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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 2016

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 2016 together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	**2016** **HK$'000**	2015 HK$'000
Revenue	4	**20,568,871**	23,320,527
Other revenue	4	**12,825**	12,728
		20,581,696	23,333,255
Expenses			
Purchases		**(20,305,987)**	(22,803,665)
Royalties		**(19,216)**	(38,719)
Field operation expenses		**(67,169)**	(83,000)
Exploration and evaluation expenses		**(17,581)**	(2,968)
Selling and distribution expenses		**(4,241)**	(15,030)
Administrative expenses		**(85,612)**	(92,413)
Depreciation, depletion and amortisation		**(122,996)**	(245,818)
Other gains and losses	5	**(233,138)**	(4,660,561)
		(20,855,940)	(27,942,174)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Loss from operating activities	*6*	**(274,244)**	(4,608,919)
Finance costs	*7*	**(57,073)**	(33,812)
Loss before taxation		**(331,317)**	(4,642,731)
Taxation	*8*	**61,025**	116,622
Loss for the year		**(270,292)**	(4,526,109)
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations			
Exchange differences arising during the year		**26,166**	(306,046)
Reclassification adjustment relating to foreign subsidiary deregistered during the year		**3,108**	–
Other comprehensive income/(loss) for the year, net of tax		**29,274**	(306,046)
Total comprehensive loss for the year		**(241,018)**	(4,832,155)
(Loss)/profit for the year attributable to:			
Owners of the Company		**(267,722)**	(4,544,205)
Non-controlling interests		**(2,570)**	18,096
		(270,292)	(4,526,109)
Total comprehensive (loss)/income for the year attributable to:			
Owners of the Company		**(232,245)**	(4,843,969)
Non-controlling interests		**(8,773)**	11,814
		(241,018)	(4,832,155)
Loss per share attributable to the owners of the Company	*10*		
Basic and diluted, HK cents		**(2.20)**	(37.41)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	**2016** *HK$'000*	2015 *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**1,690,356**	1,878,740
Prepaid lease payments		**16,124**	17,538
Investment properties		**28,970**	29,458
Intangible asset	*11*	**6,731**	47,848
Exploration and evaluation assets		**27,566**	46,258
Deferred tax assets		**70,625**	–
Goodwill		**51,418**	51,418
		1,891,790	2,071,260
Current assets			
Inventories		**8,441**	29,347
Trade receivables	*12*	**24,122**	236,784
Prepayments, deposits and other receivables		**107,584**	115,412
Tax recoverable		**–**	5,681
Cash and bank balances		**610,283**	886,690
		750,430	1,273,914
Total assets		**2,642,220**	3,345,174
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital		**242,911**	242,911
Reserves		**1,177,015**	1,392,055
Equity attributable to the owners of the Company		**1,419,926**	1,634,966
Non-controlling interests		**104,384**	112,941
Total equity		**1,524,310**	1,747,907

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
At 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
LIABILITIES			
Current liabilities			
Trade and other payables	13	**364,175**	467,392
Derivative financial instruments		**967**	4,383
Tax payables		**851**	–
Bank borrowings		**269,055**	664,085
		635,048	1,135,860
Non-current liabilities			
Convertible bonds		**366,303**	353,792
Decommissioning liabilities		**102,371**	91,060
Deferred tax liabilities		**14,188**	16,555
		482,862	461,407
Total liabilities		**1,117,910**	1,597,267
Total equity and liabilities		**2,642,220**	3,345,174
Net current assets		**115,382**	138,054
Total assets less current liabilities		**2,007,172**	2,209,314

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures reported by the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited and by the disclosure requirements of the Hong Kong Companies Ordinance.

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 at the end of each reporting period, as explained in the accounting policies in the annual report for the year ended 31 December 2016 (the "2016 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 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS

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 amendments to HKFRSs") issued by the HKICPA which are effective for the Group's financial period beginning 1 January 2016. A summary of the new and amendments to HKFRSs are set out as below:

HKFRS 14	Regulatory Deferral Accounts
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investments Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

The application of the above new and amendments to 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.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 16	Leases[3]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[2]
Amendments to HKFRS 15	Clarification of HKFRS 15 Revenue from Contracts with Customers[2]
Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrecognised Losses[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle[5]

[1] Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
[4] Effective for annual periods beginning on or after a date to be determined.
[5] Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

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. 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

