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

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023

The board (the "Board") of directors (the "Director(s)") of Yanchang Petroleum International Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2023 together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	2023 HK$'000	2022 HK$'000
Revenue	4	**27,742,529**	29,936,206
Other revenue	4	**17,784**	12,199
		27,760,313	29,948,405
Expenses			
Purchases		**(27,145,282)**	(29,472,861)
Royalties		**(93,109)**	(60,305)
Field operation expenses		**(108,712)**	(77,877)
Exploration and evaluation expenses		**(2,597)**	(2,620)
Selling and distribution expenses		**(18,726)**	(167,426)
Administrative expenses		**(110,523)**	(99,398)
Depreciation, depletion and amortisation		**(240,726)**	(169,571)
Net (recognition)/reversal of impairment loss of property, plant and equipment		**(158,489)**	169,786
Provision for expected credit loss		**(43,923)**	(115,136)
Provision for litigations	14	**(84,274)**	(448,347)
Other gains and losses	5	**11,316**	(62,280)
		(27,995,045)	(30,506,035)

	Notes	**2023**	2022
		HK$'000	*HK$'000*
Loss from operating activities	*6*	**(234,732)**	(557,630)
Finance costs	*7*	**(58,926)**	(50,641)
Gain on deconsolidation of a subsidiary		**882,050**	–
Profit/(loss) before taxation		**588,392**	(608,271)
Taxation	*8*	**(8,260)**	(10,828)
Profit/(loss) for the year		**580,132**	(619,099)
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong			
– Exchange differences arising during the year		**33,355**	(78,842)
– Reclassification of exchange difference on deconsolidation of a subsidiary		**(10,673)**	–
Other comprehensive income for the year, with nil tax effect		**22,682**	(78,842)
Total comprehensive income for the year		**602,814**	(697,941)
Profit/(loss) for the year attributable to:			
Owners of the Company		**217,593**	(199,510)
Non-controlling interests		**362,539**	(419,589)
		580,132	(619,099)
Total comprehensive income for the year attributable to:			
Owners of the Company		**237,064**	(263,334)
Non-controlling interests		**365,750**	(434,607)
		602,814	(697,941)
			(Restated)
Earnings/(loss) per share			
Basic and diluted, HK cents	*10*	**19.89**	(21.76)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	Notes	**2023** **HK$'000**	2022 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*11*	**1,859,533**	1,865,290
Investment properties		**12,590**	13,633
Exploration and evaluation assets		**11,384**	5,273
Right-of-use assets		**99,349**	108,056
Goodwill and intangible asset		**58,149**	58,149
Financial asset at fair value through other comprehensive income		**–**	–
		2,041,005	2,050,401
Current assets			
Inventories		**346,580**	846,178
Trade receivables	*12*	**1,014,916**	722,285
Prepayments, deposits and other receivables		**55,853**	460,277
Tax recoverable		**–**	2,453
Restricted cash		**–**	303,406
Cash and bank balances		**226,188**	133,209
		1,643,537	2,467,808
Total assets		**3,684,542**	4,518,209
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital		**440,041**	366,701
Reserves		**850,872**	406,255
Total equity attributable to the owners of the Company		**1,290,913**	772,956
Non-controlling interests		**57,253**	(303,530)
Total equity		**1,348,166**	469,426

	Notes	**2023**	2022
		HK$'000	*HK$'000*
LIABILITIES			
Current liabilities			
Trade and other payables	*13*	**1,208,394**	2,167,196
Lease liabilities		**7,838**	6,941
Tax payables		**316**	–
Bank borrowings and other loans		**405,594**	700,032
Provision for litigations		**–**	453,330
Secured term loans		**445,355**	273,047
		2,067,497	3,600,546
Non-current liabilities			
Decommissioning liabilities		**171,349**	169,779
Lease liabilities		**86,815**	94,509
Deferred tax liabilities		**10,715**	11,249
Secured term loans		**–**	172,700
		268,879	448,237
Total liabilities		**2,336,376**	4,048,783
Total equity and liabilities		**3,684,542**	4,518,209
Net current liabilities		**(423,960)**	(1,132,738)
Total assets less current liabilities		**1,617,045**	917,663

NOTES TO THE ANNUAL RESULTS ANNOUNCEMENT

1. BASIS OF PREPARATION

The financial information set out in this announcement does not constitute the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2023, but is extracted from those consolidated financial statements.

The consolidated financial statements have been prepared in accordance with all Hong Kong Financial Reporting Standards, 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 of Hong Kong Limited (the "Listing Rules").

The consolidated financial statements for the year ended 31 December 2023 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that investment properties are stated at their fair value.

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

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

As at 31 December 2023, the Group had net current liabilities of HK$423,960,000. In addition, the Group had financial liabilities totaling HK$2,070,161,000 that are on demand or have a contractual maturities within one year. The Group will be unable to repay these borrowings in full when they fall due unless it is able to generate sufficient net cash inflows from its operations and/or other sources. As at 31 December 2023, the Group had cash and cash equivalents of HK$226,188,000.

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 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;

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

(iv) disposal of certain assets to obtain funding.

Notwithstanding the above, whether the Group would be able to continue as a going concern is dependent upon the successful implementation of the above plans and measures for which the outcomes are subject to the associated inherent uncertainties that include whether:

(i) Sufficient operating cash flows could be generated based on the expected economic outlook and market conditions:

(ii) the potential financing providers could provide the necessary funding to the Group on a timely basis;

(iii) the banks would renew the banking facilities based on the prevailing terms and conditions; and

(iv) the Group would be able to identify potential buyers and collect sale proceeds timely to meet the Group's liquidity need.

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

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

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

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

- HKFRS 17 – Insurance Contracts
- Amendments to HKAS 1 and HKFRS Practice Statement 2 – Disclosure of Accounting Policies
- Amendments to HKAS 8 – Definition of Accounting Estimates
- Amendments to HKAS 12 – International Tax Reform – Pillar Two Model Rules
- Amendments to HKAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

HKFRS 17 – Insurance Contracts

HKFRS 17 was issued by the HKICPA in 2018 and replaces HKFRS 4 for annual reporting periods beginning on or after 1 January 2023.

HKFRS 17 introduces an internationally consistent approach to the accounting for insurance contracts. Prior to HKFRS 17, significant diversity has existed worldwide relating to the accounting for and disclosure of insurance contracts, with HKFRS 4 permitting many previous accounting approaches to be followed.

Since HKFRS 17 applies to all insurance contracts issued by an entity (with limited scope exclusions), its adoption may have an effect on non-insurers. The Group carried out an assessment of its contracts and operations and concluded that the adoption of HKFRS 17 has had no effect on the annual consolidated financial statements of the Group.

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

The amendments to HKAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to HKFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The amendments have had an impact on the Group's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Group's financial statements.

Amendments to HKAS 8 – Definition of Accounting Estimates

The amendments 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, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

The amendments had no impact on the Group's consolidated financial statements.

Amendments to HKAS 12 – International Tax Reform – Pillar Two Model Rules

The amendments introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organization for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. Entities are required to disclose the information relating to their exposure to Pillar Two income taxes in annual periods.

