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 2019

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 2019 together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	**2019** *HK$'000*	2018 *(Note)* *HK$'000*
Revenue	4	**8,197,422**	5,933,388
Other revenue	4	**11,484**	19,019
		8,208,906	5,952,407
Expenses			
Purchases		**(7,878,319)**	(5,602,190)
Royalties		**(26,700)**	(33,329)
Field operation expenses		**(72,007)**	(74,719)
Exploration and evaluation expenses		**(2,337)**	(3,007)
Selling and distribution expenses		**(13,347)**	(9,526)
Administrative expenses		**(75,974)**	(91,267)
Depreciation, depletion and amortisation		**(145,585)**	(138,436)
Other gains and losses	5	**(304,891)**	99,743
		(8,519,160)	(5,852,731)

	Notes	2019 HK$'000	2018 (Note) HK$'000
(Loss)/profit from operating activities	6	**(310,254)**	99,676
Finance costs	7	**(61,850)**	(59,197)
(Loss)/profit before taxation		**(372,104)**	40,479
Taxation	8	**(62,660)**	(34,211)
(Loss)/profit for the year		**(434,764)**	6,268
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong			
– Exchange differences arising during the year		**41,429**	(127,868)
Other comprehensive income for the year, with nil tax effect		**41,429**	(127,868)
Total comprehensive income for the year		**(393,335)**	(121,600)
(Loss)/profit for the year attributable to:			
Owners of the Company		**(443,742)**	(741)
Non-controlling interests		**8,978**	7,009
		(434,764)	6,268
Total comprehensive income for the year attributable to:			
Owners of the Company		**(400,306)**	(122,728)
Non-controlling interests		**6,971**	1,128
		(393,335)	(121,600)
Loss per share attributable to the owners of the Company	10		
Basic and diluted, HK cents		**(3.65)**	(0.01)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019	2018
			(Note)
		HK$'000	*HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**1,653,657**	1,909,854
Prepaid lease payments		**–**	15,602
Investment properties		**16,718**	16,794
Exploration and evaluation assets		**16,802**	19,319
Right-of-use assets		**24,656**	–
Goodwill and intangible assets		**58,149**	58,149
Deferred tax assets		**–**	47,017
Other non-current assets		**6,757**	29,695
		1,776,739	2,096,430
Current assets			
Inventories		**31,541**	67,278
Trade receivables	11	**170,711**	239,188
Prepayments, deposits and other receivables		**267,705**	261,299
Derivative financial instruments		**–**	8,719
Cash and bank balances		**298,688**	316,768
		768,645	893,252
Total assets		**2,545,384**	2,989,682
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital		**242,911**	242,911
Reserves		**721,150**	1,121,129
Total equity attributable to the owners of the Company		**964,061**	1,364,040
Non-controlling interests		**129,285**	106,897
Total equity		**1,093,346**	1,470,937

	Notes	**2019** ***HK$'000***	2018 *(Note)* *HK$'000*
LIABILITIES			
Current liabilities			
Trade and other payables	12	**302,846**	489,154
Lease liabilities		**3,077**	–
Tax payables		**2,227**	36
Bank borrowings		**257,025**	425,659
Convertible bonds		**467,755**	–
		1,032,930	914,849
Non-current liabilities			
Convertible bonds		**–**	464,327
Decommissioning liabilities		**129,114**	128,094
Lease liabilities		**7,323**	–
Deferred tax liabilities		**11,287**	11,475
Secured term loan		**271,384**	–
		419,108	603,896
Total liabilities		**1,452,038**	1,518,745
Total equity and liabilities		**2,545,384**	2,989,682
Net current liabilities		**(264,285)**	(21,597)
Total assets less current liabilities		**1,512,454**	2,074,833

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

NOTES TO THE ANNUAL RESULTS ANNOUNCEMENT

1. BASIS OF PREPARATION

The financial information set out in this announcement does not constitute the consolidated financial statements of Yanchang Petroleum International Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 December 2019, but is extracted from those consolidated financial statements.

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

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– Investment properties

– Derivative financial instruments

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

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

The Group incurred a loss of HK$434,764,000, including recognition of an impairment loss of HK$286,043,000 in respect of petroleum and natural gas properties, for the year ended 31 December 2019. In addition, the Group is obligated to incur non-operating cash outflows of HK$779,619,000 within one year, being (i) payment of related principal and interest of convertible bonds totalling HK$496,705,000; (ii) repayment of bank borrowings and payment of related interest totalling HK$266,322,000; (iii) payment of related interest of secured term loan totalling HK$13,026,000 and (iv) payment of capital element and interest element of lease liabilities totalling HK$3,566,000. The Group will be unable to repay these borrowings in full when they fall due unless it is able to generate sufficient net cash inflows from its operations and/or other sources, since as at 31 December 2019, the Group only had cash and cash equivalents of HK$298,688,000.

