foreign currency 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 on commercial transactions as most of the commercial transactions are denominated in a currency same as the functional currency of each entity of the Group.

However, the Group has significant foreign currency exposures on monetary liabilities. Such exposures arise from the balances of monetary liabilities that are denominated in a currency other than the functional currency of each entity of the Group. The carrying amounts of the foreign currency denominated monetary liabilities at the end of the reporting period are as follows:

	2022 HK\$'000	2021 HK\$'000
Liabilities		
USD	443,116	441,428

Management monitors foreign currency exposure by closely monitoring the movements of foreign currency rates. Management has set up a policy to require group entities to manage their foreign currency risk against their respective functional currency.

The following table indicates the approximate change in the Group's loss for the year and accumulated losses in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of the reporting period. The sensitivity analysis includes balances between group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower. A positive number below indicates a decrease in loss and accumulated losses where the CAD strengthens against the relevant currency, USD. For a weakening of the CAD against USD, there would be an equal and opposite impact on the loss and accumulated losses, and the balances below would be negative. The 5% change in CAD against USD represents management's best assessment of the possible changes in foreign exchange rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives (Continued)

Market risk (Continued)

(i) Foreign currency risk management (Continued)

The following sensitivity analysis has been determined based on the assumed percentage changes in foreign exchange rates taking place at the beginning of the reporting year and held constant throughout the year:

	2022 (Increase)/ decrease in loss for the year and accumulated losses HK\$'000	2021 (Increase)/ decrease in loss for the year and accumulated losses HK\$'000
Changes in exchange rate:		
CAD depreciates by 5% against USD	(16,617)	(16,554)
CAD appreciates by 5% against USD	16,617	16,554

(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 3.25% as at 31 December 2022 (2021: 2.7%). 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 USD 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 (2021: 150 basis points) increase or decrease used 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 (2021: 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\$4,603,000 (2021: pre-tax profit would decrease/increase by HK\$6,410,000). This is mainly attributable to the Group's exposure to interest rates on its bank borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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, restricted cash 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, 33% (2021: 66%) and 81% (2021: 98%) 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 following table provides information about the Group's exposure to credit risk and ECLs for trade receivables and deposits and other receivables:

	Expected loss rate %	2022 Gross carrying amount HK\$'000	Loss allowance HK\$'000
Trade receivables			
Collective assessment			
– Not yet past due	0.02%	674,016	121
– 0 to 30 days past due	0.02%	48,399	9
Individual assessment	100%	116,208	116,208
		838,623	116,338
Deposits and other receivables			
Individual assessment	0.04%–4.05%	16,904	76

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

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

Credit risk *(Continued)*

The following table shows the movement in loss allowance account in respect of trade receivables under the simplified approach:

	Lifetime ECL (not credit impaired) HK\$'000	Lifetime ECL (credit impaired) HK\$'000	Total HK\$'000
As at 1 January 2021, 31 December 2021 and 1 January 2022	–	–	–
Impairment loss charged to profit or loss	129	114,931	115,060
Exchange realignment	1	1,277	1,278
As at 31 December 2022	130	116,208	116,338

The following table shows the movement in the loss allowance account in respect of deposits and other receivables during the year:

	Total HK\$'000
As at 1 January 2021, 31 December 2021 and 1 January 2022	–
Impairment loss charged to profit or loss	76
As at 31 December 2022	76

The Group assessed there is no significant loss allowance recognised in accordance with HKFRS 9 as at 31 December 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 HK\$'000	2-5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
31 December 2022						
Non-derivative financial liabilities						
Trade and other payables	-	1,687,674	-	-	1,687,674	1,687,674
Lease liabilities	4.94	11,910	38,457	96,122	146,489	101,450
Bank borrowings and other loans	2.13	714,947	-	-	714,947	700,032
Secured term loans	4.80	281,337	178,226	-	459,563	445,747
		2,695,868	216,683	96,122	3,008,673	2,934,903
31 December 2021						
Non-derivative financial liabilities						
Trade and other payables	-	632,742	-	-	632,742	632,742
Lease liabilities	4.41	9,389	30,384	85,441	125,214	84,913
Bank borrowings	2.71	438,921	-	-	438,921	427,350
Secured term loans	4.80	306,043	182,975	-	489,018	442,998
		1,387,095	213,359	85,441	1,685,895	1,588,003

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 and other loans, secured term loans, 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 2022 and 31 December 2021 were as follows:

	2022 HK\$'000	2021 HK\$'000
Total liabilities	4,048,783	3,341,261
Total equity	469,426	1,167,444
Gearing ratio	862.5%	286.2%

7. SEGMENT INFORMATION

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

- (a) the exploration, exploitation and operation business segment involves oil and gas exploration, exploitation, sale and operation; and
- (b) the supply and procurement business segment involves storage, transportation, trading and distribution of oil related products.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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	
	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 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).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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	
	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

7. SEGMENT INFORMATION (Continued)

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)	(331,161)	(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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)	
	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 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 HK\$'000	2021 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:

- 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.
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 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 HK\$'000	2021 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 7.