The Group will disclose known or reasonably estimable information related to its exposure to Pillar Two income taxes in the consolidated financial statements by the time when the Pillar Two tax law has been enacted or substantively enacted and will disclose separately the current tax expense or income related to Pillar Two income taxes when it is in effect.

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

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

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

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

The application of the amendments has had no material impact on the Group's consolidated financial positions and consolidated statement of profit or loss and other comprehensive income but has affected the disclosure of the Group's accounting policies set out in the consolidated financial statements.

Change in accounting policy as a result of application of the HKICPA guidance on the accounting implications of the abolition of the Mandatory Provident Fund ("MPF") – Long Service Payment ("LSP") offsetting mechanism in Hong Kong

The Group has several subsidiaries operating in Hong Kong which are obliged to pay LSP to employees under certain circumstances. Meanwhile, the Group makes mandatory MPF contributions to the trustee who administers the assets held in a trust solely for the retirement benefits of each individual employee. Offsetting of LSP against an employee's accrued retirement benefits derived from employers' MPF contributions was allowed under the Employment Ordinance (Cap.57). In June 2022, the Government of the Hong Kong Special Administrative Region ("**HKSAR**") gazetted the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the "**Amendment Ordinance**") which abolishes the use of the accrued benefits derived from employers' mandatory MPF contributions to offset severance payment and LSP (the "**Abolition**"). The Abolition will officially take effect on 1 May 2025 (the "**Transition Date**"). In addition, under the Amendment Ordinance, the last month's salary immediately preceding the Transition Date (instead of the date of termination of employment) is used to calculate the portion of LSP in respect of the employment period before the Transition Date. In July 2023, the HKICPA published "Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong" which provides guidance for the accounting for the offsetting mechanism and the impact arising from abolition of the MPF-LSP offsetting mechanism in Hong Kong. In light of this, the Group has implemented the guidance published by the HKICPA in connection with the LSP obligation retrospectively so as to provide more reliable and more relevant information about the effects of the offsetting mechanism and the Abolition. The Group considered the accrued benefits arising from employer MPF contributions that have been vested with the employee and which could be used to offset the employee's LSP benefits as a deemed contribution by the employee towards the LSP. Historically, the Group has been applying the practical expedient in paragraph 93(b) of HKAS 19 "Employee Benefits" to account for the deemed employee contributions as a reduction of the service cost in the period in which the related service is rendered.

Based on the HKICPA's guidance, as a result of the Abolition, these contributions are no longer considered "linked solely to the employee's service in that period" since the mandatory employer MPF contributions after the Transition Date can still be used to offset the pre-transition LSP obligation. Therefore, it would not be appropriate to view the contributions as "independent of the number of years of service" and the practical expedient in paragraph 93(b) of HKAS 19 is no longer applicable. Instead, these deemed contributions should be attributed to periods of service in the same manner as the gross LSP benefit applying paragraph 93(a) of HKAS 19. Accordingly, the Group has recognised a cumulative catch-up adjustment in profit or loss for the service cost, interest expense and remeasurement effect from changes in actuarial assumptions for the year ended 31 December 2022, with corresponding adjustment to the LSP obligation. The cumulative catch-up adjustment is calculated as the difference at the enactment date (16 June 2022) between the carrying amount of the LSP liability calculated under paragraph 93(b) of HKAS 19 before the Abolition and the carrying amount of the LSP liability calculated under paragraph 93(a) of HKAS 19 after the Abolition.

However, since the amount of the catch-up adjustment was immaterial with reference to the assessment by the Group, this change in accounting policy did not have material impact on the opening balance of equity at 1 January 2022, and the results, cash flows and earnings or loss per share for the year ended 31 December 2022 and the consolidated financial position as at 31 December 2022.

New or amendments to HKFRSs, that have been issued but are not yet effective

The following amendments to HKFRSs, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

- Amendments to HKAS 1 – Classification of Liabilities as Current or Non-current and Hong Kong Interpretation 5 (Revised) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[2]

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

- Amendments to HKAS 7 and HKFRS 7 – Supplier Finance Arrangements[1]

- Amendments to HKFRS 16 – Lease Liability in a Sale and Leaseback[1]

- Amendments to HKAS 21 – Lack of Exchangeability[2]

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

[1] Effective for annual periods beginning on or after 1 January 2024.
[2] Effective for annual periods beginning on or after 1 January 2025.
[3] The amendment shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

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

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

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

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

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

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 7 and HKFRS 7 – Supplier Finance Arrangements

The amendments add disclosures to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2024. Early adoption is permitted, but will need to be disclosed.

Amendments to HKFRS 16 – Lease Liability in a Sale and Leaseback

The amendments add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements of HKFRS 15 to be accounted for as a sale. The amendments require a seller-lessee to determine "lease payments" or "revised lease payments" such that the seller-lessee would not recognise a gain or loss that relates to the right of use retained by the seller-lessee. The amendments also clarify that applying the requirements does not prevent the seller-lessee from recognising in profit or loss any gain or loss relating to subsequent partial or full termination of a lease.

Amendments to HKAS 21 – Lack of Exchangeability

The Amendments introduce requirements to assess when a currency is exchangeable into another currency and when it is not. The Amendments require an entity to estimate the spot exchange rate when it concludes that a currency is not exchangeable into another currency.

The Amendments primarily include the following:

- Requirements to assess when a currency is exchangeable into another currency and when it is not;
- Requirements to estimate the spot exchange rate when a currency is not exchangeable into another currency;
- Additional disclosure requirements when an entity estimates the spot exchange rate because a currency is not exchangeable into another currency;
- Application guidance to help entities assess whether a currency is exchangeable into another currency and to estimate the spot exchange rate when a currency is not exchangeable;
- Illustrative examples; and
- Amendments to HKFRS 1 First-time Adoption of International Financial Reporting Standards to align the requirements related to severe hyperinflation to the amended HKAS 21.

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 above amendments and revision in the future will have any material impact on the consolidated financial statements.

3. SEGMENT INFORMATION

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.

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

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

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

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

Segment revenue and results

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

	Exploration, exploitation and operation		Supply and procurement		Consolidated	
	2023	2022	**2023**	2022	**2023**	2022
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers	**501,817**	443,881	**27,240,712**	29,492,325	**27,742,529**	29,936,206
Segment profit/(loss)	**33,431**	124,157	**(118,066)**	(786,982)	**(84,635)**	(662,825)
Other revenue					**17,784**	12,199
Fair value change on investment properties					**(655)**	(251)
Net foreign exchange gain/(loss)					**11,778**	(30,618)
Net (recognition)/reversal of impairment loss of property, plant and equipment					**(158,489)**	169,786
Reversal of impairment loss of exploration and evaluation assets					**474**	934
Write down of inventories					**–**	(24,550)
Unallocated corporate expenses					**(20,989)**	(22,305)
Loss from operating activities					**(234,732)**	(557,630)
Finance costs					**(58,926)**	(50,641)
Gain on deconsolidation of a subsidiary					**882,050**	–
Profit/(loss) before taxation					**588,392**	(608,271)
Taxation					**(8,260)**	(10,828)
Profit/(loss) for the year					**580,132**	(619,099)

Revenue reported was generated from external customers. There were no inter-segment sales for the year (2022: nil).

