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 2015

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 2015 together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Notes	**2015** **HK$'000**	2014 HK$'000
Revenue	5	**23,320,527**	22,346,997
Other revenue	5	**12,728**	20,429
		23,333,255	22,367,426
Expenses			
Purchases		**(22,803,665)**	(21,385,786)
Royalties		**(38,719)**	(88,022)
Field operation expenses		**(83,000)**	(111,985)
Exploration and evaluation expenses		**(2,968)**	(4,163)
Selling and distribution expenses		**(15,030)**	(48,839)
Administrative expenses		**(92,413)**	(127,069)
Depreciation, depletion and amortisation		**(245,818)**	(300,158)
Other gains and losses	6	**(4,660,561)**	(4,878,047)
		(27,942,174)	(26,944,069)

	Notes	**2015** *HK$'000*	2014 *HK$'000*
Loss from operating activities	*7*	**(4,608,919)**	(4,576,643)
Finance costs	*8*	**(33,812)**	(45,038)
Loss before taxation		**(4,642,731)**	(4,621,681)
Taxation	*9*	**116,622**	(36,744)
Loss for the year		**(4,526,109)**	(4,658,425)
Other comprehensive loss			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**(306,046)**	(142,179)
Other comprehensive loss for the year, net of tax		**(306,046)**	(142,179)
Total comprehensive loss for the year		**(4,832,155)**	(4,800,604)
(Loss)/profit for the year attributable to:			
Owners of the Company		**(4,544,205)**	(4,634,817)
Non-controlling interests		**18,096**	(23,608)
		(4,526,109)	(4,658,425)
Total comprehensive (loss)/income for the year attributable to:			
Owners of the Company		**(4,843,969)**	(4,773,595)
Non-controlling interests		**11,814**	(27,009)
		(4,832,155)	(4,800,604)
Loss per share attributable to the owners of the Company	*11*		
Basic and diluted, HK cents		**(37.41)**	(39.08)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**1,878,740**	2,927,654
Prepaid lease payments		**17,538**	19,935
Investment properties		**29,458**	29,663
Intangible assets	*12*	**47,848**	78,543
Exploration and evaluation assets	*13*	**46,258**	4,165,163
Goodwill		**51,418**	51,418
		2,071,260	7,272,376
Current assets			
Inventories		**29,347**	60,859
Trade receivables	*14*	**236,784**	209,399
Prepayments, deposits and other receivables		**115,412**	151,795
Derivative financial instruments		**–**	18,687
Tax recoverable		**5,681**	2,068
Cash and bank balances		**886,690**	575,602
		1,273,914	1,018,410
Total assets		**3,345,174**	8,290,786
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital		**242,911**	242,911
Reserves		**1,392,055**	6,236,050
Equity attributable to the owners of the Company		**1,634,966**	6,478,961
Non-controlling interests		**112,941**	106,949
Total equity		**1,747,907**	6,585,910

	Notes	**2015**	2014
		HK$'000	*HK$'000*
LIABILITIES			
Current liabilities			
Trade and other payables	*15*	**467,392**	474,057
Derivative financial instruments		**4,383**	–
Bank borrowings		**664,085**	928,118
		1,135,860	1,402,175
Non-current liabilities			
Convertible bonds	*16*	**353,792**	–
Decommissioning liabilities		**91,060**	111,227
Deferred tax liabilities		**16,555**	191,474
		461,407	302,701
Total liabilities		**1,597,267**	1,704,876
Total equity and liabilities		**3,345,174**	8,290,786
Net current assets/(liabilities)		**138,054**	(383,765)
Total assets less current liabilities		**2,209,314**	6,888,611

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments which are measured at fair values, as explained in the accounting policies set out in the annual report.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company and all values are rounded to the nearest thousand (HK$'000), unless otherwise stated.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations (the "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are effective for the Group's financial period beginning 1 January 2015. A summary of the new HKFRSs are set out as below:

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 Cycle

The application of the above new and revised HKFRSs had no material effect on the results and financial positions of the Group for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRS 9	Financial Instruments[3]
HKFRS 14	Regulatory Deferral Accounts[1]
HKFRS 15	Revenue from Contracts with Customers[3]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[2]
Amendments to HKAS 1	Disclosure Initiative[2]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[2]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[2]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle[2]

1 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.

2 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

3 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

4 Effective for annual periods beginning on or after a date to be determined.

The Group is in the process of assessing the potential impact of the above new and revised HKFRSs upon initial application but is not yet in a position to state whether the above HKFRSs will have a significant impact on the Group's results of operations and financial position.

3. ADOPTION OF OTHER NEW REQUIREMENTS

New Hong Kong Companies Ordinance (Cap. 622)

The requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) came into operation during the financial year. As a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

In addition, the Company has adopted the amendments to the Rules Governing the Listing of Securities (the "Listing Rules") issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") relating to the disclosure of financial information with reference to the new Hong Kong Companies Ordinance (Cap. 622). The main impact relates to the presentation and disclosure of certain information in the consolidated financial statements.

4. SEGMENT INFORMATION

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

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

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

Segment revenue and results

	Exploration, exploitation and operation		Supply and procurement		Consolidated	
	2015	2014	**2015**	2014	**2015**	2014
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers	**371,386**	816,425	**22,949,141**	21,530,572	**23,320,527**	22,346,997
Segment results	**(40,962)**	247,797	**108,145**	108,225	**67,183**	356,022
Other revenue					**12,728**	20,429
Fair value change on investment properties					**1,011**	1,099
Change in fair value on derivative components of convertible bonds					**1,047**	–
Gain on bargain purchase					**–**	1,420
Net foreign exchange (loss)/gain					**(6,647)**	15,156
Impairment loss of available-for-sale investment					**–**	(196,072)
Impairment loss of exploration and evaluation assets					**(4,138,179)**	(4,517,062)
Impairment loss of intangible assets					**(26,465)**	(207,924)
Impairment loss of prepaid lease payments					**(828)**	–
Impairment loss of property, plant and equipment					**(493,975)**	–
Unallocated corporate expenses					**(24,794)**	(49,711)
Loss from operating activities					**(4,608,919)**	(4,576,643)
Finance costs					**(33,812)**	(45,038)
Loss before taxation					**(4,642,731)**	(4,621,681)
Taxation					**116,622**	(36,744)
Loss for the year					**(4,526,109)**	(4,658,425)

Revenue reported was generated from external customers. There were no inter-segment sales for the year (2014: Nil).

Segment results represent the profit earned/(loss incurred) by each segment without allocation of other revenue, fair value change on investment properties, change in fair value on derivative components of convertible bonds, gain on bargain purchase, net foreign exchange (loss)/ gain, impairment losses, 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

	Exploration, exploitation and operation		Supply and procurement		Consolidated	
	2015	2014	**2015**	2014	**2015**	2014
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**1,767,708**	7,066,731	**1,001,359**	977,511	**2,769,067**	8,044,242
Unallocated assets					**576,107**	246,544
Total assets					**3,345,174**	8,290,786
Segment liabilities	**688,116**	1,145,539	**546,939**	555,889	**1,235,055**	1,701,428
Unallocated liabilities					**362,212**	3,448
Total liabilities					**1,597,267**	1,704,876

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

- all assets are allocated to reportable segments other than corporate financial assets;
- all liabilities are allocated to reportable segments other than convertible bond and other corporate financial liabilities.