	2022 HK\$'000	2021 HK\$'000
Other revenue		
Bank interest income	4,734	4,949
Rental income (note 18)	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 HK\$'000	2021 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

9. 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 (note 18)	(251)	(122)
Net reversal of impairment loss of property, plant and equipment (note 17)	169,786	333,161
Reversal of impairment loss of exploration and evaluation assets (note 19)	934	–
Write down of inventories	(24,550)	–
Provision for litigations (note 35)	(448,347)	–
Others	(7,795)	(3,619)
	(340,841)	332,302

10. (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 (note 17)	161,221	78,392
Depreciation of right-of-use assets (note 20)	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 (note 33)	4,505	4,288

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

11. DIRECTORS' REMUNERATION

The board of Directors is 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 2022

	Directors' fees HK\$'000	Salaries and other benefits HK\$'000	Discretionary bonus HK\$'000	Pension scheme contributions HK\$'000	Equity-settled share option expenses HK\$'000 <i>(note 26)</i>	Total HK\$'000
Executive Directors						
Mr. Feng Yinguo (<i>Chairman</i>)	–	250	–	–	–	250
Mr. Zhang Jianmin	–	250	–	–	–	250
Mr. Ding Jiasheng	–	2,408	1,421	20	–	3,849
Sub-total	–	2,908	1,421	20	–	4,349
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	2,908	1,421	20	–	4,861

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

11. DIRECTORS' REMUNERATION (Continued)

For the year ended 31 December 2021

	Directors' fees HK\$'000	Salaries and other benefits 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) (resigned on 1 April 2021)	–	62	–	–	–	62
Ms. Sha Chunzhi (resigned on 1 April 2021)	–	62	–	–	–	62
Mr. Li Jun (resigned on 1 April 2021)	–	62	–	–	–	62
Mr. Feng Yinguo (Chairman) (appointed on 1 April 2021)	–	250	–	–	–	250
Mr. Zhang Jianmin (appointed on 1 April 2021)	–	187	–	–	–	187
Mr. Ding Jiasheng (appointed on 1 April 2021)	–	1,355	55	–	–	1,410
Sub-total	–	1,978	55	–	–	2,033
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	1,978	55	–	–	2,545

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 (2021: 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 (2021: nil).

Mr. Sun Jian has been appointed as the non-executive director of the Company with effect from 8 February 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 2022 and 31 December 2021.

(b) Five highest paid individuals

The five highest paid employees of the Group during the year included one Director (2021: nil), details of whose remuneration are set out in note 11 above. Details of the remuneration for the year of the remaining four (2021: five) highest paid individuals including two chief executives of the Company are as follows:

	2022 HK\$'000	2021 HK\$'000
Basic salaries	5,765	8,388
Pension scheme contributions	76	36
Bonuses	1,756	1,168
	7,597	9,592

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	
HK\$	2022	2021
1,000,001–1,500,000	–	–
1,500,001–2,000,000	3	2
2,000,001–2,500,000	1	3
	4	5

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 (2021: nil). No five highest paid individuals waived or agreed to waive any remuneration during the year (2021: nil).

During the year ended 31 December 2022, no share options to subscribe for ordinary shares of the Company were granted to these individuals under the Company's share option scheme (2021: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

13. 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 (note 30)	2,653	1,377
	50,641	45,790

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:

	2022 HK\$'000	2021 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 (note 31)	(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 the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

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

	2022 HK\$'000	2021 HK\$'000
(Loss)/profit before taxation	(608,271)	377,556
Notional tax on (loss)/profit before taxation, calculated at the rates applicable to (loss)/profit in the countries concerned	(152,002)	104,171
Tax effect of non-deductible expenses	111,298	4,801
Tax effect of non-taxable income	(479)	(67)
Tax effect of unused tax losses not recognised	76,710	2,248
Tax effect of deductible temporary difference not recognised	(666)	(93,574)
Withholding tax on dividends from subsidiary outside of Hong Kong	–	2,048
Utilisation of tax losses previously not recognised	(23,300)	–
Over-provision in prior year	(667)	–
Others	(66)	(526)
Actual tax expense	10,828	19,101

15. 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).

16. (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 HK\$'000	2021 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 '000	2021 '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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 2021	178,043	15,080	14,090	4,508	4,754	3,325,162	120,668	3,662,305
Additions	11,359	2,036	1,668	1,292	2,303	240,115	-	258,773
Written off	(3,670)	(4)	(49)	(182)	-	-	-	(3,905)
Exchange differences	4,874	413	283	146	13	23,417	3,313	32,459
At 31 December 2021 and 1 January 2022	190,606	17,525	15,992	5,764	7,070	3,588,694	123,981	3,949,632
Additions	249	8,965	980	8	304	451,892	-	462,398
Transfer from exploration and evaluation assets (note 19)	-	-	-	-	-	1,991	-	1,991
Transfer from investment property (note 18)	2,566	-	-	-	-	-	-	2,566
Written off	-	-	(88)	-	-	-	-	(88)
Exchange differences	(14,975)	(1,280)	(1,152)	(454)	(225)	(214,233)	(9,796)	(242,115)
At 31 December 2022	178,446	25,210	15,732	5,318	7,149	3,828,344	114,185	4,174,384
Accumulated depreciation, depletion and impairment								
At 1 January 2021	48,792	10,355	10,964	3,302	2,673	2,609,063	21,205	2,706,354
Charge for the year	7,068	1,154	1,822	382	2,423	65,543	-	78,392
Eliminated on written off	(17)	(4)	(35)	(182)	-	-	-	(238)
Impairment (reversal)/ loss during the year (note 9)	-	-	-	-	-	(373,169)	40,008	(333,161)
Exchange differences	1,336	284	205	113	7	15,116	593	17,654
At 31 December 2021 and 1 January 2022	57,179	11,789	12,956	3,615	5,103	2,316,553	61,806	2,469,001
Charge for the year	6,938	2,258	1,495	551	1,855	148,124	-	161,221
Eliminated on written off	-	-	(88)	-	-	-	-	(88)
Impairment (reversal)/loss during the year (note 9)	-	-	-	-	-	(194,992)	25,206	(169,786)
Exchange differences	(4,425)	(903)	(910)	(279)	(83)	(140,068)	(4,586)	(151,254)
At 31 December 2022	59,692	13,144	13,453	3,887	6,875	2,129,617	82,426	2,309,094
Net book value								
At 31 December 2022	118,754	12,066	2,279	1,431	274	1,698,727	31,759	1,865,290
At 31 December 2021	133,427	5,736	3,036	2,149	1,967	1,272,141	62,175	1,480,631