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**	
	2016	2015	**2016**	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers	**199,683**	371,386	**20,369,188**	22,949,141	**20,568,871**	23,320,527
Segment (loss)/profit	**(54,204)**	(40,962)	**20,851**	108,145	**(33,353)**	67,183
Other revenue					**12,825**	12,728
Fair value change on investment properties					**627**	1,011
Change in fair value on derivative components of convertible bonds					**(12,992)**	1,047
Net foreign exchange gain/(loss)					**16**	(6,647)
Impairment loss of exploration and evaluation assets					**(2,143)**	(4,138,179)
Impairment loss of intangible asset					**(38,779)**	(26,465)
Impairment loss of prepaid lease payments					**–**	(828)
Impairment loss of property, plant and equipment					**(177,810)**	(493,975)
Unallocated corporate expenses					**(22,635)**	(24,794)
Loss from operating activities					**(274,244)**	(4,608,919)
Finance costs					**(57,073)**	(33,812)
Loss before taxation					**(331,317)**	(4,642,731)
Taxation					**61,025**	116,622
Loss for the year					**(270,292)**	(4,526,109)

Revenue reported was generated from external customers. There were no inter-segment sales for the year (2015: Nil).

The accounting policies of the operating segments are the same as the Group's accounting policies described in the 2016 Annual Report. Segment loss/profit represent the loss from/profit earned by each segment without allocation of other revenue, fair value change on investment properties, change in fair value on derivative components of convertible bonds, net foreign exchange gain/loss, impairment losses, 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**	
	2016	2015	**2016**	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**1,655,166**	1,767,708	**760,442**	1,001,359	**2,415,608**	2,769,067
Unallocated assets					**226,612**	576,107
Total assets					**2,642,220**	3,345,174
Segment liabilities	**381,553**	688,116	**336,152**	546,939	**717,705**	1,235,055
Unallocated liabilities					**400,205**	362,212
Total liabilities					**1,117,910**	1,597,267

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

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

Other segment information

	Exploration, exploitation and operation		Supply and procurement		Unallocated		Consolidated	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	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	**1,358**	1,405	**7,541**	5,675	**74**	144	**8,973**	7,224
Depletion of property, plant and equipment	**113,572**	238,100	**–**	–	**–**	–	**113,572**	238,100
Written off of expired exploration and evaluation assets	**6,338**	8,615	**–**	–	**–**	–	**6,338**	8,615
Amortisation of prepaid lease payments	**–**	15	**451**	479	**–**	–	**451**	494
Impairment loss of exploration and evaluation assets	**2,143**	4,138,179	**–**	–	**–**	–	**2,143**	4,138,179
Impairment loss of intangible asset	**–**	–	**38,779**	26,465	**–**	–	**38,779**	26,465
Impairment loss of prepaid lease payments	**–**	828	**–**	–	**–**	–	**–**	828
Impairment loss of property, plant and equipment	**177,810**	493,975	**–**	–	**–**	–	**177,810**	493,975
Additions to non-current assets*	**98,446**	137,664	**14,168**	38,978	**39**	21	**112,653**	176,663

* The amount represents additions to property, plant and equipment as well as exploration and evaluation assets for the years ended 31 December 2016 and 31 December 2015.

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's operations are located in Canada, the People's Republic of China (the "PRC"), Madagascar and Hong Kong.

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

	Revenue from external customers		Non-current assets *(Note)*	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Canada	**199,683**	371,386	**1,474,303**	1,673,468
PRC	**20,369,188**	22,949,141	**337,439**	388,314
Madagascar	**–**	–	**9,343**	9,363
Hong Kong	**–**	–	**80**	115
	20,568,871	23,320,527	**1,821,165**	2,071,260

Note:

Non-current assets excluded deferred tax assets.

Information about major customers

Included in revenue arising from supply and procurement business segment of HK$20,369,188,000 (2015: HK$22,949,141,000) are revenue of HK$14,700,980,000 (2015: HK$14,886,296,000) which arose from four (2015: 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:

	2016	2015
	HK$'000	*HK$'000*
Customer A	**5,502,271**	8,757,103
Customer B *(Note)*	**–**	6,129,193
Customer C *(Note)*	**4,593,415**	–
Customer D *(Note)*	**2,475,389**	–
Customer E *(Note)*	**2,129,905**	–

Note:

The corresponding revenue did not contribute over 10% of the total revenue of the Group.