Other segment information

	Exploration, exploitation and operation		Supply and procurement		Unallocated		Consolidated	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
	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	**1,405**	1,301	**5,675**	5,422	**144**	105	**7,224**	6,828
Depletion of property, plant and equipment	**238,100**	292,806	**–**	–	**–**	–	**238,100**	292,806
Written off of expired exploration and evaluation assets	**8,615**	2,371	**–**	–	**–**	–	**8,615**	2,371
Amortisation of prepaid lease payments	**15**	19	**479**	505	**–**	–	**494**	524
Impairment loss of available-for-sale investment	**–**	196,072	**–**	–	**–**	–	**–**	196,072
Impairment loss of exploration and evaluation assets	**4,138,179**	4,517,602	**–**	–	**–**	–	**4,138,179**	4,517,602
Impairment loss of intangible assets	**–**	–	**26,465**	207,924	**–**	–	**26,465**	207,924
Impairment loss of prepaid lease payments	**828**	–	**–**	–	**–**	–	**828**	–
Impairment loss of property, plant and equipment	**493,975**	–	**–**	–	**–**	–	**493,975**	–
Additions to non-current assets*	**137,664**	703,459	**38,978**	71,300	**21**	168	**176,663**	774,927

* The amount represents additions to property, plant and equipment as well as exploration and evaluation assets for the years ended 31 December 2015 and 2014.

Revenue from major products and services

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

Geographical information

The Group operates in four principal geographical areas – Canada, the PRC, Madagascar and Hong Kong.

The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below:

	Revenue from external customers		**Non-current assets**	
	2015	2014	**2015**	2014
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Canada	**371,386**	816,425	**1,673,468**	2,760,396
The PRC	**22,949,141**	21,530,572	**388,314**	402,231
Madagascar	**–**	–	**9,363**	4,109,510
Hong Kong	**–**	–	**115**	239
	23,320,527	22,346,997	**2,071,260**	7,272,376

Information about major customers

Included in revenue arising from supply and procurement business segment of HK$22,949,141,000 (2014: HK$21,530,572,000) are revenue of HK$14,886,296,000 (2014: HK$15,725,800,000) which arose from two (2014: two) customers of the Group which contributed 10% or more to the Group's total revenue for the year.

Revenue from major customers, each of them amounted to 10% or more of the Group's total revenue, are set out below:

	2015	2014
	HK$'000	*HK$'000*
Customer A	**8,757,103**	9,993,683
Customer B	**6,129,193**	5,732,117

5. REVENUE AND OTHER REVENUE

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

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

	2015	2014
	HK$'000	*HK$'000*
Revenue		
Sales of crude oil and gas	**371,386**	816,425
Trading and distribution of oil related products	**22,949,141**	21,530,572
	23,320,527	22,346,997
Other revenue		
Bank interest income	**10,847**	11,373
Rental income	**1,828**	3,922
Others	**53**	5,134
	12,728	20,429

6. OTHER GAINS AND LOSSES

	2015	2014
	HK$'000	*HK$'000*
Net foreign exchange (loss)/gain	**(6,647)**	15,156
Fair value change on investment properties	**1,011**	1,099
Change in fair value on derivative components of convertible bonds *(Note 16)*	**1,047**	–
Gain on bargain purchase	**–**	1,420
Gain on disposal of property, plant and equipment and exploration and evaluation assets	**1,642**	2,144
Written off of expired exploration and evaluation assets	**(8,615)**	(2,371)
Impairment loss of available-for-sale investment	**–**	(196,072)
Impairment loss of exploration and evaluation assets *(Note 13)*	**(4,138,179)**	(4,517,062)
Impairment loss of intangible assets *(Note 12)*	**(26,465)**	(207,924)
Impairment loss of prepaid lease payments	**(828)**	–
Impairment loss of property, plant and equipment	**(493,975)**	–
Change in fair value of derivative financial instruments	**10,448**	25,563
	(4,660,561)	(4,878,047)

7. LOSS FROM OPERATING ACTIVITIES

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

	2015	2014
	HK$'000	*HK$'000*
Auditors' remuneration		
– Audit services	**1,900**	1,900
– Non-audit services	**212**	211
Cost of inventories sold	**22,803,665**	21,385,786
Depreciation and depletion of property, plant and equipment	**245,324**	299,634
Amortisation of prepaid lease payments	**494**	524
Minimum lease payments under operating leases of rented premises	**8,561**	12,764
Staff costs (including Directors' remuneration)		
– Salaries and wages	**57,240**	42,231
– Pension scheme contributions	**493**	406

8. FINANCE COSTS

	2015	2014
	HK$'000	*HK$'000*
Interest expenses on bank borrowings wholly repayable within five years	**30,172**	36,367
Imputed interest on convertible bonds *(Note 16)*	**754**	5,466
Accretion of decommissioning liabilities	**2,886**	3,205
	33,812	45,038

9. TAXATION

No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits in Hong Kong for the year (2014: Nil).

Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

Taxation arising in Canada is calculated at 27% for the year ended 31 December 2015 (2014: 25.95%).

	2015	2014
	HK$'000	*HK$'000*
Current taxation		
Charge for the year – the PRC	**26,699**	25,837
– Canada	**5,906**	13,075
Deferred taxation		
Credit for the year	**(149,227)**	(2,168)
Net tax (credited)/charged for the year	**(116,622)**	36,744

10. DIVIDENDS

The Directors do not recommend payment of any dividends for the year (2014: Nil).

11. LOSS PER SHARE

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

	2015	2014
	HK$'000	*HK$'000*
Loss		
Loss attributable to the owners of the Company for the purpose of basic and diluted loss per share	**(4,544,205)**	(4,634,817)

	2015	2014
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**12,145,573**	11,860,642

Diluted loss per share for the years ended 31 December 2015 and 2014 were the same as the basic loss per share. The convertible bonds outstanding as at 31 December 2015 had an anti-dilutive effect on the basic loss per share and were not included in the calculation of diluted loss per share for the year ended 31 December 2015. There were no dilutive potential ordinary shares existed during the year ended 31 December 2014.

12. INTANGIBLE ASSETS

	Refined oil supply agreement
	HK$'000
Cost	
At 1 January 2014	293,120
Exchange differences	(7,351)
At 31 December 2014 and 1 January 2015	285,769
Exchange differences	(16,442)
At 31 December 2015	269,327
Accumulated impairment	
At 1 January 2014	–
Impairment loss recognised during the year	207,924
Exchange differences	(698)
At 31 December 2014 and 1 January 2015	207,226
Impairment loss recognised during the year	26,465
Exchange differences	(12,212)
At 31 December 2015	221,479
Carrying amount	
At 31 December 2015	**47,848**
At 31 December 2014	78,543

The intangible assets represent a supply agreement which enables the Group to have stable and sufficient supply of refined oil in the PRC.