These facts and circumstances indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

Assuming the success of the following measures, the Directors are of the opinion that the Group will be able to meet its financial obligations as and when they fall due for the next twelve months from the end of the reporting period:

(i) the Group expects to generate operating cash inflows for the next twelve months;

(ii) the Directors consider that the Group could obtain financing from various sources of funding including but not limited to banks, shareholders and other potential investors; and

(iii) the Directors consider that the Group could dispose of certain assets to obtain funding.

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

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

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(b) Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to right-of-use assets.

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. For the Group, low-value assets are typically laptops or office furniture. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.35%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in note 32 of Annual Report 2018 as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019.

	1 January 2019 *HK$'000*
Operating lease commitments at 31 December 2018	21,346
Less: commitments relating to lease exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(3,309)
	18,037
Less: lease contracts signed but not yet commenced	(17,329)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	708
Total lease liabilities recognised at 1 January 2019	708

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position at 31 December 2018.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased asset is identified as a right-of-use asset. There is no impact on the opening balance of equity.

The Group presents right-of-use assets that do not meet the definition of investment property in 'right-of-use assets' and presents lease liabilities separately in the statement of financial position.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018	**Capitalisation of operating lease contracts**	**Carrying amount at 1 January 2019**
	HK$'000	*HK$'000*	*HK$'000*
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Right-of-use assets	–	16,769	16,769
Prepaid lease payments (non-current)	15,602	(15,602)	–
Total non-current assets	**2,096,430**	**1,167**	**2,097,597**
Prepaid lease payments (current)	459	(459)	–
Current assets	**893,252**	**(459)**	**892,793**
Lease liabilities (current)	–	346	346
Current liabilities	**914,849**	**346**	**915,195**
Net current liabilities	**(21,597)**	**(805)**	**(22,402)**
Total assets less current liabilities	**2,074,833**	**362**	**2,075,195**
Lease liabilities (non-current)	–	362	362
Total non-current liabilities	**603,896**	**362**	**604,258**
Net assets	**1,470,937**	**–**	**1,470,937**

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and the date of transition to HKFRS 16 is as follows:

	At 31 December 2019	**At 1 January 2019**
	HK$'000	*HK$'000*
Included in "Right-of-use assets":		
Leasehold land leased for own use, carried at depreciated cost	15,312	16,061
Other properties leased for own use, carried at depreciated cost	9,344	708

(c) Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a negative impact on the reported loss from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on the Group's financial result, segment results and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply in 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	2019				2018
	Amounts reported under HKFRS 16	**Add back: HKFRS 16 depreciation and interest expense**	**Deduct: Estimated amounts related to operating leases as if under HKAS 17** *(note 1)*	**Hypothetical amounts for 2019 as if under HKAS 17**	Compared to amounts reported for 2018 under HKAS 17
	(A)	**(B)**	**(C)**	**(D=A+B+C)**	
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*
Financial result for year ended 31 December 2019 impacted by the adoption of HKFRS 16:					
(Loss)/profit from operations	**(310,254)**	**2,467**	**(2,360)**	**(310,147)**	99,676
Financial costs	**(61,850)**	**381**	**–**	**(61,469)**	(59,197)
(Loss)/profit before taxation	**(372,104)**	**2,848**	**(2,360)**	**(371,616)**	40,479
(Loss)/profit for the year	**(434,764)**	**2,848**	**(2,360)**	**(434,276)**	6,268
Reportable segment (loss)/ profit for year ended 31 December 2019 *(note 3)* **impacted by the adoption of HKFRS 16:**					
– Exploration, exploitation and operation	**(52,173)**	**183**	**(61)**	**(52,051)**	(605)
– Supply and procurement	**42,370**	**794**	**(364)**	**42,800**	20,237
– Total	**(9,803)**	**977**	**(425)**	**(9,251)**	19,632

	2019			2018
	Amounts reported under HKFRS 16	**Estimated amounts related to operating leases as if under HKAS 17** *(notes 1 & 2)*	**Hypothetical amounts for 2019 as if under HKAS 17**	Compared to amounts reported for 2018 under HKAS 17
	(A)	**(B)**	**(C=A+B)**	
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*
Line items in the consolidated cash flow statement for year ended 31 December 2019 impacted by the adoption of HKFRS 16:				
Cash generated from operations	**63,437**	**(1,845)**	**61,592**	129,478
Net cash generated from operating activities	**54,382**	**(1,845)**	**52,537**	119,730
Capital element of lease rentals paid	**(1,464)**	**1,464**	**–**	–
Interest element of lease rentals paid	**(381)**	**381**	**–**	–
Net cash generated from financing activities	**31,821**	**1,845**	**33,666**	184,913

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash generated from financing activities as if HKAS 17 still applied.