4. 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:

	2016	2015
	HK$'000	*HK$'000*
Revenue		
Sales of crude oil and gas	**199,683**	371,386
Trading and distribution of oil related products	**20,369,188**	22,949,141
	20,568,871	23,320,527
Other revenue		
Bank interest income	**4,476**	10,847
Rental income	**1,566**	1,828
Storage fee income	**6,782**	–
Others	**1**	53
	12,825	12,728

5. OTHER GAINS AND LOSSES

	2016	2015
	HK$'000	*HK$'000*
Net foreign exchange gain/(loss)	**16**	(6,647)
Fair value change on investment properties	**627**	1,011
Change in fair value on derivative components of convertible bonds	**(12,992)**	1,047
Gain on disposal of property, plant and equipment and exploration and evaluation assets	**7,362**	1,642
Written off of expired exploration and evaluation assets	**(6,338)**	(8,615)
Impairment loss of exploration and evaluation assets	**(2,143)**	(4,138,179)
Impairment loss of intangible asset *(Note 11)*	**(38,779)**	(26,465)
Impairment loss of prepaid lease payments	**–**	(828)
Impairment loss of property, plant and equipment	**(177,810)**	(493,975)
Change in fair value on derivative financial instruments	**(3,081)**	10,448
	(233,138)	(4,660,561)

6. LOSS FROM OPERATING ACTIVITIES

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

	2016	2015
	HK$'000	*HK$'000*
Auditors' remuneration		
– Audit services	**1,900**	1,900
– Non-audit services	**12**	212
Cost of inventories sold	**20,305,987**	22,803,665
Depreciation and depletion of property, plant and equipment	**122,545**	245,324
Amortisation of prepaid lease payments	**451**	494
Minimum lease payments under operating leases of rented premises	**7,819**	8,561
Staff costs (including Directors' remuneration)		
– Salaries and wages	**54,569**	57,240
– Share-based payment expenses	**327**	–
– Pension scheme contributions	**444**	493

7. FINANCE COSTS

	2016	2015
	HK$'000	*HK$'000*
Interest expenses on bank borrowings wholly repayable within five years	**18,997**	30,172
Imputed interest on convertible bonds	**35,835**	754
Accretion of decommissioning liabilities	**2,241**	2,886
	57,073	33,812

8. 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 (2015: Nil).

Under the Law of 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 years ended 31 December 2016 and 31 December 2015.

	2016	2015
	HK$'000	*HK$'000*
Current taxation		
Charge for the year – PRC	**8,270**	26,699
– Canada	**2,731**	5,906
Deferred taxation		
Credit for the year	**(72,026)**	(149,227)
Net tax credit for the year	**(61,025)**	(116,622)

9. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders during the year ended 31 December 2016, nor has any dividend been proposed since the end of the reporting period (2015: Nil).

10. 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:

	2016	2015
	HK$'000	*HK$'000*
Loss		
Loss for the year attributable to the owners of the Company for the purpose of basic and diluted loss per share	**(267,722)**	(4,544,205)

	2016	2015
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**12,145,573**	12,145,573

Diluted loss per share for the years ended 31 December 2016 and 31 December 2015 were the same as the basic loss per share. The computation of diluted loss per share for the year ended 31 December 2016 does not assume the Company's outstanding convertible bonds and the outstanding share options since the assumed conversion of convertible bonds and the assumed exercise of share options would result in a decrease in loss per share. The computation of diluted loss per share for the year ended 31 December 2015 does not assume the Company's outstanding convertible bonds since the assumed conversion of convertible bonds would result in a decrease in loss per share. There were no share options outstanding for the year ended 31 December 2015.

11. INTANGIBLE ASSET

	Refined oil supply agreement *HK$'000*
Cost	
At 1 January 2015	285,769
Exchange differences	(16,442)
At 31 December 2015 and 1 January 2016	269,327
Exchange differences	(14,839)
At 31 December 2016	254,488
Accumulated impairment	
At 1 January 2015	207,226
Impairment loss recognised during the year	26,465
Exchange differences	(12,212)
At 31 December 2015 and 1 January 2016	221,479
Impairment loss recognised during the year	38,779
Exchange differences	(12,501)
At 31 December 2016	247,757
Carrying amount	
At 31 December 2016	**6,731**
At 31 December 2015	47,848

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

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 had 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 another three years starting from 1 January 2014. On 30 December 2016, both parties renewed another Refined Oil Supply Agreement, subject to independent shareholders' approval at the special general meeting, that Yanchang Petroleum Group agreed to supply and Henan Yanchang agreed to purchase the refined oil for another three years starting from 1 January 2017. 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 2016

During the year ended 31 December 2016, 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, Colliers International (Hong Kong) Limited ("Colliers"), which has appropriate qualification and experience in the valuation of similar assets. Impairment loss of approximately HK$38,779,000 on the Refined Oil Supply Agreement has been made for the year as the Directors expected that the recoverable amount separated from the underlying assets would be less than previously expected.