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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. 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).

Impairment loss of construction in progress

During the year ended 31 December 2022, the Group has recognised an impairment loss on construction in progress of HK\$25,206,000 (2021: HK\$40,008,000) 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, which is assessed to be higher than its fair value less costs of disposal. The pre-tax discount rate used to forecast the cash flows of the asset during the forecast period was 12.38% (2021: 11%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

18. INVESTMENT PROPERTIES

	HK\$'000
Fair values	
At 1 January 2021	17,533
Decrease in fair values recognised in profit or loss (<i>note 9</i>)	(122)
Exchange differences	479
	<hr/>
At 31 December 2021 and 1 January 2022	17,890
Transfer to property, plant and equipment (<i>note 17</i>)	(2,566)
Decrease in fair values recognised in profit or loss (<i>note 9</i>)	(251)
Exchange differences	(1,440)
	<hr/>
At 31 December 2022	13,633

All of the Group's property interest held 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 2022 have been arrived at on the basis of valuations carried out by Vincorn Consulting and Appraisal Limited ("Vincorn") (2021: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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		Valuation technique	Fair value hierarchy	Range of significant unobservable inputs			Sensitivity
	31 December 2022 HK\$'000	31 December 2021 HK\$'000			Monthly market unit rent	Market unit value	Capitalisation rates	
Investment properties located in the PRC	13,633	17,890	Direct sales comparison approach and income approach	Level 3	RMB12.44 to RMB25.58 per square metre (2021: RMB12.4 to RMB25.6 per square metre)	RMB1,889 to RMB8,589 per square metre (2021: RMB1,252 to RMB8,768 per square metre)	3.6% to 7.9% (2021: 3.5% to 7.5%)	A slight increase in the capitalisation rate used would result in a significant decrease in fair value, and vice versa. A significant increase in the monthly market unit rent used would result in a significant increase in fair value, and vice versa. A significant increase in the market unit value used would result in a significant increase in fair value, and vice versa.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 HK\$'000	Level 3 HK\$'000	Fair value as at 31 December 2022 HK\$'000
Commercial and office buildings located in the PRC	–	13,633	13,633
	Level 2 HK\$'000	Level 3 HK\$'000	Fair value as at 31 December 2021 HK\$'000
Commercial and office buildings located in the PRC	–	17,890	17,890

The following shows the details of rental income earned and direct operating expenses incurred by the Group during the years ended 31 December 2022 and 31 December 2021:

	2022 HK\$'000	2021 HK\$'000
Gross rental income from investment properties (note 8)	435	721
Less: Direct operating expenses incurred for investment properties that generated rental income during the year	–	–
	435	721

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

19. EXPLORATION AND EVALUATION ASSETS

	HK\$'000
Cost	
At 1 January 2021	12,428,488
Additions	588
Exchange differences	4
	<hr/>
At 31 December 2021 and 1 January 2022	12,429,080
Additions	5,749
Transfer to property, plant and equipment (<i>note 17</i>)	(1,991)
Exchange differences	(11)
	<hr/>
At 31 December 2022	12,432,827
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Accumulated impairment	
At 1 January 2021, 31 December 2021 and 1 January 2022	12,428,488
Reversal of impairment loss (<i>note 9</i>)	(934)
	<hr/>
At 31 December 2022	12,427,554
	<hr/>
Carrying amount	
At 31 December 2022	5,273
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At 31 December 2021	592
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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 requires 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 indication of impairment and any indication 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 loss or reversal is appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

19. EXPLORATION AND EVALUATION ASSETS (Continued)

Impairment test – E&E in Canada

The Group assessed E&E in Canada for any indication of impairment reversal due to industry pricing fundamentals. Based on recent land sales and future drilling plans, the Group recognised a reversal of impairment loss of HK\$934,000 during the year ended 31 December 2022 (2021: HK\$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 loss recognised for the years ended 31 December 2022 and 31 December 2021.