(d) Leasehold investment property

Under HKFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation ("leasehold investment properties"). The adoption of HKFRS 16 does not have a significant impact on the Group's financial statements as the Group previously elected to apply HKAS 40, *Investment properties*, to account for all of its leasehold properties that were held for investment purposes as at 31 December 2019. Consequentially, these leasehold investment properties continue to be carried at fair value.

(e) Lessor accounting

The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

The adoption of HKFRS 16 does not have a significant impact on the Group's financial statements.

3. SEGMENT INFORMATION

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

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

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

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

Segment revenue and results

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

	Exploration, exploitation and operation		Supply and procurement		Consolidated	
	2019	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers	**228,803**	272,895	**7,968,619**	5,660,493	**8,197,422**	5,933,388
Segment (loss)/profit	**(52,173)**	(605)	**42,370**	20,237	**(9,803)**	19,632
Other revenue					**11,484**	19,019
Fair value change on investment properties					**1,100**	738
Net foreign exchange gain/(loss)					**1,333**	(4,404)
(Recognition)/reversal of impairment loss of property, plant and equipment					**(286,043)**	104,490
Unallocated corporate expenses					**(28,325)**	(39,799)
(Loss)/profit from operating activities					**(310,254)**	99,676
Finance costs					**(61,850)**	(59,197)
(Loss)/profit before taxation					**(372,104)**	40,479
Taxation					**(62,660)**	(34,211)
(Loss)/profit for the year					**(434,764)**	6,268

Revenue reported was generated from external customers. There were no inter-segment sales for the year (2018: Nil).

Segment (loss)/profit represents the loss incurred/ profit earned by each segment without allocation of other revenue, fair value change on investment properties, net foreign exchange gain/(loss), impairment loss, reversal of impairment loss, 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	
	2019	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**1,489,515**	1,771,423	**1,003,579**	1,028,059	**2,493,094**	2,799,482
Unallocated assets					**52,290**	190,200
Total assets					**2,545,384**	2,989,682
Segment liabilities	**435,914**	423,764	**515,536**	591,468	**951,450**	1,015,232
Unallocated liabilities					**500,588**	503,513
Total liabilities					**1,452,038**	1,518,745

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; and
- 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	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	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	**234**	350	**8,210**	7,509	**832**	34	**9,276**	7,893
Depreciation of right-of-use assets[#]	**183**	–	**794**	–	**1,490**	–	**2,467**	–
Depletion of property, plant and equipment	**133,842**	130,086	**–**	–	**–**	–	**133,842**	130,086
Disposals and written off of expired exploration & evaluation assets	**6,311**	10,516	**–**	–	**–**	–	**6,311**	10,516
Amortisation of prepaid lease payment	**–**	–	**–**	457	**–**	–	**–**	457
(Recognition)/reversal of impairment loss of property, plant and equipment	**286,043**	(104,490)	**–**	–	**–**	–	**286,043**	(104,490)
Additions to non-current assets*	**100,527**	157,561	**17,471**	7,421	**11,578**	1	**129,576**	164,983

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

* The amount represents additions to property, plant and equipment, right-of-use assets and exploration and evaluation assets for the years ended 31 December 2019 and 31 December 2018.

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") 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)*	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC	**7,968,619**	5,660,493	**333,843**	328,683
Canada	**228,803**	272,895	**1,426,802**	1,690,949
Hong Kong and others	**–**	–	**9,337**	86
	8,197,422	5,933,388	**1,769,982**	2,019,718

Note: Non-current assets excluded deferred tax assets and other non-current assets.

Information about major customers

Included in revenue arising from supply and procurement business segment of HK$7,968,619,000 (2018: HK$5,660,493,000) are revenue of HK$2,209,277,000 (2018: HK$1,468,488,000) which arose from two (2018: two) customers of the Group which contributed 10% or more to the Group's total revenue for the year.

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

	2019	2018
	HK$'000	*HK$'000*
Customer A	**1,283,351**	662,629
Customer B *(note 1)*	**925,926**	490,782
Customer C *(note 2)*	**778,206**	805,859

Notes:

1. The corresponding revenues from Customer B did not contribute over 10% of the total revenue of the Group during the year ended 31 December 2018.

2. The corresponding revenues from Customer C did not contribute over 10% of the total revenue of the Group during the year ended 31 December 2019.

4. REVENUE AND OTHER REVENUE

Revenue represents the net invoiced value of goods sold which are recognised under point in time under HKFRS 15. All significant intra-group transactions have been eliminated on consolidation.