Colliers considered that the asset approach is not adopted because it does not take future earning potential of Henan Yanchang and the Refined Oil Supply Agreement into consideration. Market approach is not adopted as Colliers have not identified sufficient market transactions which are comparable. 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. Cash flow projections during the budget period are based on the same gross margins during the budget period. The pre-tax discount rate used was 20.1%. 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, as the Directors consider that it will reflect more stable growth rate for the refined oil business.

The Group considered that such impairment loss was mainly due to the decrease in refined oil price and refined oil supplied from Yanchang Petroleum Group.

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 valuer, Colliers, which has appropriate qualification and experience in the valuation of similar assets. Impairment loss of approximately HK$26,465,000 on the Refined Oil Supply Agreement has been made for the year as the Directors expected that the recoverable amount separated from the underlying assets would be less than previously expected.

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. Cash flow projections during the budget period are based on the same gross margins during the budget period. The pre-tax discount rate used was 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, as the Directors consider that it will reflect more stable growth rate for the refined oil business.

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

12. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 30–90 days (2015: 30–90 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 aged analysis of trade receivables presented based on the invoice dates at the end of the reporting period:

	2016	2015
	HK$'000	*HK$'000*
0 to 30 days	**23,052**	234,397
31 to 60 days	**506**	294
61 to 90 days	**137**	68
Over 90 days	**427**	2,025
	24,122	236,784

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 approximately HK$427,000 (2015: approximately HK$2,025,000) were past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collaterals or other credit enhancements over these balances.

Aging of trade receivables which are past due but not impaired.

	2016	2015
	HK$'000	*HK$'000*
Over 90 days	**427**	2,025

13. TRADE AND OTHER PAYABLES

	2016	2015
	HK$'000	*HK$'000*
Trade payables	**23,548**	291,773
Deposits received in advance from customers	**216,612**	110,099
Other payables	**124,015**	65,520
	364,175	467,392

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

	2016	2015
	HK$'000	*HK$'000*
0 to 30 days	**21,400**	290,571
31 to 60 days	**1,313**	370
61 to 90 days	**131**	159
Over 90 days	**704**	673
	23,548	291,773

As at 31 December 2016 and 2015, the trade payables are non-interest bearing and have an average credit period on purchases of one to three months.

Included in other payables as at 31 December 2015 were dividend payable to a non-controlling shareholder of a subsidiary of approximately HK$2,783,000.

BUSINESS REVIEW AND PROSPECTS

In 2016, the Company's management facing with the market challenges of unfavourable conditions of economic slow-down and depressed oil prices, had effectively reduced Novus Energy Inc.'s ("Novus") operational and management costs for its in-production oil and gas business in Canada as well as achieved the business targets for Henan Yanchang refined oil trading business in the PRC.

I. In-production oil and gas upstream business in Canada

In 2016, the average daily production of Novus was 2,404 barrels of equivalent ("BOE"). In view of depressed oil prices, Novus strived to balance cash flow, introduced measures for cost reduction and operational efficiency enhancement. Novus also strictly controlled drilling plan and disposed certain non-core assets so as to optimise and concentrate its resources to develop core areas.

In respect of operational costs, the actual operational and transportation costs per barrel kept below the budget of CAD15.9 at CAD13.3 as a result of operational efficiency enhanced by the management. For management costs, the administrative expenses were cut down by CAD1.4 million in 2016, 22% less than the budgeted as a result of various control measure put in place by the management, such as cutting headcounts, introducing of job specialisation and reorganisation as well as reducing of office expenses and professional fees.

Amid depressed oil prices, Novus' exploration and operation department has been vigorously conducting refrac program for the existing old wells with an aim to increase production volume at a lower cost. The refrac is principally due to poor production performance of the existing old wells but good performance in surrounding wells, and those old wells are anticipated to have better performance if refrac to be in place. In 2016, refrac of 14 old wells were completed by Novus with an average daily production of 208 BOE, representing 8.6% of total average daily production per annum. As such, even if oil price CAD5 lower than the budgeted in 2016, Novus' operating netback per barrel maintained at CAD22, better than the industry average. As at the end of 2016, the 2P reserves was 18.73 million BOE with estimated economic value of CAD250 million.