20. RIGHT-OF-USE ASSETS

	HK\$'000
Cost	
At 1 January 2021	106,483
Exchange differences	2,748
At 31 December 2021 and 1 January 2022	109,231
Additions	29,472
Exchange differences	(8,175)
At 31 December 2022	130,528
Accumulated depreciation	
At 1 January 2021	6,852
Charge for the year	7,904
Exchange differences	141
At 31 December 2021 and 1 January 2022	14,897
Charge for the year	8,350
Exchange differences	(775)
At 31 December 2022	22,472
Net book value	
At 31 December 2022	108,056
At 31 December 2021	94,334

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

20. RIGHT-OF-USE ASSETS (Continued)

The analysis of expense items in relation to right-of-use assets in profit or loss is as follows:

	2022 HK\$'000	2021 HK\$'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Ownership interests in leasehold land	450	493
Other properties leased for own use	7,900	7,411
	8,350	7,904

The Group entered new lease agreements for the use of office and a gas station for the year ended 31 December 2022 (31 December 2021: Nil). 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 2022 (2021: HK\$51,418,000) has been allocated to the CGU of supply and procurement of oil related products.

During the year ended 31 December 2022, the Directors determine that no impairment loss should be provided in respect of goodwill (2021: 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 18.40% (2021: 17.9%). Cash flows beyond 3-year period are extrapolated using a steady growth 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 operating margin	Average operating margin achieved in the period immediately before the budget period. The value assigned to the assumptions reflects past experience.
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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 2022 and 31 December 2021.

The intangible asset of HK\$6,731,000 (2021: HK\$6,731,000) represents the supply agreements (as stated in note 36) which enable the Group to have stable and sufficient supply of refined oil in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

22. INVENTORIES

Inventories represented the merchandise of refined oil and by-products at the end of the reporting period. As at 31 December 2022, the balance of RMB135,378,000 (equivalent to HK\$152,720,000) has been frozen by relevant court orders. Please refer to note 35 for details.

23. 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

Details of the Group's credit policy and impairment assessment on trade receivables for the year ended 31 December 2022 and 31 December 2021 are set out in note 5(b). The Group does not hold any collaterals or other credit enhancements over these balances.

Ageing of trade receivables which are past due but not credit-impaired at the reporting date is as follows:

	2022 HK\$'000	2021 HK\$'000
0 to 30 days past due	48,390	1,798

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2022 HK\$'000	2021 HK\$'000
Prepayments to suppliers of refined oil products	374,746	1,289,698
Other prepayments	2,470	9,535
VAT recoverable	66,233	8,006
Other deposits	6,480	1,035
Other receivables	10,348	27,160
	460,277	1,335,434

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. Details of impairment assessment on deposits and other receivables are set out in note 5(b). The Group does not hold any collateral over these balances.

25. CASH AND BANK BALANCES AND OTHER CASH FLOW INFORMATION

Bank balances carry interest at market rates which range from 0.001% to 1.20% (2021: 0.001% to 1.40%) per annum.

Included in the cash and bank balances as at 31 December 2022 were amounts in RMB equivalent to HK\$368,351,000 (2021: HK\$321,718,000) which are not freely convertible into other currencies.

(a) Cash and bank balances and restricted cash comprise:

	2022 HK\$'000	2021 HK\$'000
Deposits with banks	133,162	394,084
Cash at bank and on hand	47	48
Cash and cash equivalents in the consolidated statement of financial position and consolidated statement of cash flows	133,209	394,132
Restricted cash (<i>note</i>)	303,406	–

Note: As at 31 December 2022, the balance of RMB268,953,000 (equivalent to HK\$303,406,000) has been frozen by relevant court orders. Please refer to note 35 for details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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.

	Secured term loans (note 32) HK\$'000	Bank borrowings and other loans (note 29) HK\$'000	Lease liabilities (note 28) HK\$'000	Total HK\$'000
At 1 January 2021	271,384	572,112	88,668	932,164
Changes from financing cash flows:				
Proceeds from bank borrowings	–	708,754	–	708,754
Proceeds from secured term loans	172,700	–	–	172,700
Repayment of bank borrowings	–	(869,111)	–	(869,111)
Capital element of lease rentals paid	–	–	(6,137)	(6,137)
Interest element of lease rentals paid	–	–	(4,421)	(4,421)
Other interest paid	(15,626)	(24,366)	–	(39,992)
Total changes from financing cash flows	157,074	(184,723)	(10,558)	(38,207)
Exchange adjustments	(1,086)	15,595	2,382	16,891
Other changes:				
Interest expenses (note 13)	15,626	24,366	4,421	44,413
Total other changes	15,626	24,366	4,421	44,413
At 31 December 2021 and 1 January 2022	442,998	427,350	84,913	955,261
Changes from financing cash flows:				
Proceeds from new bank borrowings	–	391,611	–	391,611
Repayment of bank borrowings	–	(477,520)	–	(477,520)
Proceeds from other loans	–	278,925	–	278,925
Capital element of lease rentals paid	–	–	(5,865)	(5,865)
Interest element of lease rentals paid	–	–	(5,120)	(5,120)
Other interest paid	(20,596)	(20,116)	–	(40,712)
Total changes from financing cash flows	(20,596)	172,900	(10,985)	141,319
Exchange adjustments	2,749	(30,278)	(7,070)	(34,599)
Other changes:				
Interest expenses (note 13)	20,596	22,272	5,120	47,988
Proceeds from other loans to settle trade payables	–	107,788	–	107,788
Addition to lease liabilities	–	–	29,472	29,472
Total other changes	20,596	130,060	34,592	185,248
At 31 December 2022	445,747	700,032	101,450	1,247,229

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

(c) Total cash outflows for leases

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

	2022 HK\$'000	2021 HK\$'000
Within operating cash flows	55,927	38,687
Within financing cash flows	10,985	10,558
	66,912	49,245

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

(d) Non-cash transaction

During 2022, proceeds from other loans of HK\$107,788,000 was deposited to suppliers' bank accounts directly to settle trade payables.