Refined oil supply agreement

On 26 July 2011 and 1 November 2011, Shaanxi Yanchang Petroleum (Group) Co., Limited ("Yanchang Petroleum Group"), the substantial shareholder of the Company, as the supplier has signed a supply agreement and a supplemental agreement respectively (the "Refined Oil Supply Agreement"), agreed to supply and Henan Yanchang Petroleum Sales Co., Limited ("Henan Yanchang"), the indirect non-wholly owned subsidiary of the Company, as the customer has agreed to purchase the refined oil for three years starting from 26 July 2011.

The Refined Oil Supply Agreement has been expired during the year ended 31 December 2013 and it was renewed on 24 December 2013 by both parties. Pursuant to the renewed Refined Oil Supply Agreement, Yanchang Petroleum Group agreed to supply and Henan Yanchang agreed to purchase the refined oil for three years starting from 1 January 2014. The Refined Oil Supply Agreement is renewable another term of every three years under negotiation between both parties, subject to and on the conditions and terms of the Refined Oil Supply Agreement. The Directors are not aware of any expected impediment with respect to the renewal of the Refined Oil Supply Agreement and consider that the possibility of failing in Refined Oil Supply Agreement renewal is remote and the Refined Oil Supply Agreement will generate net cash inflows for Henan Yanchang for an indefinite period. Therefore, the Refined Oil Supply Agreement is treated as having an indefinite useful life.

Impairment test for the year ended 31 December 2015

During the year ended 31 December 2015, the Group carried out an impairment testing on its intangible asset in relation to the Refined Oil Supply Agreement with reference to a valuation performed by an independent valuers, Colliers International (Hong Kong) Limited ("Colliers"), which has appropriate qualification and experience in the valuation of similar assets. Impairment loss of HK$26,465,000 on the Refined Oil Supply Agreement has been made for the year as a result.

Colliers considered that the market approach is not used as there are lack of financial information and full details regarding sales of similar assets and there are no similar subject assets in the market for comparison purpose, while the cost approach is not considered to be an appropriate approach for valuing income-generating assets as it does not capture expected returns to the asset. Income approach has been consistently adopted for impairment testing of the said intangible asset. Income approach estimates the future economic benefits to be generated from the Refined Oil Supply Agreement and discounts these benefits to its present value using a pre-tax discount rate of 21.5%. The recoverable amount of the Refined Oil Supply Agreement is its value in use and has been determined based on cash flow projections covering 3-year period.

The Group considered that such impairment loss was the combined effects of the decrease in gross profit margin due to significant decrease in crude oil prices, and the decrease in refined oil supplied from Yanchang Petroleum Group.

Impairment test for the year ended 31 December 2014

During the year ended 31 December 2014, the Group carried out an impairment testing on its intangible asset in relation to the Refined Oil Supply Agreement with reference to a valuation performed by an independent valuer, Cushman & Wakefield Valuation Advisory Services (HK) Ltd. ("Cushman & Wakefield"), which has appropriate qualification and experience in the valuation of similar assets. Impairment loss of HK$207,924,000 on the Refined Oil Supply Agreement under intangible assets has been made for the year as a result.

Cushman & Wakefield considered that the market approach is not used as there are lack of financial information and full details regarding sales of similar assets and there are no similar subject assets in the market for comparison purpose, while the cost approach is not considered to be an appropriate approach for valuing income-generating assets as it does not capture expected returns to the asset. Income approach has been consistently adopted for impairment testing of the said intangible asset. Income approach estimates the future economic benefits to be generated from the Refined Oil Supply Agreement and discounts these benefits to its present value using a pre-tax discount rate of 21.2%. The recoverable amount of the Refined Oil Supply Agreement is its value in use and has been determined based on cash flow projections covering 3-year period.

The Group considered that such impairment loss was the combined effects of the decrease in gross profit margin due to significant decrease in crude oil prices, the decrease in refined oil supplied from Yanchang Petroleum Group, and the increase in distribution and administrative expenses of Henan Yanchang operation.

13. EXPLORATION AND EVALUATION ASSETS

	HK$'000
Cost	
At 1 January 2014	12,341,671
Additions arising from jointly controlled operation	4,897
Acquisition of a subsidiary	65,229
Additions	44,357
Disposals and written off	(2,905)
Transfer to property, plant and equipment	(10,338)
Exchange differences	(3,627)
At 31 December 2014 and 1 January 2015	12,439,284
Additions	38,812
Disposals and written off	(8,615)
Transfer to property, plant and equipment	(325)
Exchange differences	(10,598)
At 31 December 2015	12,458,558
Accumulated impairment	
At 1 January 2014	3,757,059
Impairment loss recognised during the year	4,517,062
At 31 December 2014 and 1 January 2015	8,274,121
Impairment loss recognised during the year	4,138,179
At 31 December 2015	12,412,300
Carrying amount	
At 31 December 2015	**46,258**
At 31 December 2014	4,165,163

The exploration and evaluation assets represent (i) the oil and gas exploration, exploitation and operations rights and profit sharing rights at the Oilfield Block 2104 and the Oilfield Block 3113 ("Two Oilfield Blocks") in Madagascar, onshore sites for oil and gas exploration, exploitation and operation; (ii) expenditure paid for provision of services on activities relating to exploration and evaluation costs in the Two Oilfield Blocks in Madagascar; and (iii) the unproved properties and capitalised exploration, drilling and completion costs which are pending the determination of commercial viability in Canada ("E&E in Canada").

The Group entered into an investment and co-operation agreement with Yanchang Petroleum Group and ECO Energy (International) Investments Limited ("ECO") on exploration, exploitation and operation in the Oilfield Block 3113 in Madagascar. Pursuant to the investment and co-operation agreement, the capital investment of the Oilfield Block 3113 shall be contributed by the Group, Yanchang Petroleum Group and ECO.

The Group has adopted HKFRS 6 Exploration for and Evaluation of Mineral Resources and HKAS 36 Impairment of Assets which require the Group to assess any impairment at each reporting date.

The Group is required to assess at each reporting date any indicators that a previously recognised impairment loss no longer exists or has decreased. If there is such an indication, management should estimate the recoverable amount and determine whether any impairment reversal is appropriate.

Impairment test – Two Oilfield Blocks

For the year ended 31 December 2015

In view of substantial time and resources have been put into the exploration works on the Two Oilfield Blocks in Madagascar over the years by the Group, and yet the oilfields have not commenced production. After assessment on data and information collected from the exploration and evaluation activities carried out by the Group during the past few years, and having considered various factors, inter alia, the trend of global oil and gas prices expected to remain low going forward, the Company based on principal of prudence determined to carry out a thorough review as to whether commercially recoverable reserves justified in the Two Oilfield Blocks in Madagascar.