Novus expects that capital expenditure will be CAD50 million for 39 new wells under drilling plan and 26 existing wells under refrac program with estimated average daily production of 2,561 BOE in 2017. In addition to cost saving measures, Novus will flexibly adjust its drilling plan for new wells subject to oil price movement, and also focus on the refrac of existing wells to increase production volume and reserves at lower cost, aiming at enhancing Novus' value in whole and achieving an increase in average daily production to 3,300 BOE by the end of 2017.

II. Refined oil trading downstream business in the PRC

In 2016, sales volume of refined oil of Henan Yanchang increased by 6.7% to 4.16 million tonnes as compared to 2015, with revenue of RMB18.18 billion and operating profit of RMB18.62 million. Having been affected by economic slow-down, market price of and demand for refined oil in the PRC remained at a low level. With a comprehensive study, Henan Yanchang achieved profit maximisation as planned by fully utilising its storage capacity and expanding its oil sources and customer base, having reached its annual business targets regardless of the unfavourable economic environment.

As a bleak forecast for economic outlook in 2017, Henan Yanchang will endeavour to expand its business in addition to relentlessly keeping to budget targets. The key tasks and measures are as follows:

1. *Expanding direct sales market*

   Launching highway sales of refined oil and setting up distribution station at each selling points in highway; and establishing railway network within and outside Henan province for selling and marketing oil products. Maximizing sales in railway network outside Henan province and undertaking fuller cooperation with parties involved to further strengthen customers' management and secure a broad customer base for increasing sales and efficiency.

2. *Exploring high-value regions*

   Exploring high-value regions such as Yunnan, Guizhou and Sichuan, 4 customers in Sichuan, 2 customers in Chongqing and 1 customer in Yunnan have been obtained so far which laid a foundation for opening new markets in the future.

3. *Liquidising oil storage assets to increase production and efficiency*

   Exploring further cooperation channels in respect of liquidising oil storage assets, by adopting measures thereof, such as acting as storage and distribution agent as well as partially leasing spare storage capacity, so as to increase sales and efficiency. Leveraging on the support and supplies by Yanchang Petroleum Group complemented with quality resources at low cost provided by oil refineries in Shandong, Henan Yanchang will reduce purchase cost and storage cost.

4. *Increasing efficiency through terminal network*

   Maximising the advantage of gas stations in operation and developing terminal network, putting greater effort on expansion of customers' base, marketing and promotion as well as seeking cooperation with other enterprises in order to secure corporate customers and identify small-to-medium customers. Meanwhile, Henan Yanchang will strive to make substantial progress in 2017 for increasing number of gas stations, establishing joint-operated gas stations and expanding terminal network to lay down concrete foundation for long-term development.

Besides, Henan Yanchang will strike to complete the final stage of construction of Xingang sub-pipeline, including procedures for environmental assessment, inspection and acceptance of individual project, post-construction assessment and corrections on findings of assessment, and target to put pipeline project in operation in second half of 2017. To cope with the development and operation of pipeline business, application for approval of environmental assessment of oil storage will be accelerated, whereas research and survey for expanding oil storage capacity will be conducted.

III. Outlook

The Company continues to maintain its business operations by cost saving and adopting efficiency enhancement measures against no signs of strong international oil price rebound. The Company will seize opportunities of business expansion and protect the interests of the overseas assets under the low oil price environment. In addition, the Company will fully take advantage of its financing platform as a listed vehicle by introducing equity and strategic investors and further improving the shareholding structure of the Company. While expanding the existing business, the Company plans to expand its upstream business through asset acquisitions and organic growth, with a goal to become a medium size international oil and gas enterprise in the next five years.