26. SHARE CAPITAL

	Number of shares		Amount	
	2022 '000	2021 '000	2022 HK\$'000	2021 HK\$'000
Ordinary shares of HK\$0.02 each				
Authorised:				
At the beginning and end of the year	100,000,000	100,000,000	2,000,000	2,000,000
Issued and fully paid:				
At the beginning and end of the year	18,335,047	18,335,047	366,701	366,701

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

26. SHARE CAPITAL *(Continued)*

Share options

2012 Scheme

The Company operates 2012 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 2012 Scheme included the Directors and other employees of the Group. The 2012 Scheme was adopted on 25 May 2012, unless otherwise cancelled or amended, will remain in force for ten years from that date. It expired on 25 May 2022.

The maximum number of shares in respect of which share options may be granted under the 2012 Scheme shall not exceed 10% of the share capital of the Company in issue as at the date of approval of the 2012 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 2012 Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on the date on which the offer is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof and to the minimum period for which the option has to be held before it can be exercised as the Directors may at their discretion determine.

The maximum number of shares available for issue under options which may be granted under the 2012 Scheme of the Company is 684,557,304 (2021: 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 2012 Scheme), representing 3.7% (2021: 3.7%) of the total number of shares in issue as at the date of this annual report.

As at 31 December 2022, none of shares in respect of which options had been granted and remained outstanding under the 2012 Scheme (2021: nil).

None of share option was granted under the 2012 Scheme during the years ended 31 December 2022 (31 December 2021: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

26. SHARE CAPITAL *(Continued)*

Share options *(Continued)*

2022 Scheme

In order to enable the Company to continue to grant share options to eligible participants as incentive or rewards for their contributions or potential contribution to the success of the Group, the Board adopts the 2022 Scheme, eligible participants of the 2022 Scheme included the Directors and other employees of the Group. The 2022 Scheme was adopted on 27 May 2022 and, unless otherwise cancelled or amended, will remain in force for ten years from that date.

The maximum number of shares in respect of which share options may be granted under the 2022 Scheme shall not exceed 10% of the share capital of the Company in issue as at the date of approval of the 2022 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 2022 Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on the date on which the offer is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof and to the minimum period for which the option has to be held before it can be exercised as the Directors may at their discretion determine.

The maximum number of shares available for issue under options which may be granted under the 2022 Scheme of the Company is 1,833,504,673 (2021: Nil) shares (being not more than 10% of the total number of the shares in issue as at the date of adoption of the 2022 Scheme), representing 10% (2021: Nil) of the total number of shares in issue as at the date of this annual report.

As at 31 December 2022, none of shares in respect of which options had been granted and remained outstanding under the 2022 Scheme (2021: nil).

None of share option was granted under the 2022 Scheme during the years ended 31 December 2022 (31 December 2021: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

27. TRADE AND OTHER PAYABLES

	2022 HK\$'000	2021 HK\$'000
Trade payables	1,362,027	315,589
Contract liabilities (<i>note</i>)	479,522	1,565,757
Refund liabilities	207,969	–
Other payables	117,678	317,153
	2,167,196	2,198,499

Note:

Contract liabilities

Contract liabilities as at 31 December 2022 and 31 December 2021 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\$479,522,000 were recognised as at 31 December 2022 (2021: HK\$1,565,757,000) 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:

	2022 HK\$'000	2021 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 2022		31 December 2021	
	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	6,941	11,910	5,270	9,388
After 1 year but within 2 years	6,605	11,212	3,987	7,915
After 2 years but within 5 years	15,121	27,245	11,943	22,469
After 5 years	72,783	96,122	63,713	85,441
	94,509	134,579	79,643	115,825
	101,450	146,489	84,913	125,213
Less: total future interest expenses		(45,039)		(40,300)
Present value of lease liabilities		101,450		84,913

29. BANK BORROWINGS AND OTHER LOANS

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

	2022 HK\$'000	2021 HK\$'000
Carrying amount repayable within one year or on demand:		
Unsecured bank borrowings (note (a))	306,843	427,350
Unsecured other loans (note (b))	393,189	–
	700,032	427,350

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

	2022	2021
Bank borrowings		
Floating rate	3.15%–4.00%	3.15%–4.35%
Other loans		
Fixed rate	0.05%–2.65%	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

29. BANK BORROWINGS AND OTHER LOANS (Continued)

Notes:

- (a) As at 31 December 2022, Henan Yanchang Petroleum Sales Co., Limited (“Henan Yanchang”), a subsidiary of the Company, has drawn down unsecured bank borrowings of RMB272,000,000 (equivalent to HK\$306,843,000) (2021: RMB349,000,000 (equivalent to HK\$427,350,000)). The bank borrowings denominated in RMB bear interest at the prevailing market rates quoted by the People’s Bank of China and repayable within next twelve months.
- (b) The balance represents loan advances from third parties and ultimate holding company of approximately HK\$111,164,000 and HK\$282,025,000, respectively. Loan advances from third parties are unsecured, interest-bearing of 0.05% per annum and repayable in December 2022. As at 31 December 2022, the loan advances from third parties were overdue. The lenders did not take any legal action up to 31 December 2022 and the Group will negotiate the extension terms with the third parties. Loan advance from ultimate holding company is unsecured, interest-bearing of 2.65% per annum and repayable in October 2023.