The Group considers the indicators under the transfer-of-control approach in HKFRS 15 and determines that the Group is acting as an agent in certain sales transactions of oil related products, although the Group still exposes to credit risk in these sales transactions, while the Group does not have sufficient control over the specific goods provided by the suppliers before goods transferred to customers. When the Group acts as an agent, it recognises revenue on a net basis to which it expects to be entitled in exchange for arranging for the specified goods to be provided by the other party.

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

	2019	2018
	HK$'000	*HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of crude oil and gas	**228,803**	272,895
Trading and distribution of oil related products	**7,968,619**	5,660,493
	8,197,422	5,933,388

The Group's revenue are mainly derived from the sales of goods to customers in the PRC and Canada and recognised under point in time.

Disaggregation of revenue from contracts with customers by geographic markets is disclosed in note 3.

	2019	2018
	HK$'000	*HK$'000*
Other revenue		
Bank interest income	**2,945**	3,172
Rental income	**880**	1,416
Storage fee income	**5,777**	14,363
Others	**1,882**	68
	11,484	19,019

Total future minimum lease payments receivable by the Group

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2019	2018
	HK$'000	*HK$'000*
Within one year	**512**	709
In the second to fifth years, inclusive	**47**	336
	559	1,045

5. OTHER GAINS AND LOSSES

	2019 HK$'000	2018 HK$'000
Net foreign exchange gain/(loss)	**1,333**	(4,404)
Fair value change on investment properties	**1,100**	738
Gain on disposal of property, plant and equipment and exploration and evaluation assets	**76**	1,821
Disposals and written off of expired exploration and evaluation assets	**(6,311)**	(10,516)
(Recognition)/reversal of impairment loss of property, plant and equipment	**(286,043)**	104,490
Fair value change on derivative financial instruments	**(15,046)**	7,672
Others	**–**	(58)
	(304,891)	99,743

6. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

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

	2019 HK$'000	2018 HK$'000
Auditors' remuneration		
– Audit services	**3,656**	3,474
– Non-audit services	**507**	1,520
Cost of inventories sold	**7,878,319**	5,602,190
Depreciation and depletion of property, plant and equipment*	**143,118**	137,979
Depreciation of right-of-use assets*	**2,467**	–
Amortisation of prepaid lease payments	**–**	457
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	**4,951**	8,270
Staff costs (including Directors' remuneration)		
– Salaries and wages	**60,658**	63,540
– Share-based payment expenses	**327**	1,805
– Pension scheme contributions	**2,734**	2,547

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

7. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interest expenses on bank borrowings and secured term loan wholly repayable within five years	**26,683**	17,967
Interest expenses on convertible bonds	**31,688**	38,099
Interest expenses on lease liabilities*	**381**	–
Accretion expenses of decommissioning liabilities	**3,098**	3,131
	61,850	59,197

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

8. TAXATION

Taxation in the consolidated statement of profit or loss represent:

	2019	2018
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	**–**	–
Current tax – Outside Hong Kong		
Provision for the year	**14,194**	10,220
Deferred tax		
Origination and reversal of temporary differences	**48,466**	23,991
	62,660	34,211

The provision for Hong Kong Profits tax for 2019 is calculated at 16.5% (2018: 16.5%) of estimated assessable profits for the year. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rate of taxation ruling in the relevant countries. The Canada blended statutory tax rate and PRC corporate income tax rate applicable to the Group's subsidiaries in Canada and the PRC are 27% (2018: 27%) and 25% (2018: 25%) respectively.

9. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders during the year ended 31 December 2019, nor has any dividend been proposed since the end of the reporting period (2018: 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:

	2019	2018
	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	**(443,742)**	(741)

	2019	2018
	'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 2019 and 31 December 2018 were the same as the basic loss per share. The computation of diluted loss per share for the years ended 31 December 2019 and 31 December 2018 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.

11. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 90 days (2018: 90 days), are recognised and carried at the original invoiced amount less allowance for doubtful debt. Trade receivables are non-interest bearing.

The following is an ageing analysis of trade receivables presented based on the invoice dates at the end of the reporting period:

	2019	2018
	HK$'000	*HK$'000*
0 to 30 days	**168,429**	236,742
31 to 60 days	**135**	126
61 to 90 days	**40**	236
Over 90 days	**2,107**	2,084
	170,711	239,188

The Directors believe that no loss allowance 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$2,107,000 (2018: HK$2,084,000) was 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.

12. TRADE AND OTHER PAYABLES

	2019	2018
	HK$'000	*HK$'000*
Trade payables	**150,778**	202,144
Contract liabilities	**50,860**	133,593
Other payables	**101,208**	153,417
	302,846	489,154

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

	2019	2018
	HK$'000	*HK$'000*
0 to 30 days	**149,099**	195,727
31 to 60 days	**734**	3,252
61 to 90 days	**–**	323
Over 90 days	**945**	2,842
	150,778	202,144

As at 31 December 2019 and 31 December 2018, the trade payables are non-interest bearing and have an average credit period on purchases of one to three months.

13. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the outbreak of novel coronavirus ("COVID-19") in January 2020 has caused disruptions to many industries, including oil and petroleum industry, in China as well as other countries. These disruptions have inevitably posed a significant threat to the global economy in 2020. Despite the challenges, governments and international organizations have implemented a series of measures to contain the epidemic. The time duration and scope of these disruptions cannot be accurately assessed at this point in time. Given the dynamic nature of these circumstances, the financial impact will be reflected in the Group's subsequent financial statements. The Group will closely monitor the development of the epidemic and assess its impact on its operations.

Since the beginning of March 2020, due to the failure to reach an agreement to reduce production of the Petroleum Production Reduction Alliance, coupled with the unfavorable outlook of the world economy affected by the COVID-19, international crude oil prices have fallen sharply. On 9 March 2020 and 18 March 2020, U.S. West Texas Intermediate crude oil futures prices fell by 24.6% and 24.4%, respectively. The decline in international crude oil prices has adversely affected the Group's sales revenue and profits, the Group actively takes measures to deal with the risks of crude oil price fluctuations, and strives to maintain stable and healthy development of production and operations.

BUSINESS REVIEW AND PROSPECTS

International oil price rise muted in the second half of 2019 as affected by US-China trade and geopolitical tensions, leading the oil market to a wobble, but oversupply remained in general. Under such challenging market environment, management of the Company has secured the level of production volume of upstream properties in Canada, renewed oil supply agreement for refined oil business in China, optimised financial structure and minimised administrative and operating costs in order to lay a concrete foundation for future development of the Company.

UPSTREAM OIL AND GAS PRODUCING BUSINESS IN CANADA

In 2019, Novus Energy Inc. ("Novus") achieved an average daily production of 2,044 barrels of equivalent ("BOE"). In addition to minimising production cost, the management team has unlocked the potential of the existing assets of Novus to the greatest extent by optimising on-site process. As a result, Novus has successfully fulfilled its 2019 production target while cutting down its basic expenditure.

Production and Sales

In 2019, putting greater effort on in-depth survey of exploration blocks and well sites as well as optimisation of drilling methods, Novus has increased its initial production volume of new wells from 72 barrels daily in 2018 to 86 barrels daily in 2019. Sales of crude oil by Novus in 2019 was 746,000 barrels, Novus achieved its annual production target with underspending of capital expenditure budget by 26.3%. The operating netback per BOE in 2019 was CAD28.93, an increase of 20.8% against budget, and administrative and management expenditure was CAD5.05 per BOE, a decrease of 25.6% against budget. The operations of Novus achieved zero-pollution with no accidents reported throughout the year, and its business was conducted in full compliance with government regulatory requirements. In the second quarter of 2019, 4 wells held by Novus were ranked among top 15 in Viking region in terms of daily production volume. Novus has drilled 14 wells, in total, in 2019.

In 2019, Novus strived to cope with unfavourable situations, such as oversupply of crude oil resources in the market and traffic interruption, by improving delicacy management of oil fields and omni-channel transportation, relentlessly securing its production and sales. As oil pipeline quotas have fluctuated substantially, Novus expanded its flexibility of vehicle transportation and adjusted sales points to maximise economic value.

Exploration Activities

In 2019, Novus devoted a great deal of effort on survey and selection of oil and gas exploration projects. By assessing economic efficiency and managing reserves, Novus kept on optimising exploration projects and putting in more efforts on development of projects with high returns, successfully achieving its annual production target. In addition, mining rights of 41.86 square kilometers were acquired in 2019 so as to support sustainable development of Novus.

Financing

To raise capital required for development without the dilemma of rising borrowing costs, Novus has obtained a loan with a principal of US$35 million from Yanchang Petroleum Group (Hong Kong) Co., Limited ("Yanchang Petroleum HK") with considerable support and substantial assistance of Shaanxi Yanchang Petroleum (Group) Co., Limited ("Yanchang Petroleum Group"). The proceeds from the loan has been used for repayment of a loan from National Bank of Canada at the end of 2019, effectively improving the financial structure of Novus and reducing its finance costs. Granting of the loan agreement represents the support of Yanchang Petroleum Group, the ultimate parent company, and provides a new driver for the development of upstream oil and gas producing business of the Company in Canada.

DOWNSTREAM REFINED OIL TRADING BUSINESS IN CHINA

In the wake of challenging market situation and competitive environment since 2019, management of Henan Yanchang Petroleum Sale Co., Limited ("Henan Yanchang") has worked on the market in a thoughtful manner and created novel model by pursuing its growth strategy of "Consolidating markets to increase sales volume, Creating economic benefits to secure revenue, Improving delicacy management to reduce costs, Actively exploring opportunity for transformation and Precisely identifying and controlling risks", leading to a healthy and steady development of its sales business. Accumulated refined oil sales of Henan Yanchang in 2019 recorded 3,700,000 tonnes, representing a year-on-year growth of 14.78%, the operating revenue was RMB7.06 billion with total profit of RMB28,200,000. Recovery of receivables was 100%. Integrated controls on production and financial operations have been conducted in a safe and efficient manner with no accidents reported.