FINANCIAL REVIEW

Highlights on financial results

	2016	2015	Change in
	HK$'000	*HK$'000*	%
Revenue	**20,568,871**	23,320,527	(12%)
Other revenue	**12,825**	12,728	1%
Purchases	**(20,305,987)**	(22,803,665)	(11%)
Royalties	**(19,216)**	(38,719)	(50%)
Field operation expenses	**(67,169)**	(83,000)	(19%)
Exploration and evaluation expenses	**(17,581)**	(2,968)	492%
Selling and distribution expenses	**(4,241)**	(15,030)	(72%)
Administrative expenses	**(85,612)**	(92,413)	(7%)
Depreciation, depletion and amortisation	**(122,996)**	(245,818)	(50%)
Other gains and losses	**(233,138)**	(4,660,561)	(95%)
Finance costs	**(57,073)**	(33,812)	69%
Taxation	**61,025**	116,622	(48%)
Loss for the year	**(270,292)**	(4,526,109)	(94%)
Basic and diluted loss per share, HK cents	**(2.20)**	(37.41)	(94%)

Revenue and segment results

For the year under review, the Group's operating segments were comprised of (i) exploration, exploitation and operation business, and (ii) supply and procurement business. During the year ended 31 December 2016, the Group's turnover was mainly derived from 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 880,000 BOE and contributed production income of HK$199,683,000 during the year under review compared to production of 1,414,000 BOE and production income of HK$371,386,000 for the previous year. Despite the sales dropped sharply as a result of persistent low oil prices and decrease in production, with more stringent cost controls and enhancement of operational efficiency, operating loss reduced to HK$37,966,000 this year as compared to HK$39,118,000 of previous year.

Hit by the drop of refined oil prices in the PRC, the revenue of refined oil trading business of Henan Yangchang decreased by 11% from the previous year of HK$22,949,141,000 to HK$20,369,188,000 this year, nevertheless sales volume increased from the previous year of 3.9 million tonnes to the current year of 4.2 million tonnes and contributed operating profit of HK$20,851,000 to the supply and procurement business.

Other revenue

Apart from the aforesaid segment results, other revenue of HK$12,825,000 which mainly represented interest income from bank deposits and rental income from the PRC recorded for the year under review, remained more or less the same as the previous year.

Purchases

Purchases, decreased from the previous year of HK$22,803,665,000 to this year of HK$20,305,987,000, were wholly derived from the refined oil trading business of Henan Yanchang. The decrease of purchases was consistent with the drop in sales of refined oil trading business.

Royalties

Royalties, including crown, freehold and overriding royalties incurred by Novus for crude oil and natural gas production in Canada, decreased from the previous year of HK$38,719,000 to the current year of HK$19,216,000 due to drop in sales price and volume.

Field operation expenses

Due to decrease in production volume and more stringent cost control in place, field operation expenses reduced to HK$67,169,000 this year from the previous year of HK$83,000,000; which 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

The exploration and evaluation expenses amounted to HK$17,581,000 represented the holding costs, mainly lease rentals, on the interests of non-producing lands incurred by Novus as well as the 2D seismic data processing cost for the Exploration Block 3113 in Madagascar.

Selling and distribution expenses

Selling and distribution expenses, dropped from the previous year of HK$15,030,000 to the current year of HK$4,241,000. The drop on the expenses was mainly due to the truck cost savings as a result of completion on pipeline network in the previous year in the oilfields in Canada.

Administrative expenses

Administrative expenses including Directors' remuneration, staff costs, office rentals, professional fees and listing fee etc, decreased by HK$6,801,000 to HK$85,612,000 for the year under review.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation expenses decreased from the previous year of HK$245,818,000 to the current year of HK$122,996,000 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$233,138,000 represented the aggregate of (i) non-cash valuation impairment made on the petroleum and natural gas properties in Canada and other oil related assets totally HK$218,732,000; (ii) written off of expired exploration and evaluation assets of HK$6,338,000; (iii) fair value loss on derivative components of convertible bonds of HK$12,992,000; (iv) loss on hedging of oil and gas commodity contracts of HK$3,081,000; and after offsetting (v) fair value gain on investment properties of HK$627,000; (vi) gain on disposal of property, plant and equipment of HK$7,362,000 and (vii) other gains of HK$16,000.

Finance costs

Finance costs amounted to HK$57,073,000 comprised (i) bank borrowing costs of HK$18,997,000 included interest, commitment fees, standby charges, and other expenses related to the businesses of Novus and Henan Yanchang, (ii) accretion of HK$2,241,000 related to the provision of the decommissioning liabilities incurred by Novus, and (iii) imputed interest on convertible bonds of HK$35,835,000 arisen from the issue of 3-year convertible bonds with principal amount of US$46,300,000.

Taxation

Net tax income of HK$61,025,000 represented the aggregate of (i) provision for Canada resources surcharge on Novus' production revenue of oil and gas amounted to HK$2,731,000; (ii) provision for the PRC enterprise income tax on the profit earned from refined oil trading business of Henan Yanchang amounted to HK$8,270,000; and after offsetting (iii) net deferred tax write-back amounted to HK$72,026,000.