30. DECOMMISSIONING LIABILITIES

The Group’s decommissioning liabilities are based on the Group’s net ownership in wells and facilities along with management’s estimate of the timing and expected future costs associated with the plugging and abandonment of wells, facilities dismantlement and site reclamation.

The following table reconciles the changes in the Group’s decommissioning liabilities during the year:

	2022 HK\$’000	2021 HK\$’000
At the beginning of the year	169,863	144,667
Change in estimates	–	18,550
Liabilities incurred	23,435	7,394
Liabilities settled	(15,972)	(3,234)
Liabilities extinguished on property dispositions	–	–
Accretion expenses (note 13)	2,653	1,377
Exchange differences	(10,200)	1,109
At the end of the year	169,779	169,863

The inflated, undiscounted amount of the future cash flows required to settle the obligations is estimated to be CAD31,100,000 (equivalent to HK\$179,136,000) (2021: CAD28,800,000 (equivalent to HK\$176,544,000)). The obligations were calculated using a risk-free interest rate of 1.85% (2021: 1.85%) and an inflation rate of 2.0% (2021: 2.0%). The risk-free interest rate adopted was referenced to the Bank of Canada Benchmark bond rate.

31. DEFERRED TAX ASSETS/(LIABILITIES)

	2022 HK\$’000	2021 HK\$’000
Deferred tax assets	–	–
Deferred tax liabilities	(11,249)	(12,434)
	(11,249)	(12,434)

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For the year ended 31 December 2022

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

	Property, plant and equipment HK\$'000	Prepaid lease payments HK\$'000	Investment properties HK\$'000	Inventories HK\$'000	Total HK\$'000
At 1 January 2021	(7,191)	(1,719)	(3,174)	732	(11,352)
Credited/(debited) to profit or loss during the year (note 14)	–	–	30	(752)	(722)
Exchange differences	(247)	(47)	(86)	20	(360)
At 31 December 2021 and 1 January 2022	(7,438)	(1,766)	(3,230)	–	(12,434)
Credited/(debited) to profit or loss during the year (note 14)	–	–	63	–	63
Exchange differences	728	139	255	–	1,122
At 31 December 2022	(6,710)	(1,627)	(2,912)	–	(11,249)

The Group did not have any significant unprovided deferred tax liabilities at 31 December 2022 and 2021.

32. SECURED TERM LOANS

- (a) On 20 December 2019, Novus Energy Inc. (“Novus”), a subsidiary of the Company, drew down a 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 relevant secured term loan denominated in US dollars bears interest rate at 4.8% per annum and was repayable in three years. The maturity date of the secured loan was 20 December 2022.

The relevant 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 relevant 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 2022, this ratio was 0.43:1 (2021: 0.31:1). The Group did not fulfil the financial covenant as required in the loan agreement. The outstanding balance is presented as a current liability as at 31 December 2022 as the lender is contractually entitled to request immediately repayment. On 6 December 2022, Novus entered into an agreement to extend the facility by entering into a supplemental facility agreement with Yanchang Petroleum HK. Under the deed of undertaking regarding the secured term loan dated 12 December 2022, the lender agreed to waive the right to exercise its right under the debenture during the period from 20 December 2022 to 17 January 2023. On 17 January 2023, the supplementary facility agreement was approved at the special general meeting by independent shareholders of the Company and become effective as all condition precedents have been fulfilled. The term of the relevant secured term loan was extended for an additional three years and the secured term loan is now due on 17 January 2026.

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For the year ended 31 December 2022

32. SECURED TERM LOANS *(Continued)*

- (b) On 3 September 2021, the Company drew down a secured term loan of US\$22,000,000, pursuant to the loan agreement between the Company and Yanchang Petroleum HK signed on 30 June 2021. The relevant secured term loan denominated in US dollars bears interest rate at 4.8% per annum and is repayable in three years.

The relevant secured term loan 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. As at 31 December 2022, the Sino Union Energy was able to maintain the above-mentioned valuation of Henan Yanchang.

- (c) As at 31 December 2022, the carrying amount of the secured term loans is HK\$445,747,000 (2021: HK\$442,998,000).

33. 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. 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 staff costs when they are due.

The total cost charged to profit or loss of HK\$4,505,000 for the year ended 31 December 2022 (2021: HK\$4,288,000) represented contributions payable to the above schemes by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

34. CAPITAL COMMITMENTS

The Group had capital commitments to pay property, plant and equipment amounting to HK\$8,296,000 (2021: HK\$4,144,000) which were contracted but not provided for as at 31 December 2022.