To assess whether the Two Oilfield Blocks in Madagascar are still economic beneficial to the Group, the Company engaged an independent valuer, Roma Oil and Mining Associate Limited ("Roma"), which has appropriate qualification and experience in the valuation of similar assets and preparation a competent person's report in accordance with the current requirements of the Chapter 18 of the Listing Rules on the Stock Exchange.

According to the competent person's report that 1) there are only prospective resources technically justified and considered that it has not led to the discovery of commercially viable quantities; 2) the carrying amount of the exploration and evaluation assets is unlikely to be recovered in full by sale and 3) the rights to explore in the Two Oilfield Blocks will expire on November 2017 and thereafter to be renewed is not certain. In addition, the estimated expenditure to further develop the Two Oilfield Blocks is substantial. After taking into accounts of the above key factors, the technically feasibility or commercial viability of the Two Oilfield Blocks are remote.

Since there are only prospective resources technically justified in the Two Oilfield Blocks in Madagascar, the Group considered that there are no economic reserves in the Two Oilfield Blocks and the inflow of future economic benefit is not probable. As such, impairment loss of HK$4,138,179,000 on the exploration and evaluation assets in relation to the Two Oilfield Blocks has been made for the year ended 31 December 2015.

For the year ended 31 December 2014

In view of the international crude oil price decreased significantly, the Group carried out an impairment testing on its exploration and evaluation assets in relation to the Two Oilfield Blocks with reference to a valuation performed by Cushman & Wakefield, which has appropriate qualification and experience in the valuation of similar assets. The recoverable amount of the exploration and evaluation assets is its fair value less costs of disposal and the fair value measurement is categorised as Level 2. As such, impairment loss of HK$4,517,062,000 on the exploration and evaluation assets in relation to the Two Oilfield Blocks has been made for the year ended 31 December 2014.

Three common valuation approaches, namely cost approach, income approach and market approach have been considered in the valuation by Cushman & Wakefield. Cushman & Wakefield considered that the cost approach is not considered to be an appropriate approach for valuing income-generating assets, while the income approach is not considered to be appropriate as it is not able to estimate the future economic benefits using reliable parameters and assumptions under the current operating stage in the Two Oilfield Blocks. Market approach has been consistently adopted for impairment testing of the said exploration and evaluation assets since its acquisition by the Group. The market approach was adopted for the valuation of the Group's exploration and evaluation assets situated at the Two Oilfield Blocks because it is the most direct approach which reflects the value obtained as a result of consensus of market participants. The comparable transactions method was applied by comparing similar recent purchase and sale transactions. The key assumptions adopted by Cushman & Wakefield were to use the adjusted consideration price to adjusted proved and probable reserve (the "Price/Reserve") multiples of the comparable transactions to determine the market value of the exploration and evaluation assets. The adjusted consideration prices were determined by adding corresponding debts and subtracting corresponding working capitals, and land values etc of the acquired assets. The adjusted proved and probable reserves were determined by proved and probable reserves multiplied by one minus the corresponding government royalty rates.

The significant observable inputs used in the valuation are the comparable transaction prices of similar exploration and evaluation assets which are mainly determined by the market oil price as well as the market sentiment and prospects of oil price from market participants. Due to the significant decline in global crude oil price during the year 2014, the consideration prices of the comparable transactions were decreased and thus the Price/Reserve multiples dropped from 12.26 to 4.16 in the year 2014.

Impairment test – E&E in Canada

For the years ended 31 December 2015 and 2014

The Group assessed the E&E in Canada for any indicators of impairment exist for the years ended 31 December 2015 and 2014. Based on future drilling plans, recent land sales and the policy to expense surrendered and expired leases, there was no impairment recognised for the year ended 31 December 2015 (2014: Nil).

14. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 30–90 days (2014: 30–90 days), are recognised and carried at the original invoiced amount less provision for impairment loss. It is the Group's policy to provide full impairment loss for all receivables over 1 year because based on historical experience such receivables past due beyond 1 year are generally not recoverable. Trade receivables are non-interest bearing.

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

	2015	2014
	HK$'000	*HK$'000*
0 to 30 days	**234,397**	207,903
31 to 60 days	**294**	382
61 to 90 days	**68**	241
Over 90 days	**2,025**	873
	236,784	209,399

The Directors believe that no impairment loss is necessary in respect of these balances as there has not been a significant change in credit quality of these debtors and the balances are still considered fully recoverable. The amount of HK$2,025,000 (2014: HK$873,000) are past due at the end of the reporting period but not impaired. The Group does not hold any collaterals or other credit enhancements over these balances.

15. TRADE AND OTHER PAYABLES

	2015	2014
	HK$'000	*HK$'000*
Trade payables	**291,773**	271,319
Deposit received in advance from customers	**110,099**	79,706
Other payables	**65,520**	123,032
	467,392	474,057

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

	2015	2014
	HK$'000	*HK$'000*
0 to 30 days	**290,571**	262,988
31 to 60 days	**370**	5,619
61 to 90 days	**159**	1,565
Over 90 days	**673**	1,147
	291,773	271,319

As at 31 December 2015 and 2014, the trade payables are non-interest bearing and have an average credit period on purchases of one to three months.

16. CONVERTIBLE BONDS

On 23 December 2015, the Company issued convertible bonds in the principal amount of US$46,300,000. The convertible bonds bear annual interest rate of 5% and mature on the date falling on the third anniversary of the date of issuance. The convertible bonds entitle the holder to convert to the ordinary shares of the Company at an initial conversion price of HK$0.40 per share (in integral multiple of US$1,000,000 or such lesser amount representing the entire outstanding principal amount of the convertible bonds).

The initial conversion price of HK$0.40 will be subject to adjustment (but in no event shall the adjusted share price be lower than 90% of the conversion price other than subdivision of shares) upon the occurrence of the following events: (a) consolidation or subdivision of shares; (b) capitalisation of profits or reserves; (c) issue of shares by way of scrip dividend; (d) if the weighted average price of the shares for the ten consecutive trading days before the first anniversary of the issue of the convertible bond is lower than the then conversion price, the conversion price should be adjusted to the lower of the market price; or (e) the Company or the bondholder is of the view that other event(s) requires an adjustment to be made to the conversion price upon which the Company and the bondholder shall jointly appoint a recognised professional to make a fair and reasonable adjustment to the conversion price.

Conversion may occur at any time during the date of the issuance of the convertible bonds, up to the close of business on the date falling 5 business days prior to the maturity date.

Unless previously converted, purchased and cancelled, the Company shall pay the outstanding principal amount under the convertible bonds by cash on the maturity date. The bondholder may, at its option and within a month after the second anniversary of the issue date, notify the Company in writing to request the Company to redeem the convertible bonds in whole or in part in an amount equal to the sum of the outstanding principal amount of the convertible bonds to be redeemed, plus a premium representing an annual interest rate of 5% on the relevant principal amount together with all accrued and outstanding interest calculated from the issue date to the early redemption date. The Company shall not be entitled to early redeem the convertible bonds before the maturity date.