Outstanding Performance of Broadening Customer Base

In 2019, marketing team of Henan Yanchang paid numerous of visits to all spots of sales along highways to explore sales opportunity among peripheral gas stations and other oil consuming companies, expanding its geographical coverage. Henan Yanchang expands its sales markets into Qinghai, Tibet, Inner Mongolia, Ningxia, Shandong, Hunan, and Jiangsu in order to broaden its customer base. Henan Yanchang has secured 201 new customers during the year, representing a year-on-year increase of 68.91%, and sales volume from those customers were 245,700 tonnes.

Outstanding Performance of Upgrade and Reformation of Gas Stations

Firstly, Henan Yanchang has determinedly prepared and formulated its three-year development plan for terminal network, putting three recycling gas stations in operation upon the completion of upgrade and reformation. Sales of refined oil at 4 gas stations recorded 10,805 tonnes in total in 2019, representing a year-on-year increase of 76.39%. Secondly, research and survey has been conducted on 386 gas stations surrounding Zhengzhou, 36 of which involved in-depth research and survey. As generation of big data for terminal network of Henan Yanchang has initially completed, 3 gas stations were identified as target for co-operation.

Renewal of Oil Supply Agreement

On 12 November 2019, Henan Yanchang entered into a new oil supply agreement with Yanchang Petroleum Group for supplying refined oil to Henan Yanchang for a further three-year terms. In addition to stable supply of refined oil, the new oil supply agreement has set out a relatively favourable price of refined oil offered by Yanchang Petroleum Group, enhancing the profitability of the refined oil business of Henan Yanchang. Hence, it has laid a concrete foundation for long-term development of Henan Yanchang.

OUTLOOK

2020 will remain a challenging year. US-China phase 1 trade deal is likely to be the result of mutual concessions and a brief intermission. Economic growth in China will slow down due to its deleveraging cycle. Unusual and unexpected events, such as novel coronavirus outbreak, may cause further economic ravages. In view of the above, management of the Company has taken precautionary and practical measures, including making real progress on exploration and development by Novus, moderately increasing production volume on stable ground and reducing production and operating costs as the targets. In addition to efficiency fulfillment and growth security, business of Henan Yanchang will be expanded and consolidated. The Group will devote more efforts on development of domestic and overseas trading of oil products, nurturing a new profit driver of the Group. More importantly, the Group will seek opportunities to introduce new energy, new technology, new strategic co-operation partners and new investors, expand business scale and diversify financing channel to enhance the profitability of the Group, creating and maximising value to its shareholders.

FINANCIAL REVIEW

Highlights on financial results

	2019	2018	Change in
	HK$'000	*HK$'000*	*%*
Revenue	**8,197,422**	5,933,388	38%
Other revenue	**11,484**	19,019	(40%)
Purchases	**(7,878,319)**	(5,602,190)	41%
Royalties	**(26,700)**	(33,329)	(20%)
Field operation expenses	**(72,007)**	(74,719)	(4%)
Exploration and evaluation expenses	**(2,337)**	(3,007)	(22%)
Selling and distribution expenses	**(13,347)**	(9,526)	40%
Administrative expenses	**(75,974)**	(91,267)	(17%)
Depreciation, depletion and amortisation	**(145,585)**	(138,436)	5%
Other gains and losses	**(304,891)**	99,743	N/A
Finance costs	**(61,850)**	(59,197)	4%
Taxation	**(62,660)**	(34,211)	83%
(Loss)/profit for the year	**(434,764)**	6,268	N/A

Segment revenue and segment results

For the year under review, the Group's operating segments comprised (i) exploration, exploitation and operation business, and (ii) supply and procurement business. During the year ended 31 December 2019, the Group's turnover was mainly derived from the production of oil and natural gas in Canada as well as the trading of refined oil in the PRC.

Novus is engaged in the business of exploration, exploitation and production of oil and natural gas in Western Canada. Novus achieved production of oil and gas of 746,000 BOE and contributed production income of HK$228,803,000 during the year under review as compared to production of 844,000 BOE and production income of HK$272,895,000 of the previous year. Due to crude oil prices dropped as a result of US-China trade dispute and the slowing global economy, the exploration, exploitation and operation business recorded an operating loss of HK$52,173,000 this year as compared to an operating loss of HK$605,000 last year.