35. 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 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 and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

36. 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

	2022 HK\$'000	2021 HK\$'000
Salaries, bonus and allowances	11,850	11,590
Share-based payment expenses	–	–
Pension scheme contributions	96	36
	11,946	11,626

Related party transactions

Relationship	Nature of transactions	2022 HK\$'000	2021 HK\$'000
Ultimate holding company	Purchase of refined oil (<i>note 1</i>)	9,138,943	5,773,321
Fellow subsidiary	Purchase of refined oil (<i>note 2</i>)	8,317	–
Fellow associates	Sale of refined oil (<i>note 3</i>)	69,807	55,794
Fellow subsidiary	Sale of refined oil and by-products (<i>note 3</i>)	5,821	10,134
Immediate holding company	Secured term loan interest expenses	20,596	15,626
Ultimate holding company	Other loan interest expenses	4,137	–

Notes:

- (1) The Group had connected transactions with ultimate holding company arising from the refined oil supply agreement dated 12 November 2019 and the supplemental agreements dated 30 September 2020 and 18 November 2022 entered into between Henan Yanchang and Yanchang Petroleum Group in respect of the purchases of refined oil from Yanchang Petroleum Group by Henan Yanchang for the three years ended 31 December 2022 and for the three years ending 31 December 2025 respectively.
- (2) The Group had connected transactions with a fellow subsidiary arising from the refined oil supply agreement dated 20 April 2022 entered into between Henan Yanchang and Shaanxi Yanchang Petroleum Xinghua New Energy Co., Limited ("Xinghua New Energy") in respect of the purchases of refined oil from Xinghua New Energy by Henan Yanchang for the period from 20 April 2022 until 31 December 2022.
- (3) The Group had connected transactions with fellow associates and a fellow subsidiary arising from the sales of refined oil and by-products for the year ended 31 December 2022. Further, Henan Yanchang entered into sales agreements with Shaanxi Yanchang Petroleum Yanan Energy Chemical Company Limited ("Yanan Energy Chemical") and Yanchang Shell Henan Petroleum Limited ("Yanchang Shell Henan"), respectively on 13 May 2021 and with effect from 1 July 2021 in respect of the sales of refined oil and by-products from Henan Yanchang to Yanan Energy Chemical and Yanchang Shell Henan, respectively for the three years ending 31 December 2023.
- (4) The above transactions constitute continuing connected transactions under Chapter 14A of the Listing Rules.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

Following is a summary of related party balances as at 31 December 2022 and 31 December 2021.

	2022 HK\$'000	2021 HK\$'000
Trade receivables		
– amount due from a related party	285	–
Prepayments to suppliers of refined oil products		
– prepayment to ultimate holding company	6,068	194,644
– prepayment to fellow subsidiaries	3,305	–
Other receivables		
– amount due from a related party	1,313	612
Trade payables		
– amount due to ultimate holding company	401,911	–
Other payables		
– amount due to ultimate holding company	14,004	80
Other loan		
– amount due to ultimate holding company <i>(note 29)</i>	282,025	–
Secured term loans		
– amount due to immediate holding company <i>(note 32)</i>	445,747	442,998

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

37. PARTICULARS OF SUBSIDIARIES

(a) General information of subsidiaries

Particulars of the principal subsidiaries of the Company as at 31 December 2022 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
Henan Yanchang [^]	PRC	PRC	Registered and paid-up capital of RMB35,000,000	–	70	Wholesale, retail, storage and distribution of refined oil
Henan Yanchang Petroleum Energy Technology Limited (“Henan Yanchang Energy”) [^]	PRC	PRC	Registered and paid-up capital of RMB50,000,000	–	70	Distribution of refined oil
Noble Soar Limited	British Virgin Islands	Hong Kong	Ordinary US\$1	100	–	Investment holding
Novus	Canada	Canada	Common CAD215,371,475	–	100	Acquiring, exploring for, developing and producing crude oil and natural gas
Yanchang International (Canada) Limited	Canada	Canada	Common CAD314,100,594	–	100	Investment holding
Yanchang Petroleum (Shenzhen) Limited ^{^^}	PRC	PRC	Registered and paid-up capital of RMB10,000,000	–	100	Fuel oil and oil related product trading
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

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

^{^^} These entities are established in the PRC in the form of solely funded by Taiwan, Hong Kong or Macao corporate body.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

37. PARTICULARS OF SUBSIDIARIES (Continued)

(a) General information of subsidiaries (Continued)

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	
		2022	2021	2022	2021	2022	2021
				HK\$'000	HK\$'000	HK\$'000	HK\$'000
Henan Yanchang	PRC	30%	30%	5,079	8,027	94,242	96,722
Henan Yanchang Energy	PRC	30%	30%	(7,889)	(12,382)	(10,383)	(2,613)
Yanchang Zhejiang	PRC	49%	49%	(416,779)	9,209	(387,389)	36,968
Total				(419,589)	4,854	(303,530)	131,077

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

37. PARTICULARS OF SUBSIDIARIES (Continued)

Henan Yanchang

	2022 HK\$'000	2021 HK\$'000
Current assets	1,437,612	1,135,496
Non-current assets	257,438	261,628
Current liabilities	(1,272,261)	(978,341)
Non-current liabilities	(108,648)	(96,379)
Equity attributable to the owners of the Company	219,899	225,682
Non-controlling interests	94,242	96,722
Revenue	27,878,623	16,456,068
Cost of sales	(27,741,268)	(16,322,791)
Expenses	(120,425)	(106,520)
Profit for the year attributable to the owners of the Company	11,851	18,730
Profit for the year attributable to the non-controlling interests	5,079	8,027
Profit for the year	16,930	26,757
Other comprehensive income for the year attributable to the owners of the Company	(17,634)	5,966
Other comprehensive income for the year attributable to the non-controlling interests	(7,559)	2,557
Other comprehensive income for the year	(25,193)	8,523
Total comprehensive income for the year attributable to the owners of the Company	(5,783)	24,696
Total comprehensive income for the year attributable to the non-controlling interests	(2,480)	10,584
Total comprehensive income for the year	(8,263)	35,280
Dividend paid to non-controlling interests	–	7,343
Net cash inflow from operating activities	94,662	82,103
Net cash outflow from investing activities	(10,885)	(19,274)
Net cash outflow from financing activities	(85,909)	(160,357)
Net cash outflow	(2,132)	(97,528)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