The Company undertakes to comply with the specific covenants at all times until the date when all the convertible bonds have been converted into conversion shares or the Company has redeemed all the convertible bonds, whichever is earlier.

The convertible bonds contain two components: liability component and derivative financial liabilities component. The effective interest rate of the liability component on initial recognition is 9.76% per annum.

The liability component is classified as non-current liabilities and carried at amortised cost using the effective interest method. The derivative financial liabilities component is measured at fair value using Monte Carlo Simulation method.

	HK$'000
Liability component at date of issue	353,430
Derivative financial liabilities component at date of issue	5,395
Proceeds of issue	358,825
Liability component at date of issue	353,430
Imputed interest charged *(Note 8)*	754
Interest payable	(392)
Liability component at 31 December 2015	**353,792**
Derivative financial liabilities component at date of issue	5,395
Fair value change *(Note 6)*	(1,047)
Derivative financial liabilities component at 31 December 2015	**4,348**

After provision for impairment loss made on the Group's non-current assets as at 31 December 2015, the Company has not fulfilled certain specific convenants as set out in the convertible bond agreement. The Company is currently on negotiation with the bondholder to amend certain terms and clauses of the convertible bond agreement based on the current financial position of the Group. Up to the date of approval of consolidated financial statements of the Group, the negotiation between the Company and bondholder is still in progress. The Company expected it is probable that the bondholder will agree to amend certain terms and clauses of the convertible bond agreement. Therefore, the directors considered that the convertible bonds were classified as non-current liabilities at the end of the reporting period.

BUSINESS REVIEW AND PROSPECTS

In 2015, the Company made great efforts to effectively overcome the challenges of depressed oil prices in the market. The Company had achieved production target for Novus Energy Inc. ("Novus") upstream oil and gas production business in Canada and whereas in excess of the sales and profit targets for Henan Yanchang downstream refined oil trading business in the PRC. The Company had also successfully completed the data processing and collection in relation to 2D seismic exploration for two oilfield blocks in Madagascar and obtained the approval for extension of exploration period for two years to 2017 from the government of Madagascar. In addition, the Company raised fund in the market for the first time to finance the development of the Group's business through issuance of convertible bonds of an aggregate principal amount of US$46.3 million by entering into a subscription agreement with CCB International (Holdings) Limited ("CCBI") in 2015.

In-production oil and gas business

In view of tumbling prices of the international crude oil, the management of the Company stationed at the frontline in Canada at the beginning of the year to suitably establish a set of management systems, including performance assessment system for defining responsibilities and targets of each department, weekly-meeting and weekly-report system for closer communication and cooperation between departments, oilfield precautionary and emergency system for controlling the adverse factors, such as bad weather conditions and facilities failure, and internal financial control system for controlling the risks relating to income and expense. By establishing and fine-tuning the management systems, Novus has been turning its management model from an extensive and innovative one in high-oil-price environment to an intensive and steady one which could be resilient to fluctuation of oil prices. Also, the establishment of the systems has closed the gap of cultural differences, facilitating better communication between the Company and the local management team of Novus.

In 2015, 7 wells were drilled and 12 wells were completed by Novus. Flaxcombe pipelines project and IPL sales pipeline connection project were also completed. Novus achieved average daily production of 3,873 barrels of oil equivalent ("BOE"), in excess of the target of 3,816 BOE. Under the lower-than-expected prices of commodities and a decrease in capital expenditure of CAD10 million, the achievement of production target was the result of the Company's effort to the integration of Novus management and operation, leading to a decrease in operational costs of oil fields and also an increase in initial production volume of newly drilled wells.

Given market remains pessimistic over oil prices outlook in 2016, Novus will put its best efforts to meet its average daily production target, with lesser capital expenditure, by further elevating production of single well and reducing operational costs under the principles of stabilising production, balancing cash flow and reducing loss.

Refined oil trading business

Having been affected by the slump in international crude oil prices, refined oil prices in the PRC remained at a low level. Under such circumstances, the Company has conducted a number of counter measures, such as planning to fully utilised storage capacity as well as expanding oil sources and customer base in order to boost the sale and maximise the profit. In 2015, sales volume of refined oil was 3.9 million tonnes, representing an increase of 1.3 million tonnes or 50% as compared with the last year; revenue of refined oil trading was RMB19.3 billion, representing an increase of RMB2.2 billion or 13% as compared with the last year; and realised profit before tax amounted to RMB69 million. The construction of Xingang sub-pipeline under the Lanzhou-Zhengzhou-Changsha refined oil pipeline with an investment of approximately RMB108 million is close to completion. The project has been running handovers as well as commissioning and maintenance upon electricity delivery at departure station.

In 2016, Henan Yanchang will focus on achieving sales target and profit target in a high effective manner without compromising safety; and accelerating completion, inspection and acceptance of the Xingang sub-pipeline so as to facilitate the commencement of the sub-pipeline with an aim to reduce transportation costs and become the new profit driver.

Exploration works

In 2015, the Company had completed data processing and collection in relation to 197 kilometer 2D seismic exploration for the Oilfield Block 2104 and 470 kilometer 2D seismic exploration for the Oilfield Block 3113. In light of the difficult environment of Madagascar, the Company had taken a series of effective measures with careful planning in advance, developed harmonious relationship with local communities, workers and farmers, observed the requirements of the government and the local custom and solved the problem of lacking logistic supports. The Company had completed quality data processing and collection in a safe and timely manner in such perplexing and challenging landscape, such as arduous hills, rivers, criss-cross in ravines and gullies and unification of agricultural lands. The exploration works have been highly respected and recognized by the government of Madagascar as well as by the local communities.

The Company entered into a supplemental agreement with Office Des Mines Nationales Et des Industries Strategiques ("OMNIS") in 2015 for the second extension of exploration period of the two oilfield blocks after delicate negotiations. The exploration period will be extended to November 2017.

Upon the completion of data processing and collection in relation to 2D seismic exploration for the Oilfield Blocks 2104 and 3113, the relevant data has been delivered to third party professional institutions involved for integrated geological study on exploration results. In 2016 and 2017, the Company will focus on analysis on initial exploration data of the two oilfield blocks, and carry out a basic comprehensive geological survey for the purpose of determining the next step plan.

Financing activities

In 2015, the Company achieved an important breakthrough for its financing in the market and raised fund from CCBI by issuing convertible bonds in the principal amount of US$46.3 million. Such successful fund raising activity demonstrated a new image of the Company to the market and represented a good start for subsequent financing activities. In addition, the Company will continue to seek quality investors to further improve the shareholding structure of the Company.