Segment profit/(loss) represents the profit earned/loss incurred by each segment without allocation of other revenue, fair value change on investment properties, net foreign exchange gain/(loss), net (recognition)/reversal of impairment loss of property, plant and equipment, reversal of impairment loss of exploration and evaluation assets, write down of inventories, unallocated corporate expenses, finance costs and taxation. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

Segment assets and liabilities

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

	Exploration, exploitation and operation		**Supply and procurement**		**Consolidated**	
	2023	2022	**2023**	2022	**2023**	2022
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**1,872,385**	1,835,313	**1,788,570**	2,667,969	**3,660,955**	4,503,282
Unallocated assets					**23,587**	14,927
Total assets					**3,684,542**	4,518,209
Segment liabilities	**596,601**	741,449	**1,556,645**	3,124,988	**2,153,246**	3,866,437
Unallocated liabilities					**183,130**	182,346
Total liabilities					**2,336,376**	4,048,783

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

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

Other segment information

	Exploration, exploitation and operation		**Supply and procurement**		**Unallocated**		**Consolidated**	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
	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	**181**	142	**10,846**	12,421	**23**	534	**11,050**	13,097
Depletion of property, plant and equipment	**221,304**	148,124	**–**	–	**–**	–	**221,304**	148,124
Depreciation of right-of-use assets	**191**	193	**6,307**	6,000	**1,874**	2,157	**8,372**	8,350
Reversal of impairment loss of exploration and evaluation assets	**(474)**	(934)	**–**	–	**–**	–	**(474)**	(934)
Net recognition/(reversal) of impairment loss of property, plant and equipment	**127,292**	(194,992)	**–**	–	**31,197**	25,206	**158,489**	(169,786)
Write down of inventories	**–**	–	**–**	24,550	**–**	–	**–**	24,550
Provision for litigations	**–**	–	**84,274**	448,347	**–**	–	**84,274**	448,347
Provision for expected credit loss	**–**	–	**43,923**	115,136	**–**	–	**43,923**	115,136
Finance cost	**14,293**	15,030	**36,120**	27,085	**8,513**	8,526	**58,926**	50,641
Taxation	**–**	–	**8,260**	10,828	**–**	–	**8,260**	10,828
Additions to non-current assets*	**356,522**	457,842	**3,553**	34,156	**–**	5,621	**360,075**	497,619

* The amount represents additions to property, plant and equipment, right-of-use assets and exploration and evaluation assets for the years ended 31 December 2023 and 31 December 2022.

Revenue from major products and services

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

Geographical information

The Group's operations are located in Canada, the People's Republic of China ("**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	
	2023	2022	**2023**	2022
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC	**27,240,712**	29,492,325	**287,304**	341,130
Canada	**501,817**	443,881	**1,750,986**	1,704,663
Hong Kong and others	**–**	–	**2,715**	4,608
	27,742,529	29,936,206	**2,041,005**	2,050,401

Information about major customers

Included in revenue arising from supply and procurement business segment of HK$27,240,712,000 (2022: HK$29,492,325,000) are revenue of HK$20,401,645,000 (2022: HK$15,385,401,000) which arose from two (2022: two) customers of the Group, each of which contributed 10% or more to the Group's total revenue for the year.

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

	2023	2022
	HK$'000	*HK$'000*
Customer A	**16,091,750**	9,047,668
Customer B	**4,309,895**	6,337,733

4. REVENUE AND OTHER REVENUE

Revenue represents the consideration expected to be entitled from the goods sold which are recognised under point in time under HKFRS 15. All significant intra-group transactions have been eliminated on consolidation.

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

	2023	2022
	HK$'000	*HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of crude oil and natural gas	**501,817**	443,881
Trading and distribution of oil related products	**27,240,712**	29,492,325
	27,742,529	29,936,206

	2023	2022
	HK$'000	*HK$'000*
Other revenue		
Bank interest income	**12,263**	4,734
Rental income	**99**	435
Storage fee income	**1,590**	1,177
Others	**3,832**	5,853
	17,784	12,199

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:

	2023	2022
	HK$'000	*HK$'000*
Not later than one year	**397**	82
Later than one year and not later than two years	**323**	17
Later than two years and not later than three years	**231**	–
	951	99

5. OTHER GAINS AND LOSSES

	2023 *HK$'000*	2022 *HK$'000*
Net foreign exchange gain/(loss)	**11,778**	(30,618)
Fair value change on investment properties	**(655)**	(251)
Reversal of impairment loss of exploration and evaluation assets	**474**	934
Write down of inventories	**–**	(24,550)
Others	**(281)**	(7,795)
	11,316	(62,280)

6. LOSS FROM OPERATING ACTIVITIES

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

	2023 *HK$'000*	2022 *HK$'000*
Auditors' remuneration		
– Audit services	**2,752**	2,856
– Non-audit services	**–**	416
Cost of inventories sold	**27,145,282**	29,472,861
Depreciation and depletion of property, plant and equipment	**232,354**	161,221
Depreciation of right-of-use assets	**8,372**	8,350
	240,726	169,571
Expense relating to variable lease payments not included in the measurement of lease liabilities	**–**	52,668
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	**2,341**	3,259
Staff costs (including Directors' remuneration)		
– Salaries and wages	**77,912**	79,010
– Pension scheme contributions	**5,026**	4,505

7. FINANCE COSTS

	2023 *HK$'000*	2022 *HK$'000*
Interest expenses on bank borrowings and secured term loans wholly repayable within five years	**29,742**	36,576
Interest expenses on lease liabilities	**4,880**	5,120
Interest expenses on other loans	**21,530**	6,292
	56,152	47,988
Accretion expenses of decommissioning liabilities	**2,774**	2,653
	58,926	50,641

8. TAXATION

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

	2023	2022
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	**–**	–
Current tax – Outside Hong Kong		
Over-provision in prior year	**–**	(667)
Provision for the year	**8,424**	11,558
	8,424	10,891
Deferred tax		
Reversal of temporary differences	**(164)**	(63)
	8,260	10,828

The provision for Hong Kong Profits tax for 2023 is calculated at 16.5% (2022: 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% (2022: 25%) and 25% (2022: 25%) respectively.

9. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders during the year ended 31 December 2023, nor has any dividend been proposed since the end of the reporting period (2022: nil).

10. EARNINGS/(LOSS) PER SHARE

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

	2023	2022
	HK$'000	*HK$'000*
Profit/(loss)		
Profit/(loss) for the year attributable to the owners of the Company for the purpose of basic and diluted earnings/(loss) per share	**217,593**	(199,510)

	2023	2022
	'000	*'000*
		(Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings/(loss) per share	**1,094,075**	916,752

Diluted earnings/(loss) per share for the years ended 31 December 2023 and 31 December 2022 were the same as the basic earnings/(loss) per share as the Company had no dilutive potential ordinary shares in existence during the years ended 31 December 2023 and 31 December 2022.

The weighted average number of ordinary shares for the purpose of basic and diluted loss per share has been adjusted retrospectively for share consolidation during the year ended 31 December 2023.

11. PROPERTY, PLANT AND EQUIPMENT

Impairment loss of petroleum and natural gas properties

The Group's petroleum and natural gas properties are aggregated into different 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 (2022: 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% (2022: 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 2023, 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 loss at 31 December 2023 at its CGUs. The main indicator of impairment loss was the third party reserves evaluation which included an decrease in the forward price deck resulting in an decrease in reserve and net present values across all CGUs. During the year ended 31 December 2023, the Group recognised an impairment loss on petroleum and natural gas properties of HK$127,292,000. 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.