37. PARTICULARS OF SUBSIDIARIES (Continued)

Henan Yanchang Energy

	2022 HK\$'000	2021 HK\$'000
Current assets	43	3,624
Non-current assets	32,217	62,633
Current liabilities	(66,871)	(74,965)
Equity attributable to the owners of the Company	(24,228)	(6,095)
Non-controlling interests	(10,383)	(2,613)
Revenue	–	–
Expenses	(26,296)	(41,273)
Loss for the year attributable to the owners of the Company	(18,407)	(28,891)
Loss for the year attributable to the non-controlling interests	(7,889)	(12,382)
Loss for the year	(26,296)	(41,273)
Other comprehensive income for the year attributable to the owners of the Company	275	598
Other comprehensive income for the year attributable to the non-controlling interests	118	256
Other comprehensive income for the year	393	854
Total comprehensive income for the year attributable to the owners of the Company	(18,132)	(28,293)
Total comprehensive income for the year attributable to the non-controlling interests	(7,771)	(12,126)
Total comprehensive income for the year	(25,903)	(40,419)
Net cash outflow from operating activities	(1,091)	(1,266)
Net cash outflow from investing activities	–	(6,044)
Net cash inflow from financing activities	–	7,470
Net cash outflow	(1,091)	160

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

37. PARTICULARS OF SUBSIDIARIES (Continued)

Yanchang Zhejiang

	2022 HK\$'000	2021 HK\$'000
Current assets	948,784	1,666,644
Non-current assets	450	1,833
Current liabilities	(1,739,824)	(1,593,046)
Non-current liabilities	–	–
Equity attributable to the owners of the Company	(403,201)	38,463
Non-controlling interests	(387,389)	36,968
Revenue	1,578,415	3,120,633
Cost of sales	(1,696,534)	(2,992,926)
Expenses	(732,451)	(108,913)
(Loss)/profit for the year attributable to the owners of the Company	(433,791)	9,585
(Loss)/profit for the year attributable to the non-controlling interests	(416,779)	9,209
(Loss)/profit for the year	(850,570)	18,794
Other comprehensive income for the year attributable to the owners of the Company	(7,887)	772
Other comprehensive income for the year attributable to the non-controlling interests	(7,578)	742
Other comprehensive income for the year	(15,465)	1,514
Total comprehensive income for the year attributable to the owners of the Company	(441,678)	10,357
Total comprehensive income for the year attributable to the non-controlling interests	(424,357)	9,951
Total comprehensive income for the year	(866,035)	20,308
Net cash (outflow)/inflow from operative activities	(276,402)	36,846
Net cash outflow from investing activities	(110)	(2,714)
Net cash (outflow)/inflow	(276,512)	34,132

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

38. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Statement of financial position of the Company

	2022 HK\$'000	2021 HK\$'000
Assets		
Non-current assets		
Interests in subsidiaries	673,779	509,998
Property, plant and equipment	40	539
Right-of-use assets	4,528	1,064
	678,347	511,601
Current assets		
Prepayments and other receivables	3,510	2,954
Cash and bank balances	7,485	7,091
	10,995	10,045
Total assets	689,342	521,646
Equity		
Capital and reserves attributable to the owners of the Company		
Share capital	366,701	366,701
Reserves	137,536	(25,183)
Total equity	504,237	341,518
Liabilities		
Current liabilities		
Other payables	7,334	5,856
Lease liabilities	2,354	1,572
	9,688	7,428
Non-current liabilities		
Lease liabilities	2,717	–
Secured term loans	172,700	172,700
	175,417	172,700
Total liabilities	185,105	180,128
Total equity and liabilities	689,342	521,646
Net current assets	1,307	2,617
Total assets less current liabilities	679,654	514,218

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

38. 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	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2021	2,115,311	6,454,818	–	(8,376,154)	193,975
Loss and total comprehensive income for the year	–	–	–	(219,158)	(219,158)
At 31 December 2021 and 1 January 2022	2,115,311	6,454,818	–	(8,595,312)	(25,183)
Profit and total comprehensive income for the year	–	–	–	162,719	162,719
At 31 December 2022	2,115,311	6,454,818	–	(8,432,593)	137,536

39. EVENTS AFTER THE END OF THE REPORTING PERIOD

The following events took place subsequent to the end of the reporting period.

- (a) 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 relevant secured term loan of US\$35,000,000 with 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 utilisation of the facility effected from 18 January 2023. The relevant secured term loan bears interest rate of 4.8% per annum, and has been extended for an additional three years up to and due on 17 January 2026.
- (b) On 13 January 2023, the Company announced that all conditions precedent set out in the subscription agreement had been fulfilled, and 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, representing approximately 16.67% of the issued share capital of the Company as enlarged by the issue and allotment of the subscription shares, had been allotted and issued to the subscriber at the subscription price of HK\$0.0766 per subscription share.
- (c) 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.

40. APPROVAL FOR CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of Directors on 30 March 2023.

SCHEDULE OF INVESTMENT PROPERTIES

The particulars of the investment properties at 31 December 2022 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%