Outlook

Notwithstanding the Group reported significant loss in 2015 as a result of substantial impairment made for oil and gas assets due to depression of oil prices, the Group merely recorded overall loss of HK$6.65 million as excluding the related accounting effect of non-cash impairment of such assets. To the contrary, the refined oil business in the PRC recorded an encouraging profit before tax of RMB69 million. As such, the Board is of the view that the overall operation and financial position of the Group remain sound and intact.

Against the backdrop of the sluggish economy and the anticipation of continuously depressed oil prices, the Group will introduce various measures to mitigate the operational pressure, inter alia, stringent controls on the operating costs and capital expenditure so as to enhance the profitability and balance the cash flow. In addition, the management of the Company will closely seek for possibilities of assets reorganisation as well as opportunities for cooperation or merger and acquisition, with an aim to strengthen the Group's assets quality for risk resistance, protect the assets of the Group and secure the interests of the Company's shareholders.

FINANCIAL REVIEW

Highlights on financial results

	2015	2014	Change in
	HK$'000	*HK$'000*	%
Revenue	**23,320,527**	22,346,997	4%
Other revenue	**12,728**	20,429	(38%)
Purchases	**(22,803,665)**	(21,385,786)	7%
Royalties	**(38,719)**	(88,022)	(56%)
Field operation expenses	**(83,000)**	(111,985)	(26%)
Exploration and evaluation expenses	**(2,968)**	(4,163)	(29%)
Selling and distribution expenses	**(15,030)**	(48,839)	(69%)
Administrative expenses	**(92,413)**	(127,069)	(27%)
Depreciation, depletion and amortisation	**(245,818)**	(300,158)	(18%)
Other gains and losses	**(4,660,561)**	(4,878,047)	(4%)
Finance costs	**(33,812)**	(45,038)	(25%)
Taxation	**116,622**	(36,744)	N/A
Loss for the year	**(4,526,109)**	(4,658,425)	(3%)
Basic and diluted loss per share, HK cents	**(37.41)**	(39.08)	(4%)

Revenue and segment results

For the year under review, the Group's operating segments comprised of: (i) exploration, exploitation and operation business; and (ii) supply and procurement business. During the year ended 31 December 2015, the Group's revenue was derived from the production of crude oil and natural gas in Canada as well as trading of refined oil in the PRC.

Novus is engaged in the business of exploration, exploitation and production of crude oil and natural gas in Western Canada. Novus achieved production of oil and gas of 1,414,000 BOE and contributed production income of HK$371,386,000 during the year under review. Due to crude oil prices dropped sharply in comparison with last year, which in turn had severe adverse impacts on its sales and profit margin, the exploration, exploitation and operation business recorded an operating loss of HK$40,962,000 this year in contrast of an operating profit of HK$247,797,000 last year.

For the year ended 31 December 2015, the revenue of trading of refined oil business increased by 7% from the last year of HK$21,530,572,000 to HK$22,949,141,000. Henan Yanchang achieved sales of refined oil of 3,910,000 tonnes for the year of 2015 and contributed operating profit of HK$108,145,000 to the supply and procurement business, similar to last year of HK$108,225,000.

Other revenue

Apart from the aforesaid segment results, other revenue of HK$12,728,000, which mainly represented interest income from bank deposits and rental income from the PRC properties recorded for the year under review, decreased by HK$7,701,000 from HK$20,429,000 of the last year.

Purchases

Purchases, increased from last year of HK$21,385,786,000 to this year of HK$22,803,665,000, were wholly derived from the trading of refined oil business under Henan Yanchang.

Royalties

Royalties, including crown, freehold and overriding royalties incurred by Novus for crude oil and natural gas production in Canada, decreased from last year of HK$88,022,000 to current year of HK$38,719,000 due to drop in oil price and sale volume.

Field operation expenses

With tighter cost control in place, field operation expenses amounted to HK$83,000,000, decreased by HK$28,985,000 from last year of HK$111,985,000, including labour costs, repairs and maintenance, processing costs, fluid hauling, lease rentals and workovers etc were incurred by Novus in the production of crude oil and natural gas in Canada.

Exploration and evaluation expenses

Exploration and evaluation expenses decreased 29% to HK$2,968,000 represented the holding costs, mainly lease rentals, on the interests of non-producing lands incurred by Novus.

Selling and distribution expenses

Selling and distribution expenses, dropped from the last year of HK$48,839,000 to the current year of HK$15,030,000, were mainly incurred by Novus. The decrease in the expenses was due to the fall of trucking cost as a result of the completion of pipelines connection projects in Novus.

Administrative expenses

Administrative expenses including Directors' remuneration, staff costs, office rentals, professional fees and listing fee etc, decreased by HK$34,656,000 and amounted to HK$92,413,000 for the year under review. Such decrease was mainly attributable to the absence of the substantial professional fees incurred for acquisition of Novus during last year.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation expenses decreased from the last year of HK$300,158,000 to the current year of HK$245,818,000 which was mainly due to the decrease in depletion of petroleum and natural gas properties incurred by Novus as a result of decrease in production during the year under review.

Other gains and losses

The amount of HK$4,660,561,000 represented: (i) non-cash valuation impairment made on the two oilfield blocks in Madagascar, petroleum and natural gas properties in Canada and other oil related assets totally HK$4,659,447,000; (ii) written off of expired exploration and evaluation assets of HK$8,615,000; (iii) net foreign exchange loss of HK$6,647,000; and after offsetting (iv) gain on hedging of oil and gas commodity contracts of HK$10,448,000, fair value gain on investment properties of HK$1,011,000, fair value gain on derivative components of convertible bonds of HK$1,047,000 and gain on disposal of petroleum and natural gas properties of HK$1,642,000.

Finance costs

Finance costs amounted to HK$33,812,000 comprised of: (i) borrowing costs of HK$30,172,000 included interest, commitment fees, standby charges, and other expenses related to the businesses of Novus and Henan Yanchang; (ii) accretion of HK$2,886,000 related to the provision of the decommissioning liabilities incurred by Novus; and (iii) imputed interest on convertible bond of HK$754,000 arisen from the issue of 3-year convertible bonds with a principal amount of US$46,300,000 carries at 5% coupon interest.

Taxation

Net tax income of HK$116,622,000 represented the aggregate of: (i) provision for Canada resource surcharge on Novus' production revenue of oil and gas amounted to HK$5,906,000; (ii) provision for the PRC enterprise income tax on the profit earned from refined oil trading business of Henan Yanchang amounted to HK$26,699,000; and after offsetting (iii) net deferred tax income amounted to HK$149,227,000.

Loss for the year

Excluding the accounting effect of the non-cash impairment loss of oil and gas assets and the related reversal of deferred tax liabilities as a result of low international crude oil prices, the Group strived to control costs and achieved to have a moderate overall loss of HK$6,652,000 in contrast of the accounting loss of HK$4,526,109,000 for the year under review.