Due to a increase in sales volume from the previous year of 3.2 million tonnes to this year of 3.7 million tonnes, the revenue of oil products trading business of the PRC increased by 41% from the previous year of HK$5,660,493,000 to this year of HK$7,968,619,000 and contributed a segment operating profit of HK$42,370,000, as compared to a profit of HK$20,237,000 in the previous year.

Other revenue

Apart from the aforesaid segment results, other revenue of HK$11,484,000 which mainly represented interest income from bank deposits and storage fee income from the PRC was recorded for the year under review, compared to that of HK$19,019,000 in the previous year.

Purchases

Purchases were wholly derived from the oil products trading business in the PRC, which increased from the previous year of HK$5,602,190,000 to this year of HK$7,878,319,000. The increase of purchases was mainly due to the increase in sales of the refined oil trading business.

Royalties

Royalties, including crown, freehold and overriding royalties incurred by Novus for the oil and natural gas production in Canada, decreased from last year of HK$33,329,000 to current year of HK$26,700,000 due to drop in oil prices and sale volume.

Field operation expenses

Due to the decrease in production, field operation expenses decreased to this year of HK$72,007,000 from the previous year of HK$74,719,000. Such expenses were incurred by Novus in the production of oil and natural gas in Canada, which included labour costs, repairs and maintenance, processing costs, fluid hauling, lease rentals and workovers etc.

Exploration and evaluation expenses

Exploration and evaluation expenses amounted to HK$2,337,000 which represented the holding costs, mainly lease rentals, on the interests of non-producing lands held by Novus, compared to that of HK$3,007,000 in the previous year.

Selling and distribution expenses

Selling and distribution expenses, increased from the previous year of HK$9,526,000 to the current year of HK$13,347,000. Such increase in the expenses was mainly incurred by Henan Yanchang as a result of increase in trading volume of refined oil in the PRC.

Administrative expenses

Administrative expenses including directors' remuneration, staff costs, office rentals, professional fees and listing fee etc, amounted to HK$75,974,000 this year, compared to HK$91,267,000 of the previous year. Such decrease was mainly attributable to the scale down of business development expenditure during the year.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation increased from the previous year of HK$138,436,000 to the current year of HK$145,585,000. This was mainly due to the increase in depletion of Novus in Canada during the year under review.

Other gains and losses

Other losses of HK$304,891,000 recorded this year including (i) the impairment on the petroleum and natural gas properties in Canada owned by Novus amounting to HK$286,043,000, (ii) written off of expired exploration and evaluation assets of HK$6,311,000 and (iii) loss on hedging of oil and gas commodity contracts of HK$15,046,000 and after offsetting (iv) fair value gain on investment properties of HK$1,100,000 and (v) other gains of HK$1,409,000.

Finance costs

Finance costs of HK$61,850,000 comprised (i) bank borrowing costs of HK$26,683,000 related to the businesses of Novus and Henan Yanchang, (ii) accretion of HK$3,098,000 related to the provision of the decommissioning liabilities incurred by Novus, (iii) imputed interest of HK$31,688,000 arising from the issue of the convertible bonds, and (iv) imputed interest of HK$381,000 related to lease liabilities.

Taxation

Taxation of HK$62,660,000 comprised (i) provision for the PRC enterprise income tax on the profit earned from the refined oil trading business of the PRC amounted to HK$14,194,000 and (ii) written off of deferred tax assets amounted to HK$48,466,000.

Loss for the year

During the year under review, Henan Yanchang still performed well and remained profitable. However, due to the continued sluggish international crude oil prices, the Group as a whole recorded a loss of HK$434,764,000 for the year in contrast of a profit of HK$6,268,000 last year.

Highlights on financial position

	2019	2018	Change in
	HK$'000	*HK$'000*	*%*
Property, plant and equipment	**1,653,657**	1,909,854	(13%)
Prepaid lease payments	**–**	15,602	N/A
Investment properties	**16,718**	16,794	–
Exploration and evaluation assets	**16,802**	19,319	(13%)
Right-of-use assets	**24,656**	–	N/A
Goodwill and intangible asset	**58,149**	58,149	–
Inventories	**31,541**	67,278	(53%)
Trade receivables	**170,711**	239,188	(29%)
Prepayments, deposits and other receivables	**267,705**	261,299	2%
Cash and bank balances	**298,688**	316,768	(6%)
Trade and other payables	**(302,846)**	(489,154)	(38%)
Bank borrowings	**(257,025)**	(425,659)	(40%)
Convertible bonds	**(467,755)**	(464,327)	1%
Decommissioning liabilities	**(129,114)**	(128,094)	1%
Lease liabilities	**(10,400)**	–	N/A
Secured term loan	**(271,384)**	–	N/A

Property, plant and equipment

Property, plant and equipment consisted of buildings, furniture, fixtures and equipment, plant and machineries, motor vehicles, petroleum and natural gas properties and construction-in-progress amounted to HK$1,653,657,000. The decrease for the year was mainly attributable to the recognition of impairment loss 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 Henan Yanchang. This was reclassified as right-of-use assets as at 1 January 2019.