At 31 December 2022, 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 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 year ended 31 December 2022, the Group recognised an impairment reversal on petroleum and natural gas properties of HK$194,992,000. 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$1,74 billion (2022: HK$1.70 billion).

Impairment loss of construction in progress

During the year ended 31 December 2023, the Group has recognised an impairment loss on construction in progress of HK$31,197,000 due to the uncertainty on obtaining relevant government authority's approval on construction work. The Group concluded there was indication for impairment and conducted impairment assessment on recoverable amounts of construction in progress.

The recoverable amount of construction in progress has been determined based on fair value less cost of disposal using market approach. The level in the fair value hierarchy in arriving at the recoverable amount of construction in progress is considered under Level 3 on the basis of valuations carried out by China Valuer International Co., Ltd ("**China Valuer**"), independent qualified professional valuer not related to the Group.

The recoverable amount was reduced to zero as at 31 December 2023, which was lower than its carrying amount of construction in progress of approximately HK$31,197,000 as at 31 December 2023. The cost of disposal of construction in progress is amounted to HK$1,940,000 estimated by China Valuer. The fair value of construction in progress is determined using market approach by reference to recent sales price of recycling metal and construction cost with an adjustment on producer price index.

During the year ended 31 December 2022, the Group has recognised an impairment loss on construction in progress of HK$25,206,000 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 year ended 31 December 2022 was 12.38%.

12. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of up to 90 days (2022: 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:

	2023	2022
	HK$'000	*HK$'000*
0 to 30 days	**992,263**	585,905
31 to 60 days	**215**	86,638
61 to 90 days	**482**	1,352
Over 90 days	**21,956**	48,390
	1,014,916	722,285

13. TRADE AND OTHER PAYABLES

	2023	2022
	HK$'000	*HK$'000*
Trade payables	**938,645**	1,362,027
Contract liabilities	**39,495**	479,522
Refund liabilities	**–**	207,969
Value added tax payable	**98,034**	16,761
Other payables	**132,220**	100,917
	1,208,394	2,167,196

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

	2023	2022
	HK$'000	*HK$'000*
0 to 30 days	**890,855**	731,908
31 to 60 days	**3,177**	97,130
61 to 90 days	**38**	182,944
Over 90 days	**44,575**	350,045
	938,645	1,362,027

As at 31 December 2023 and 31 December 2022, the trade payables are non-interest bearing and have an average credit period on purchases of up to 90 days.

14. LITIGATIONS

Referring to the Company's announcement dated 2 June 2022, a claim was made by Chongqing Longhai Petroleum and Chemical Company Limited (重慶龍海石化有限公司, "Chongqing Longhai") against Yanchang Petroleum (Zhejiang FTZ) Limited ("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.

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. For the year ended 31 December 2023, the provision for these litigations in the amount of HK$84,274,000 (31 December 2022: HK$448,347,000) was made during the year.

The following table reconciles the changes in the Group's provision for litigations during the year:

	2023
	HK$'000
At 1 January	453,330
Exchange differences	(12,526)
Additional provision in the year	84,274
Deconsolidation of a subsidiary	(525,078)
At 31 December	–

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

The following is an extract of the independent auditor's report on the Group's annual financial statements for the year ended 31 December 2023:

"**Material Uncertainty Related to Going Concern**

We draw attention to Note 3(b) in the consolidated financial statements, which indicates that the Group had net current liabilities of HK$423,960,000 as at 31 December 2023. This condition, along with other conditions set forth in note 3(b), indicates that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance."

BUSINESS REVIEW AND PROSPECTS

Since the beginning of 2023, the international oil and gas market has undergone significant changes. Despite a slowdown in global economic growth in the post-pandemic era, however, global oil demand had maintained a recovery growth. The international oil and gas market remained in a tight balance state in 2023 due to multiple factors, including the U.S.-China strategic rivalry, geopolitical conflicts, OPEC production policy, limited decline of Russian oil and failure of market return of Iranian oil. Amid the fluctuation of oil prices, Yanchang Petroleum International Limited (the "Company") adhered to its concept of sound and stable operation by stringently implementing its yearly plan, business performance indicators and key objectives, coordinated its production and operation, scientific research and technology, cost reduction and efficiency enhancement, as well as its safety and environmental protection, and other crucial tasks.

UPSTREAM OIL AND GAS PRODUCTION BUSINESS IN CANADA

In 2023, Novus Energy Inc. (“Novus”) overcame unfavourable factors such as the downward swing of international crude oil prices, “road closure order” during snowmelt period and difficulties in equipment and material procurement and seized time to accelerate the construction progress. Capital expenditures for the year were CAD60,828,800, with 33.26 new wells drilled and 31.26 wells placed on production. Facing the adverse impact of extremely cold weather and tight service resources in the first quarter, Novus fully organized production by monitoring the production performance of wells, fully unleashing the production capacity of old wells, accelerating the production progress of new wells, and increasing their contributions to production capacity. During the year, a total of 1,076,000 barrels of oil equivalent were produced, representing an increase of 33.12% year-on-year. Under the context of fluctuating international oil prices and serious inflation in Canada, the profitability of the Novus oilfield was consolidated under economies of scale. A total of 1,093,500 barrels of oil equivalent were sold, representing a year-on-year increase of 39.62%. Sales revenue was CAD86,371,300, representing a year-on-year increase of 11.50%. Excluding the impairments in wells, Novus reported a net profit of CAD2,819,300 and operating cash flow of CAD43,117,100 with continuous improvement in well operation.

(I) Efficiently organizing production and enhancing production

Novus has made production a top priority. Scientifically organizing production and construction in a fast and planned manner has significantly improved production and operation efficiency. Firstly, facing industrial recovery and tight raw materials supply, Novus purchased 60,000 meters of oil casing in advance, ensuring the materials supply for drilling construction. Secondly, to reduce the impact of snowfall on production and transportation in the first quarter, Novus maintained good communication with the government, obtained a short-term waiver of the road ban and proceeded with the construction work. These measures enabled Novus to complete the drilling of four wells before the end of May, and simultaneously grasp the drilling progress of wells in the prime time of the summer construction, and complete 94.73% of the year’s drilling workload before the end of August, thus gaining valuable time for the full year’s production. Thirdly, with no hope of finding another drilling rig due to the shortage in supply of service providers, Novus took a different approach and partnered with Whitecap Resources Inc. to drill 8 wells in July leveraging its drilling rigs, resulting in a net interest of 2.26 wells to Novus.