Loss for the year

In addition to the non-cash impact related to impairment of oil and gas assets amounted to HK$159,423,000 resulting from low international crude oil price, there incurred the interest expense and the non-cash fair value loss amounted to HK$48,827,000 arisen from the convertible bonds issued in the previous year for the development of the Group's business. As a result, the Group recorded a loss of HK$270,292,000 for the year under review.

The recognition of the impairment loss on oil and gas assets and the fair value loss on convertible bonds are non-cash in nature and therefore will not have material negative impact on the cash flow and operation of the Group. Excluding the impacts of the impairment loss and the convertible bonds, the Group recorded an operation loss of around HK$62,042,000 for the year ended 31 December 2016.

Highlights on financial position

	2016 ***HK$'000***	2015 *HK$'000*	Change in %
Property, plant and equipment	**1,690,356**	1,878,740	(10%)
Prepaid lease payments	**16,124**	17,538	(8%)
Investment properties	**28,970**	29,458	(2%)
Intangible asset	**6,731**	47,848	(86%)
Exploration and evaluation assets	**27,566**	46,258	(40%)
Goodwill	**51,418**	51,418	–
Inventories	**8,441**	29,347	(71%)
Trade receivables	**24,122**	236,784	(90%)
Prepayments, deposits and other receivables	**107,584**	115,412	(7%)
Cash and bank balances	**610,283**	886,690	(31%)
Derivative financial instruments	**(967)**	(4,383)	(78%)
Trade and other payables	**(364,175)**	(467,392)	(22%)
Bank borrowings	**(269,055)**	(664,085)	(59%)
Convertible bonds	**(366,303)**	(353,792)	4%
Decommissioning liabilities	**(102,371)**	(91,060)	12%

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 made on petroleum and natural gas properties of Novus in Canada.

Prepaid lease payments

Prepaid lease payments represented the leasehold lands in the PRC owned by the Group. The decrease in the amount represented mainly the yearly amortisation.

Investment properties

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

Intangible asset

Intangible asset amounted to HK$6,731,000 as at 31 December 2016 represented the valuation and recognition of a supply agreement renewable in every 3-year period on an ongoing basis 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$38,779,000 on the refined oil supply agreement has been made for the year ended 31 December 2016 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 20.1%. 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 with terminal value.

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

Exploration and evaluation assets

Exploration and evaluation assets mainly represented the undeveloped land owned by Novus as at 31 December 2016.

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 had been made, such goodwill remained the same as the previous year.

Inventories

Inventories represented the refined oil held in oil storage tanks of Henan Yanchang in the PRC as at 31 December 2016.

Trade receivables

Trade receivables represented account receivables from customers of oil and gas production business of Novus in Canada as at 31 December 2016.

Prepayments, deposits and other receivables

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

Cash and bank balances

As at 31 December 2016, cash and bank balances decreased by HK$276,407,000 to HK$610,283,000, as compared to the previous year of HK$886,690,000, was mainly due to repayment of bank borrowing by Novus during the year.

Derivative financial instruments

The amount represented the fair value 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 prepayments received in advance from customers of Henan Yanchang's refined oil trading business as at 31 December 2016.

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 7% issued in December 2015 and matured in December 2018.

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 for the year ended 31 December 2016.

	2016	2015
	HK$'000	*HK$'000*
Current assets	**750,430**	1,273,914
Total assets	**2,642,220**	3,345,174
Current liabilities	**635,048**	1,135,860
Total liabilities	**1,117,910**	1,597,267
Total equity	**1,524,310**	1,747,907
Gearing ratio	**73.3%**	91.4%
Current ratio	**118.2%**	112.2%

The Group had outstanding variable interest rates bank borrowings amounted to HK$269,055,000 as at 31 December 2016 (31 December 2015: HK$664,085,000) which comprised (i) HK$55,565,000 (equivalent to RMB50,000,000) under Henan Yanchang and (ii) HK$213,490,000 (equivalent to CAD37,000,000) under Novus. The Group has obtained bank facilities of HK$555,650,000 (equivalent to RMB500,000,000) from banks in the PRC and of HK$242,340,000 (equivalent to CAD42 million) from a bank in Canada.

On 23 December 2015, the Company raised fund from the issue of convertible bonds to CCB International (Holdings) Limited in the principal amount of US$46,300,000 (equivalent to HK$358,825,000) which carries coupon interest with 7% and matures on the third anniversary date from the date of issue. The fund raised had been used for the Group's general working capital. The whole principal amount of convertible bonds was still outstanding as at 31 December 2016.