Highlights on financial position

	2015 *HK$'000*	2014 *HK$'000*	Change in %
Property, plant and equipment	**1,878,740**	2,927,654	(36%)
Prepaid lease payments	**17,538**	19,935	(12%)
Investment properties	**29,458**	29,663	(1%)
Intangible assets	**47,848**	78,543	(39%)
Exploration and evaluation assets	**46,258**	4,165,163	(99%)
Goodwill	**51,418**	51,418	0%
Inventories	**29,347**	60,859	(52%)
Trade receivables	**236,784**	209,399	13%
Prepayments, deposits and other receivables	**115,412**	151,795	(24%)
Cash and bank balances	**886,690**	575,602	54%
Derivative financial instruments	**(4,383)**	18,687	N/A
Trade and other payables	**(467,392)**	(474,057)	(1%)
Bank borrowings	**(664,085)**	(928,118)	(28%)
Convertible bonds	**(353,792)**	–	N/A
Decommissioning liabilities	**(91,060)**	(111,227)	(18%)

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. The decrease for the year was mainly attributable to the impairment loss on petroleum and natural gas properties of Novus in Canada and fluctuation in exchange rates.

Prepaid lease payments

Prepaid lease payments mainly represented the leasehold lands in the PRC owned by the Group. The decrease in the amount was mainly due to the impairment loss on the leasehold lands in Madagascar during the year.

Investment properties

Investment properties comprised of: (i) gas stations and properties in the PRC owned by Henan Yanchang either leased out in return of receiving rental income or hold for capital appreciation; and (ii) a land hold for capital appreciation in Madagascar.

Intangible assets

Intangible assets amounted to HK$47,848,000 as at 31 December 2015 represented the valuation and recognition of the Refined Oil Supply Agreement signed with Yanchang Petroleum Group which enables Henan Yanchang to have stable and sufficient supply of refined oil in the PRC. The decrease was mainly attributable to the non-cash valuation impairment made during the year.

The Company carried out an impairment testing on its intangible asset in relation to the Refined Oil Supply Agreement with reference to a valuation performed by an independent valuer, Colliers, which has appropriate qualification and experience in the valuation of similar assets. Impairment loss of HK$26,465,000 on the Refined Oil Supply Agreement has been made for the year ended 31 December 2015 as a result.

Colliers considered that the market approach is not used as there are lack of financial information and full details regarding sales of similar assets and there are no similar subject assets in the market for comparison purpose, while the cost approach is not considered to be an appropriate approach for valuing income-generating assets as it does not capture expected returns to the asset. Income approach has been consistently adopted for impairment testing of the said intangible asset. Income approach estimates the future economic benefits to be generated from the refined oil supply agreement and discounts these benefits to its present value using a pre-tax discount rate of 21.5%. The recoverable amount of the Refined Oil Supply Agreement is its value in use and has been determined based on cash flow projections covering 3-year period.

The Company considered that such impairment loss was the combined effects of the decrease in gross profit margin due to significant decrease in crude oil price, and the decrease in refined oil supplied from Yanchang Petroleum Group.

Exploration and evaluation assets

Exploration and evaluation assets represented: (i) the valuation of the Two Oilfield Blocks in Madagascar; (ii) the exploration costs put into the Two Oilfield Blocks during the years; and (iii) the undeveloped land owned by Novus as at 31 December 2015. The decrease of such assets was mainly attributable to the non-cash valuation impairment recognised on the Two Oilfield Blocks in Madagascar during the year.

In view of substantial time and resources have been put into the exploration works on the Two Oilfield Blocks in Madagascar over the years by the Group, and yet the oilfields have not commenced production. After assessment on data and information collected from the exploration and evaluation activities carried out by the Group during the past few years, and having considered various factors, inter alia, the trend of global oil and gas prices expected to remain low going forward, the Company based on principal of prudence and determined to carried out a thorough review as to whether commercially recoverable reserves justified in the Two Oilfield Blocks in Madagascar.

To assess whether the Two Oilfield Blocks in Madagascar are still economic beneficial to the Group, the Company engaged an independent valuer, Roma, which has appropriate qualification and experience in the valuation of similar assets and preparation a competent person report in accordance with the current requirements of the Chapter 18 of the Listing Rules on the Stock Exchange.

According to the competent person's report that 1) there are only prospective resources technically justified and considered that it has not led to the discovery of commercially viable quantities; 2) the carrying amount of the exploration and evaluation assets is unlikely to be recovered in full by sale and 3) the rights to explore in the Two Oilfield Blocks will expire on November 2017 and thereafter to be renewed is not certain. In addition, the estimated expenditure to further develop the Two Oilfield Blocks is substantial. After taking into accounts of the above key factors, the technically feasibility or commercial viability of the Two Oilfield Blocks are remote.

Since there are only prospective resources technically justified in the Two Oilfield Blocks in Madagascar, the Group considered that there are no economic reserves in the Two Oilfield Blocks and the inflow of future economic benefit is not probable. As such, impairment loss of HK$4,138,179,000 on the exploration and evaluation assets in relation to the Two Oilfield Blocks has been made for the year ended 31 December 2015.

Goodwill

Resulting from the acquisition of 70% interests in Henan Yanchang in 2011, a goodwill of HK$51,418,000 arising on consolidation was recorded. Since no impairment subsequent to the acquisition has been made during the year, the amount of such goodwill remained the same as at 31 December 2015.

Inventories

Inventories represented refined oil held in oil storage tanks of Henan Yanchang in the PRC as at 31 December 2015.

Trade receivables

Trade receivables represented account receivables from customers of oil and gas production business from Novus in Canada and from customers of refined oil trading business from Henan Yanchang in the PRC as at 31 December 2015.

Prepayments, deposits and other receivables

Prepayments, deposits and other receivables mainly represented prepayments made for the purchases of refined oil by Henan Yanchang for its refined oil business.

Cash and bank balances

As at 31 December 2015, cash and bank balances increased by HK$311,088,000 to HK$886,690,000 as compared to the last year of HK$575,602,000 mainly due to the fund raised from the issue of convertible bonds.

Derivative financial instruments

The amounts mainly represented the fair values of conversion option to convert the convertible bonds into ordinary shares of the Company and the fair values of put option for the convertible bonds holder choose to early redeem the convertible bonds before maturity date.

Trade and other payables

Trade and other payables mainly represented account payables to suppliers and prepayments received in advance from customers for Henan Yanchang refined oil trading business as at 31 December 2015.

Bank borrowings

The amount represented loans from banks of Canada and the PRC used to finance the oil and gas production business in Canada and refined oil trading business in the PRC respectively.

Convertible bonds

The amount represented the 3-year convertible bonds with coupon rate of 5% issued during late year of 2015.

Decommissioning liabilities

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

LIQUIDITY AND FINANCIAL RESOURCES

The Group funded its operation mainly by its internal resources together with bank borrowings and convertible bonds for the year ended 31 December 2015.