(II) Deepening fine management of oilfields, continuously reducing costs and enhancing efficiency

Novus has always been pursuing high-quality development and economic benefits. Taking the refined management of oilfields as the starting point, Novus controlled its budgets and costs in whatever means to increase benefits. Firstly, Novus increased the quantity of developed extended wells, with the number of extended wells increasing from 46% in 2022 to 75% in 2023, and while increasing single-well production (approximately 50%), Novus reduced its operating expenses and abandonment obligations by 50%. Secondly, Novus continued to implement small surface drilling rigs for one-start drilling, saving 16 hours of drilling time and approximately CAD10,000 per well. Thirdly, Novus strictly controlled various costs and expenses. Oilfield operating costs have been reduced for three years, with an average annual reduction of 3.95%. In 2023, oilfield on-site operating costs were controlled at CAD17.11/barrel, a year-on-year decrease of CAD0.24/barrel, or 1.38%. While oilfield production increased dramatically (2.3 times in 3 years), Novus had only added 1 regular staff and 1 sub-contracted employee and kept its administrative costs to CAD6.41/barrel. The relative controllable cost (excluding foreign exchange gains and losses, royalties, resource taxes, and depreciation and amortization) was CAD28.56 per barrel, representing a year-on-year decrease of CAD1.29 per barrel, a drop of 4.32%. The cost control effectiveness has been significant, with barrel oil revenue of CAD1.12 per barrel. Despite a decline in international crude oil prices and the rise in rigid expenses such as depreciation, mining rights tax, and financial expenses, Novus oilfield was able to maintain a profitable operation.

(III) Guided by technology, realizing efficient development of oilfields

Based on geological research, Novus improves oil and gas extraction efficiency through technological innovation. Firstly, Novus scientifically prepared the 2023 Exploration and Development Deployment Plan, enhanced geological support, and rigorously demonstrated the rationality of well locations. In response to the formation conditions where "Viking" and "Success" reservoirs are only 3–4 meters thin, all 33 wells are developed by horizontal well technology, with a single well horizontal length of 600–1,500 meters, of which 75% are extended wells, representing an increase of 63.04% year-on-year (46% in 2022), and 62% of the well locations are deployed in the 1P and 2P reserves area, which greatly ensures mining efficiency. Secondly, the 18.17 square kilometers of 3D collection and seismic data were successfully implemented in the Court block, providing effective technical data support for well location deployment and depth design, which can greatly improve the drilling success rate and reduce drilling costs. Thirdly, Novus scientifically organized the construction of small surface drilling rigs and strengthened the geological guidance monitoring when drilling, with drilling technical indicators reaching a new level. For the whole year, 33.26 wells (with total penetration exceeding 65,000 meters) were drilled, oil reservoir drilling rate was as high as 98%, with the drilling cycle controlled within 5 days. Fourthly, Novus optimized the multi-stage closable fracking process and reduced the fracking stages after analyzing and studying the spacing of injection sections. This significantly reduced the investment cost of a single well while keeping the production volume of a single well unchanged. While the share of extended wells increased by 63.04% year-on-year, the average fracking stages for the whole year declined 29.41% year-on-year, with the success rate of fracking being over 96% and the design gravel completion rate being over 98%.

(IV) Expanding the area of mining rights and enhancing resource reserves

Novus keeps a close eye on market dynamics and diversifies its assets while putting exploration as the top priority and studying reservoir trends strenuously to keep its corporate resources sustainable. During the year, Novus acquired a land area of 47.96 square kilometers in Plato, Court, Major, Marengo and other blocks through mergers and acquisitions and leases. Among them, 11.5 blocks (approximately 28.8 square kilometers), accounting for 60.05% of the new land area, were acquired through multiple bids and acquisitions in the Major block, a key focus of Novus, and the area of Novus's mineral rights increased from 399 square kilometers by the end of 2022 to 438 square kilometers by the end of 2023, representing a net increase of 39 square kilometers, which further enriched the asset portfolio of Novus. In 2023, 2 wells were explored in the Major block, striving to achieve a breakthrough discovery in this block. In addition, Novus completed the drilling of 5 wells in the Court block and achieved excellent oil testing results. Novus continues to expand the land well reserve in the Court block and expects to develop it into one of Novus's key core assets in the future.

(V) Enhancing production safety, implementing environmental compliance obligations

Novus always prioritizes safety production, strengthens on-site safety production management, timely organizes employee safety training, updates emergency response plans, and promotes safety production through system establishment. Up to now, its on-site construction has been safe and orderly, with no hazardous production incident or environmental issue and no construction time lost, laying a safety foundation for drilling and production throughout the year. Meanwhile, Novus continues to communicate and cooperate with the local government to accelerate pipeline construction permission to reduce carbon emissions. In 2023, Novus completed the construction of an approximately 17,000-meter pipeline connecting to 29 wells, reduced carbon dioxide emissions by 57,000 tonnes, and saved Novus a fine of CAD3,120,000. Novus completed the reclamation of 26 abandoned wells, effectively fulfilling the decommissioning obligations addressed by the government.

DOWNSTREAM OIL AND BY-PRODUCTS SALES BUSINESS IN CHINA

In 2023, facing a complicated and acute market situation, Henan Yanchang Petroleum Sales Co., Limited ("Henan Yanchang") earnestly implemented its deployment, endeavoured to resolve all kinds of risks, and insisted on benchmarking and information construction. It strived to create a new layout of modernization and transformation and achieved new results in safety and environmental protection, market research and business expansion by obtaining the honors of "Advanced Collective in Safe Production of Dangerous Chemicals Industry in Zhengzhou City" (鄭州市危險化學品行業安全生產工作先進集體) and "Model Enterprise of Harmonious Labor Relations in Henan Province" (河南省和諧勞動關係創建示範企業). In 2023, Henan Yanchang achieved total cumulative sales of oil of 3,418,000 tonnes, including sales of 1,828,900 tonnes through strategic channel, sales through highway channel of 181,900 tonnes, sales through railway channel of 670,600 tonnes, sales at oil depots of 144,100 tonnes, sales at gas stations of 15,500 tonnes, and sales from external sourcing of 577,000 tonnes. Notwithstanding the provision of bad debts, Henan Yanchang recorded sales revenue of RMB24.936 billion with a net profit of RMB9,139,000 in 2023.

(I) Steadily and orderly progressing business

(1) External sourcing

In 2023, the external sourcing business continued to deepen its cooperation with strategic customers. With efforts in visiting target markets, Henan Yanchang developed 8 new customers and 27 new suppliers in 2023. Henan Yanchang continued to facilitate business transformation and explored the development of collective procurement business. Henan Yanchang reduced the poor quality business chain through analysis and risk screening. By proactively promoting trading platforms working online, Henan Yanchang forged the business to operate compliantly and brought substance to this business.

(2) Sales through highway channel

Through the collection and analysis of cutting-edge market information, its market response became more quickly and accurately. Henan Yanchang optimized the pricing mechanism closely to market changes to formulate timely sales prices. Specialists are dedicated to key customers to ensure effective plan implementation and improvement in the frequency of settlement and loading trucks' efficiency. In 2023, sales through highway channels recorded 181,900 tonnes, reaching a new record high.

(3) Sales through railway channel

Henan Yanchang constantly explored the markets and while stabilizing the market in the south-western and north-western regions, it also increased its market development in Hunan and Hubei. Sales of oil were 111,800 tonnes with a sales amount of RMB916 million. Henan Yanchang arranged sales staff to visit major customers in the target markets, successfully developing 17 new customers and realized a sales volume of 29,200 tonnes with a sales amount of RMB230 million.

(4) Sales at oil depots

In 2023, the oil depot business completed its business sorting, balancing and re-layout, with the high-priced resources of each oil depot in the previous period dealt with basically. The oil depot sales volume of the Henan region rose steadily, and the oil depot cooperation business risks of Ningxia Yongrun were mitigated, and the business risks were lifted, laying a solid foundation for the business to realize high-quality development in 2024.