As at 31 December 2016, the Group has cash and bank balances of HK$610,283,000 (31 December 2015: HK$886,690,000). In view of sufficient cash on hand together with the available bank facilities, the Group has enough working capital to finance its business operation.

As at 31 December 2016, the gearing ratio of the Group, measured on the basis of total liabilities as a percentage of total equity, improved to 73.3% as compared to 91.4% of the previous year. The current ratio of the Group, measured on the basis of current assets as a percentage of current liabilities stood healthy at 118.2%, similar to that of the previous year, as at 31 December 2016.

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. During the year ended 31 December 2016, Novus had entered thirteen commodity contracts for crude oil and gas business to manage price risk.

TREASURY MANAGEMENT AND POLICES

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. Since the Group's transactions and investment are mostly denominated in Hong Kong dollar, US dollar, Canadian dollar and Renminbi, 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 2016.

SIGNIFICANT INVESTMENTS

The Group did not hold any significant investments as at 31 December 2016.

CAPITAL COMMITMENTS

As at 31 December 2016, the Group had committed to property, plant and equipment amounted to HK$18,814,000 (31 December 2015: HK$19,331,000).

Save as the aforesaid, the Group did not have any other material commitments as at 31 December 2016.

PLEDGE OF ASSETS

The Group's CAD42 million (31 December 2015: CAD125 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 2015: Nil).

CONTINGENT LIABILITIES

As at 31 December 2016, the Group did not have any significant contingent liabilities (31 December 2015: Nil).

LITIGATION

As at 31 December 2016, the Group had no material litigation (31 December 2015: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2016, the Group's total number of staff was 130 (2015: 132). Salaries of employees are maintained at a competitive level with total staff costs for the year ended 31 December 2016 amounted to HK$55,340,000 (2015: HK$57,733,000). 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 etc. There is also a share option scheme offered to employees and eligible participants. 12,000,000 share options were granted to a Director under the Company's share option scheme during the year ended 31 December 2016 (31 December 2015: Nil).

DIVIDENDS

The Board does not recommend the payment of any dividends for the year ended 31 December 2016 (31 December 2015: 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 2016 and 2015.

The Group's health, safety and environment polices include:

– Make health, safety and environmental considerations a top priority.

– Work actively to continuously improve safety and environmental performance.

– Identify potential risks and hazards before work begins.

– Encourage personnel to be individually responsible for identifying and eliminating hazards.

– Ensure personnel have sufficient training, resources and systems.

– Provide and maintain properly engineered facilities, plants and equipment.

– Actively monitor, audit and review to improve systems, processes, environmental and safety performance.

– As a minimum, ensure regulatory compliance at all times.

No environmental claims, lawsuits, penalties or administrative sanctions were reported to the Company's management. The Company is of the view that the Group were in compliance with all relevant laws and regulations in Hong Kong, Canada, the PRC and Madagascar, regarding environmental protection in all material respects during the year under review and as at the date of the 2016 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, the PRC and Madagascar.

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 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 2016, except for the following deviation:

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.2.1 of the CG Code provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The position of the chief executive officer ("CEO") of the Company was temporarily vacant following the resignation of Mr. Ren Yansheng as an executive Director and CEO on 2 July 2016 as the Company needs time to identify a suitable candidate to assume the role of the CEO. On 1 October 2016, Mr. Bruno Deruyck was appointed as an executive Director and CEO of the Company, and the said code provision A.2.1 has been complied with since then.

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 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2016, 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 financial reporting matters, risk management and internal control systems. The Audit Committee has reviewed the results of the Group for the year ended 31 December 2016.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement for the year ended 31 December 2016 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 2016 Annual Report will be despatched to the shareholders of the Company and available on the above websites in due course.

ANNUAL GENERAL MEETING

The 2017 AGM of the Company will be held on Thursday, 25 May 2017 and the notice of the 2017 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 22 May 2017 to 25 May 2017 (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 25 May 2017, 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 19 May 2017.

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

Hong Kong, 30 March 2017

Executive Directors:

Mr. Li Yi *(Chairman)*
Mr. Bruno Deruyck *(Chief Executive Officer)*
Mr. Shen Hao
Ms. Sha Chunzhi
Mr. Li Jun
Mr. Tan Meng Seng

Independent Non-Executive Directors:

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