	2015	2014
	HK$'000	*HK$'000*
Current assets	**1,273,914**	1,018,410
Total assets	**3,345,174**	8,290,786
Current liabilities	**1,135,860**	1,402,175
Total liabilities	**1,597,267**	1,704,876
Total equity	**1,747,907**	6,585,910
Gearing ratio	**91.4%**	25.9%
Current ratio	**112.2%**	72.6%

The Group had outstanding variable rates bank borrowings amounted to HK$664,085,000 as at 31 December 2015 (31 December 2014: HK$928,118,000) comprised of: (i) RMB80,000,000 (equivalent to HK$94,088,000) under Henan Yanchang; and (ii) CAD102,150,000 (equivalent to HK$569,997,000) under Novus. The Group has obtained bank facilities of RMB700 million (equivalent to HK$823,270,000) from banks in the PRC and of CAD125 million (equivalent to HK$697,500,000)from a bank in Canada.

On 23 December 2015, the Company raised fund from the issue of convertible bonds to CCBI in the principal amount of US$46,300,000 (equivalent to HK$358,825,000) which carries coupon interest with 5% and matures on the third anniversary date of the date of issue. The fund raised is intended to be used for the Group's general working capital and provide additional capital base for the future growth and development of the Group's business.

As at 31 December 2015, the Group had cash and bank balances of HK$886,690,000 (31 December 2014: HK$575,602,000). In view of ample cash on hand together with the available bank facilities, the Group has sufficient working capital to finance its business operation.

As at 31 December 2015, the gearing ratio of the Group, measured on the basis of total liabilities as a percentage of total equity, was 91.4% (31 December 2014: 25.9%). The current ratio of the Group, measured on the basis of current assets as a percentage of current liabilities stood at 112.2% as at 31 December 2015 (31 December 2014: 72.6%).

COMMODITY PRICE MANAGEMENT

Novus is engaged in crude oil and gas development, production and selling activities in Canada. Prices of crude oil and gas are affected by both domestic and global factors which are beyond the control of Novus. The fluctuations in such prices may have favourable or unfavourable impacts to the Group. Therefore the Group was exposed to general price fluctuations of crude oil and gas. During the year ended 31 December 2015, Novus had entered nine commodity contracts for crude oil and gas business to manage price risk.

TREASURY MANAGEMENT AND POLICIES

The Group adopts a prudent approach for its cash management and risk control. The objective of the Group's treasury policies is to minimise risks and exposures due to the fluctuations in foreign currency exchange rates and interest rates.

Cash has been generally placed in short-term deposits denominated in Hong Kong dollar, US dollar, Canadian dollar and Renminbi. The Group has obtained bank facilities and borrowings with stable interest rates. The Group does not foresee any significant interest rate risks. The Group's transactions and investment are mostly denominated in Hong Kong dollar, US dollar, Canadian dollar and Renminbi. As the Group's policy is to have its operating entities to operate in their corresponding local currencies to minimize currency risks, therefore the Group does not anticipate 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 2015.

SIGNIFICANT INVESTMENTS

Save as holding 21% equity interests in Gold Grand Investments Limited, the Group did not hold any significant investments during the year ended 31 December 2015.

CAPTIAL COMMITMENTS

As at 31 December 2015, the Group had committed to property, plant and equipment amounted to HK$19,331,000 (31 December 2014: HK$24,991,000) as well as exploration and evaluation cost amounted to HK$Nil (31 December 2014: HK$1,974,000).

Save as the aforesaid, the Group did not have any other material commitments as at 31 December 2015.

PLEDGE OF ASSETS

The Group's CAD125 million (31 December 2014: CAD130 million) banking facilities, granted by a bank in Canada to Novus by way of prime rate based loans, bankers' acceptances and letters of credit/guarantee, is secured in favour of the bank by a general assignment of book debts and a CAD200 million debenture with a floating charge over all assets of Novus, with a negative pledge and undertaking to provide fixed charges upon request.

Save as the aforesaid, none of the Group's other assets had been pledged for granting the bank borrowings (31 December 2014: Nil).

CONTINGENT LIABILITIES

As at 31 December 2015, the Group did not have any significant contingent liabilities (31 December 2014: Nil).

LITIGATION

As at 31 December 2015, the Group had no material litigation (31 December 2014: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2015, the Group's total number of staff was 132 (2014: 132). Salaries of employees are maintained at a competitive level with total staff costs for the year ended 31 December 2015 amounted to HK$52,920,000 (2014: HK$59,276,000). Remuneration policy is based on principle of equality, motivation, performance and prevailing market practice and remuneration packages are normally reviewed on an annual basis. Other staff benefits including provident fund, medical insurance coverage and share option scheme are offered to employees. No share options were granted to the eligible participants under the Company's share option scheme during the year ended 31 December 2015 (31 December 2014: Nil).

DIVIDENDS

The Board does not recommend the payment of any dividends for the year ended 31 December 2015 (31 December 2014: Nil).

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieve a high standard of corporate governance practices and procedures with a view to enhance the management of the Company as well as to safeguard the interests of the shareholders as a whole in terms of transparency, independence, accountability, responsibilities and fairness. The Board will review and improve the corporate governance practices from time to time to ensure that the Group is under the leadership of an effective Board to optimise return for the shareholders.

In the opinion of the Board, the Company had complied with the code provisions set out in the Corporate Governance Code (the "CG Code") in Appendix 14 of the Listing Rules during the year ended 31 December 2015, except for the following deviations:

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

2. code provision A.6.7 of the CG Code provides that independent non-executive directors and other non-executive directors should also attend general meetings and develop a balanced understanding of the views of shareholders. One of the independent non-executive Directors, Dr. Mu Guodong was unable to attend the AGM of the Company held on 27 May 2015 due to other ad hoc engagements.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code regarding its Directors' securities transactions on the Company's Shares.

Having made specific enquiry of all Directors, the Directors confirmed that they had complied with the required standards as set out in the Model Code as their code of conduct regarding Directors' securities transactions with the Company throughout the year ended 31 December 2015.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2015, 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 internal control and financial reporting matters. The Audit Committee has reviewed the results of the Group for the year ended 31 December 2015.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement for the year ended 31 December 2015 is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.yanchangpetroleum.com). The Company's annual report for 2015 will be despatched to the shareholders of the Company and available on the above websites in due course.

ANNUAL GENERAL MEETING

The 2016 AGM of the Company will be held on Monday, 23 May 2016 and the notice of the 2016 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 19 May 2016 to 23 May 2016 (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 23 May 2016, all share transfers, accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited located at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration, not later than 4:00 p.m. on 18 May 2016.

By Order of the Board
Yanchang Petroleum International Limited
Li Yi
Chairman

Hong Kong, 30 March 2016

Executive Directors:

Mr. Li Yi *(Chairman)*
Mr. Ren Yansheng *(Chief Executive Officer)*
Mr. Hui Bo *(Vice President)*
Mr. Shen Hao
Mr. Feng Dawei
Mr. Li Jun
Mr. Andres Pena Salceda

Independent Non-Executive Directors:

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