(5) Sales at gas stations

The development of end customers continued to improve, and their loyalty kept on rising. In 2023, Henan Yanchang actively visited and developed enterprises, factories, mines and construction sites in the vicinity of our stations, developing 80 new customers, including 9 customers with monthly spending of RMB50,000 or above. Promotional activities such as member coupon discounts and non-fuel interactive promotion activities were launched to enhance customer loyalty, increase the number of returning customers and stabilize the sales system of petrol station members.

(II) Remarkable achievements in business expansion

Firstly, by fully leveraging the advantage of being a qualified supplier of Sinopec, we further deepened our cooperation with major regional companies such as Sinopec Northwest (中石化西北) and Sinopec Central China (中石化華中). In 2023, a total of 1.978 million tonnes of oil products were sold to Sinopec cumulatively (including 334,800 tonnes from Yanchang, nearly half of the total annual distribution, generating sales revenue of RMB2.627 billion and gross profit of approximately RMB25.69 million), marking a new high in sales to Sinopec since the establishment of Henan Yanchang. Secondly, Henan Yanchang made progress in developing the markets in Hunan and Hubei, achieving cooperation with Hubei State Oil Reserve (湖北國儲) on oil product storage, which upgraded the oil depot layout in the Hunan and Hubei markets. Henan Yanchang actively built its own procurement and supply pipeline, aiming to fully revitalize Yanchang's spot and riverside futures resources through integrated water and rail intermodal transport, thereby achieving results through volume. Thirdly, Henan Yanchang actively conducted fixed investment business research in the Sanmenxia area, reaching a cooperative intention with the Sanyuan Oil Depot (三原油庫) and Logistics Group (物流集團). Fourthly, Henan Yanchang actively implemented and completed the construction planning of charging infrastructure in Xinzheng City, continuously advancing project negotiations.

(III) Further strengthening of business assurance

Firstly, Henan Yanchang established the market research and forecasting morning meeting system, providing strong support for business development. By seizing opportunities before market downturns, Henan Yanchang successfully completed the cross-regional sales of high-priced inventory oil products in the Ningxia region, achieved a sales volume of 8,500 tonnes and revenue of RMB76 million, with a price difference of RMB0.919 million. Secondly, Henan Yanchang optimized the terminal operation mechanism by setting up professional positions such as financial business partners, human resources business partners, operation optimization, and non-oil management, making gas station operation management clearer and more efficient. Thirdly, we completed the development of the Hua E-chain (化e鏈) and SAP (FICO module) systems smoothly and finished the construction and operation of the trading platform, realizing the online operation of business across various lines. Fourthly, the construction of the online MSC cost, charges, and profit management model of Henan Yanchang was completed, and internal market-oriented management has been implemented. Fifthly, Henan Yanchang developed a balanced scorecard assessment mechanism, primarily evaluating three key performance indicators of "shareholder return", "high-quality development" and "strategic target facilitation", with special assessments on regional market share, cost-saving, and consumption reduction. Yearly assessments for managerial personnel were conducted in management, performance, and cost categories, ensuring that "everyone has a mission".

(IV) Further consolidation of the safety foundation

Firstly, Henan Yanchang fully put into play the "Safety Risk Intelligent Control Platform" and achieved scientific early warning of safety risks through the linkage of multiple systems such as video surveillance, combustible gas alarm, personnel positioning and perimeter alarm. Secondly, Henan Yanchang successfully passed the acceptance of the second-level key targets of Zhengzhou oil and gas field enterprise and successfully held a government-enterprise joint comprehensive emergency drill for hazardous chemicals accidents and an on-site meeting of safety production refinement, further improving its safety management standard. Thirdly, Henan Yanchang actively carried out equipment and quality management activities, earned multiple awards including the "Excellent Unit of the 10th Shaanxi Equipment Management Association (第十屆陝西省設備管理協會優秀單位)", Second Prize of Equipment Management and Technological Innovation Achievements of China Equipment Management Association (中國設備管理協會設備管理與技術創新成果二等獎), First Prize and Second Prize of "Golden Idea" Invention of China Equipment Management Association (中國設備管理協會"金點子"發明一等獎和二等獎), Excellent Quality Management Achievements and Quality Trustworthy Teams of National Petroleum and Chemical Industry (全國石油和化工行業優秀質量管理成果及質量信得過班組), and Winning Unit of Zhengzhou Hazardous Chemicals Skills Competition (鄭州市危險化學品技能比武優勝單位)".

OUTLOOK

In 2024, the Russo-Ukrainian war, the Israeli-Palestinian conflict, and the Yemeni Houthi armed forces continue to be the main geopolitical risks. The US elections and the direction of OPEC policies are set to increase market uncertainties, with the international oil and gas market outlook still presenting both challenges and opportunities. The market is expected to remain in a state of tense equilibrium, influenced by a variety of factors, with the potential for further intensification of oil price volatility. Overall, the demand for international crude oil is expected to continue to rise, albeit at a slower pace, with WTI prices estimated to range between US$70 and US$80 per barrel. Against this backdrop, the Company will adhere to the general working principle of seeking progress while maintaining stability, continuously consolidating and enhancing the competitive advantages in our existing business sectors. Simultaneously, the Company will actively explore LNG import, asphalt and crude oil import, coal sales, aviation kerosene business, etc to achieve business diversification and sustainable development, strive to cultivate new growth points for the Company, and create more long-term and stable value for its shareholders.

FINANCIAL REVIEW

Highlights on financial results

	2023 *HK$'000*	2022 *HK$'000*	Change in %
Revenue	**27,742,529**	29,936,206	(7%)
Other revenue	**17,784**	12,199	46%
Purchases	**(27,145,282)**	(29,472,861)	(8%)
Royalties	**(93,109)**	(60,305)	54%
Field operation expenses	**(108,712)**	(77,877)	40%
Exploration and evaluation expenses	**(2,597)**	(2,620)	(1%)
Selling and distribution expenses	**(18,726)**	(167,426)	(89%)
Administrative expenses	**(110,523)**	(99,398)	11%
Depreciation, depletion and amortisation	**(240,726)**	(169,571)	42%
Net (recognition)/reversal of impairment loss of property, plant and equipment	**(158,489)**	169,786	N/A
Provision for expected credit loss	**(43,923)**	(115,136)	(62%)
Provision for litigations	**(84,274)**	(448,347)	(81%)
Other gains and losses	**11,316**	(62,280)	N/A
Gain on deconsolidation of a subsidiary	**882,050**	–	N/A
Finance costs	**(58,926)**	(50,641)	16%
Taxation	**(8,260)**	(10,828)	(24%)
Profit/(loss) for the year	**580,132**	(619,099)	

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 2023, 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 1,093,000 BOE and contributed revenue of HK$501,817,000 during the year under review as compared to sales volume of 808,000 BOE and revenue of HK$443,881,000 of the previous year. Despite of the fluctuation of oil prices in 2023, the exploration, exploitation and operation business recorded an operating profit of HK$33,431,000, as compared to an operating profit of HK$124,157,000 in 2022.

Due to sales volume decreased from the previous year of 3.60 million tonnes to this year of 3.42 million tonnes, the revenue of oil and by-products trading business in the PRC decreased from the previous year of HK$29,492,325,000 to this year of HK$27,240,712,000 along with lower of selling prices. For the year under review, supply and procurement business incurred an operating loss of HK$118,066,000, as compared to an operating loss of HK$786,982,000 in 2022.

Other revenue

Apart from the aforesaid segment results, the Group recorded other revenue of HK$17,784,000 this year which mainly represented interest income from bank deposits and oil card income in the PRC, as compared to that of HK$12,199,000 in the previous year.

Purchases

Purchases were wholly derived from the oil and by-products trading business in the PRC, which decreased from the previous year of HK$29,472,861,000 to this year of HK$27,145,282,000. The decrease of purchases was mainly due to the decrease 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$60,305,000 to the current year of HK$93,109,000 due to increase in sales volume.

Field operation expenses

Due to increase in production, field operation expenses increased to this year of HK$108,712,000 from the previous year of HK$77,877,000. 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$2,597,000 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$2,620,000 in the previous year.

Selling and distribution expenses

Selling and distribution expenses, decreased from the previous year of HK$167,426,000 to the current year of HK$18,726,000. Such decrease in expenses was primarily attributable to the deconsolidation of Yanchang Zhejiang from the Group 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$110,523,000 this year, as compared to HK$99,398,000 of the previous year.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation increased from the previous year of HK$169,571,000 to the current year of HK$240,726,000. 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.

Net (recognition)/reversal of impairment loss of property, plant and equipment

The net recognition of impairment loss of property, plant and equipment of HK$158,489,000 comprised (i) the impairment loss of oil and gas assets in Canada amounted to HK$127,292,000 and (ii) the impairment loss of pipeline in the PRC amounted to HK$31,197,000.

Provision for expected credit loss

The Company recognised the loss provision of HK$43,923,000 for trade and other receivables based on the expected credit loss for oil trading business in the PRC, as compared to HK$115,136,000 in previous year. The decrease in provision was mainly attributed to the deconsolidation of Yanchang Zhejiang from the Group.

Provision for litigations

Provision for litigations were all attributable to Yanchang Zhejiang which was deconsolidated from the Group for the year under review.

Other gains and losses

Other gains of HK$11,316,000 recorded this year mainly including (i) net foreign exchange gain of HK$11,778,000, and offset by (ii) decrease in fair value of investment properties of HK$655,000.

Finance costs

Finance costs of HK$58,926,000 mainly comprised (i) bank borrowing costs and secured term loan interests totalling HK$29,742,000, (ii) accretion expenses totalling HK$2,774,000, (iii) imputed interest of HK$4,880,000 and (iv) interest expenses on other loans of HK$21,530,000.

Taxation

Taxation of HK$8,260,000 comprised (i) provision for the PRC enterprise income tax on the profit earned from the oil and by-products trading business amounted to HK$8,424,000, and offset by (ii) recognition of deferred tax liabilities amounted to HK$164,000.

Profit/(loss) for the year

Notwithstanding the impact of impairment loss on oil and gas assets and provision for bad debts, both the oil and gas production business in Canada and the refined oil trading business in PRC recorded profits during the year. As a result of the gain on deconsolidation of Yanchang Zhejiang from the Group, the Group as a whole recorded a profit of HK$580,132,000 for the year ended 31 December 2023, as against a loss of HK$619,099,000 for 2022.

Highlights on financial position

	2023	2022	Change in
	HK$'000	*HK$'000*	*%*
Property, plant and equipment	**1,859,533**	1,865,290	–
Investment properties	**12,590**	13,633	(8%)
Exploration and evaluation assets	**11,384**	5,273	116%
Right-of-use assets	**99,349**	108,056	(8%)
Goodwill and intangible asset	**58,149**	58,149	–
Inventories	**346,580**	846,178	(59%)
Trade receivables	**1,014,916**	722,285	41%
Prepayments, deposits and other receivables	**55,853**	460,277	(88%)
Restricted cash	**–**	303,406	N/A
Cash and bank balances	**226,188**	133,209	70%
Trade and other payables	**(1,208,394)**	(2,167,196)	(44%)
Bank borrowings and other loans	**(405,594)**	(700,032)	(42%)
Provision for litigations	**–**	(453,330)	N/A
Decommissioning liabilities	**(171,349)**	(169,779)	1%
Lease liabilities	**(94,653)**	(101,450)	(7%)
Secured term loans	**(445,355)**	(445,747)	–

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$1,859,533,000 as at 31 December 2023, similar to that of the last year.

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 2023.

Right-of-use assets

Right-of-use assets amounted to HK$99,349,000 as at 31 December 2023, consisted of leasehold lands and gas stations in the PRC owned by Henan Yanchang and office rentals in the PRC, Hong Kong and Canada of the Group.

Goodwill and intangible asset

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

Inventories

Inventories of HK$346,580,000 represented the refined oil held in oil storage tanks of Henan Yanchang in the PRC as at 31 December 2023. As compared to the last year, the inventories decreased by HK$499,598,000 which was mainly attributable to the deconsolidation of Yanchang Zhejiang from the Group.

Trade receivables

Trade receivables represented account receivables from customers of Novus in Canada and Henan Yanchang in the PRC as at 31 December 2023. Except for the trade receivables of Yanchang Zhejiang, the outstanding amounts had been mostly recovered in February 2024.

Prepayments, deposits and other receivables

Prepayments, deposits and other receivables decreased to this year of HK$55,853,000 from the previous year of HK$460,277,000. Such decrease was mainly due to the deconsolidation of Yanchang Zhejiang from the Group.

Restricted cash

As at 31 December 2023, the Group did not hold any restricted cash as a result of the deconsolidation of Yanchang Zhejiang from the Group as compared to the last year of HK$303,406,000.

Cash and bank balances

As at 31 December 2023, cash and bank balances maintained at HK$226,188,000 as compared to the last year of HK$133,209,000.

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 2023.

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 2023, the Group did not record any provision for litigations as a result of the deconsolidation of Yanchang Zhejiang from the Group as compared to the last year of HK$453,330,000.

Decommissioning liabilities

Decommissioning liabilities amounted to HK$171,349,000 as at 31 December 2023, 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$94,653,000 as at 31 December 2023, 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.

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 2023.

	2023	2022
	HK$'000	*HK$'000*
Current assets	**1,643,537**	2,467,808
Total assets	**3,684,542**	4,518,209
Current liabilities	**2,067,497**	3,600,546
Total liabilities	**2,336,376**	4,048,783
Total equity	**1,348,166**	469,426
Gearing ratio	**173.3%**	862.5%
Current ratio	**79.5%**	68.5%

The Group had outstanding variable interest rates bank borrowings amounted to HK$131,544,000 (equivalent to RMB120,000,000) as at 31 December 2023 (31 December 2022: HK$306,843,000) under Henan Yanchang. The Group has obtained bank facilities of HK$822,150,000 (equivalent to RMB750,000,000) 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 2023.

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 2023.

As at 31 December 2023, the Group had cash and bank balances of HK$226,188,000. As at 31 December 2022, the Group had cash and bank balances and restricted cash in aggregate of HK$436,615,000. 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 2023, the gearing ratio of the Group, measured on the basis of total liabilities as a percentage of total equity, was 173.3% as compared to 862.5% 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 79.5% as at 31 December 2023 (31 December 2022: 68.5%).

SHARE SUBSCRIPTION

On 13 January 2023, an aggregate of 3,667,009,346 subscription shares, representing approximately 16.7% of the enlarged issued share capital of the Company, had been allotted and issued to ChangAn Huitong Investment (Hong Kong) Company Limited ("ChangAn Huitong HK") at the subscription price of HK$0.0766 per subscription share under the general mandate granted to the Directors by ordinary resolution passed at the annual general meeting of the Company held on 27 May 2022. The net proceeds, after deduction of the related expenses, of approximately HK$280,373,000 was fully used for the development of upstream oil and gas production business in Canada operated by Novus.

Details of the subscription of new shares were set out in the announcements of the Company dated 30 December 2022 and 13 January 2023.

SHARE CONSOLIDATION

On 6 April 2023, the Board proposed that every twenty (20) shares in the issued and unissued share capital of the Company be consolidated into one (1) consolidated share. The share consolidation was approved by the shareholders at the special general meeting of the Company held on 10 May 2023 and the same became effective on 12 May 2023. Upon the share consolidation becoming effective, there were 1,100,102,803 consolidation shares in issue which were fully paid or credited as fully paid.

Details of the share consolidation were set out in the announcement of the Company dated 6 April 2023 and the circular of the Company dated 18 April 2023.

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 2023 (31 December 2022: 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 2023 (31 December 2022: nil).

SIGNIFICANT INVESTMENTS

The Group did not hold any significant investments as at 31 December 2023 (31 December 2022: nil).

CAPITAL COMMITMENTS

As at 31 December 2023, the Group had commitments related to property, plant and equipment amounted to HK$275,000 (31 December 2022: HK$8,296,000).

Save as the aforesaid, the Group did not have any other material commitments as at 31 December 2023.

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 2023, the Group did not have any significant contingent liabilities (31 December 2022: nil).

DECONSOLIDATION OF A SUBSIDIARY

Yanchang Zhejiang was a 51% indirectly owned subsidiary of the Company which engaged in trading of fuel oil and oil related product in the PRC. On 7 November 2022, Yanchang Zhejiang filed the bankruptcy reorganisation application with the Intermediate People's Court of Guangzhou City (the "Court") in Guangdong Province of the PRC in order to revive its business and safeguard the interests of the Group against various claims. On 6 March 2023, Yanchang Zhejiang resubmitted a pre-restructuring application 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. On 17 March 2023, Yancheng Zhejiang received the Court's civil ruling and the Court accepted the pre-restructuring application. On 7 June 2023, the Court ruled to formally accept the bankruptcy reorganisation of Yanchang Zhejiang and appointed Oriental Kunlun Law Firm* (東方崑崙律師事務所) to formally become the administrator of the bankruptcy reorganisation. According to the Enterprise Bankruptcy Law of the PRC, the time limit of the bankruptcy reorganisation is within six months from the date of the Court's approval of the bankruptcy reorganisation, which means it had already expired on 7 December 2023. During bankruptcy reorganisation period, a reorganisation plan proposed by an only intended investor was rejected by the creditors' meeting. Either the creditor(s) or the administrator did not locate other new investors to submit a new reorganisation plan to the Court, and also did not submit time extension request to the Court. Following the expiry of the bankruptcy reorganisation period, Yanchang Zhejiang would be subject to bankruptcy procedures.

In light of the above, the Board considered that the Company was unable to regain and recover the control of Yanchang Zhejiang and resolved to deconsolidate the financial results of Yanchang Zhejiang from the Group's financial statements for the year ended 31 December 2023.

Further details of the bankruptcy reorganisation were set out in the announcements of the Company dated 7 November 2022, 17 March 2023 and 25 July 2023.

* *For illustrative purpose only*

The net liabilities of Yanchang Zhejiang as at the date of deconsolidation were as follows:

Net liabilities deconsolidated:	*HK$'000*
Property, plant and equipment	209
Inventories	352,256
Trade receivables	106,856
Prepayments, deposits and other receivables	240,208
Restricted cash	262,119
Trade and other payables	(1,201,724)
Tax payables	(344)
Other loans	(105,879)
Provision for litigations *(note 14)*	(525,078)
Net liabilities deconsolidated of	(871,377)
Gain on deconsolidation of a subsidiary:	
Net liabilities deconsolidated of	871,377
Fair value of 51% retained interest which become a financial asset at fair value through other comprehensive income	–
Release of exchange reserves	10,673
Gain on deconsolidation	882,050

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2023, the Group's total number of staff was 207 (2022: 229). Salaries of employees were maintained at a competitive level with total staff costs for the year ended 31 December 2023 amounted to HK$82,938,000 (2022: HK$83,515,000). 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 2023 (31 December 2022: nil).

DIVIDENDS

The Board does not recommend the payment of any dividends for the year ended 31 December 2023 (31 December 2022: nil).

HEALTH, SAFETY AND ENVIRONMENT POLICIES

The Group is committed to ensuring a safe and healthful workplace and the protection of the environment. The Company believes that safety and protecting the environment is important to good business and that all work-related injuries, illnesses, property losses and adverse environmental impacts are preventable. There are no loss time accidents occurred in 2023 and 2022.

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.

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 2023, 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 announcement, 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. The independent non-executive Directors namely Mr. Ng Wing Ka and Mr. Leung Ting Yuk were unable to attend at the special general meeting of the Company held on 17 January 2023 due to other ad hoc engagements.

   The non-executive Director, Mr. Sun Jian and the independent non-executive Directors namely Mr. Ng Wing Ka and Dr. Mu Guodong were unable to attend at the special general meeting of the Company held on 10 May 2023 due to other ad hoc engagements.

   The non-executive Director, Mr. Sun Jian and one of the independent non-executive Director, Mr. Sun Liming were unable to attend at the annual general meeting of the Company held on 30 June 2023 due to other ad hoc engagements.

The non-executive Director, Mr. Sun Jian and the one of the independent non-executive Director, Mr. Leung Ting Yuk were unable to attend of the special general meeting of the Company held on 21 December 2023 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. 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 30 June 2023 due to other ad hoc engagements.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, the Directors confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2023.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2023, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

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

The audit committee has reviewed the accounting principles and policies adopted by the Company and discussed with management the risk management, internal control systems and financial reporting matters. The audit committee has reviewed the results of the Group for the year ended 31 December 2023.

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2023 as set out in the preliminary announcement have been compared by the Group's auditor, BDO Limited, to the amounts set out in the Group's consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by BDO Limited, Certified Public Accountants, in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement for the year ended 31 December 2023 is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.yanchanginternational.com). The Company's annual report for 2023 will be despatched to the shareholders of the Company and available on the above websites in due course.

ANNUAL GENERAL MEETING

The annual general meeting (the "AGM") of the Company will be held on 31 May 2024 and the notice of the 2024 AGM of the Company will be published and despatched to the shareholders of the Company in the manner as required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 28 May 2024 to 31 May 2024 (both days inclusive), during which period, no transfer of share(s) will be registered. In order to qualify for attending the AGM of the Company to be held on 31 May 2024, 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 27 May 2024.

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

Hong Kong, 28 March 2024

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