Investment properties

Investment properties comprised properties in the PRC owned by Henan Yanchang leased out in return of receiving rental income.

Exploration and evaluation asset

Exploration and evaluation assets mainly represented the undeveloped land held by Novus as at 31 December 2019.

Right-of-use assets

Right-of-use assets consisted of leasehold lands in the PRC owned by Henan Yanchang and office rental operated in the PRC, Hong Kong and Canada by the Group.

Goodwill and intangible asset

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

Inventories

Inventories mainly represented the refined oil held in oil storage tanks of Henan Yanchang in the PRC as at 31 December 2019.

Trade receivables

Trade receivables represented account receivables from both customers of Novus in Canada and Henan Yanchang in the PRC as at 31 December 2019. The outstanding amounts had been mostly recovered in January 2020.

Prepayments, deposits and other receivables

Prepayments, deposits and other receivables increased to this year of HK$267,705,000 from the previous year of HK$261,299,000. Such increase was mainly due to the increase in prepayments made for the purchase of refined oil by Henan Yanchang for its refined oil trading business in the PRC.

Cash and bank balances

As at 31 December 2019, cash and bank balances decreased by HK$18,080,000 and maintained at HK$298,688,000 as compared to the last year of HK$316,768,000.

Trade and other payables

Trade and other payables mainly represented trade payables from suppliers and prepayments received in advance from customers of refined oil trading business in the PRC as at 31 December 2019.

Bank borrowings

The amount represented loans from banks of the PRC to finance the refined oil trading business of Henan Yanchang.

Convertible bonds

The amount represented the US$60 million 2-year convertible bonds with coupon interest rate of 6% issued to Yanchang Petroleum HK in November 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.

Lease liabilities

The amount represented the obligation to make lease payments in relation to the office rentals in the PRC, Hong Kong and Canada.

Secured term loan

The amount represented the US$35 million 3-year secured term loan granted to Novus by Yanchang Petroleum HK as general working capital for operation.

LIQUIDITY AND FINANCIAL RESOURCES

The Group funded its operation mainly by its internal resources together with bank borrowings and convertible bonds for the year ended 31 December 2019.

	2019	2018
	HK$'000	*HK$'000*
Current assets	**768,645**	893,252
Total assets	**2,545,384**	2,989,682
Current liabilities	**1,032,930**	914,849
Total liabilities	**1,452,038**	1,518,745
Total equity	**1,093,346**	1,470,937
Gearing ratio	**132.8%**	103.3%
Current ratio	**74.4%**	97.6%

The Group had outstanding variable interest rates bank borrowings amounted to HK$257,025,000 as at 31 December 2019 (31 December 2018: HK$425,659,000) which was equivalent to RMB230,000,000 under Henan Yanchang. The Group has obtained bank facilities of HK$335,250,000 (equivalent to RMB300,000,000) from banks in the PRC in writing or verbal form.

On 28 November 2018, the Company raised fund from the issue of convertible bonds to Yanchang Petroleum HK in the principal amount of US$60,000,000 (equivalent to HK$471,000,000) which carry coupon interest with 6% and mature on the second anniversary date from the date of issue. Part of the fund raised amounted to HK$383,897,000 had been used for the repayment of the convertible bonds issued to China Construction Bank Corporation in 2015 and the balance is used as general working capital for the Group's business needs. The principal of convertible bonds was still outstanding as at 31 December 2019.

As at 31 December 2019, the Group had cash and bank balances of HK$298,688,000 (31 December 2018: HK$316,768,000). In view of the cash on hand together with the available bank facilities, the Group has enough working capital to finance its business operation.

As at 31 December 2019, the gearing ratio of the Group, measured on the basis of total liabilities as a percentage of total equity, was 132.8% as compared to 103.3% of the previous year. The current ratio of the Group, measured on the basis of current assets as a percentage of current liabilities stood at 74.4% as at 31 December 2019 (31 December 2018: 97.6%).

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 2019, Novus had entered sixty two 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 minimise currency risks, therefore the Group does not anticipate any material foreign exchange exposures and risks.

During the year under review, no hedging transactions related to foreign exchange had been made, proper steps will be taken when the management considers appropriate.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no material acquisitions and disposals for the year ended 31 December 2019.

SIGNIFICANT INVESTMENTS

The Group did not hold any significant investments as at 31 December 2019.

CAPITAL COMMITMENTS

As at 31 December 2019, the Group had commitments related to property, plant and equipment amounted to HK$1,713,000 (31 December 2018: HK$25,362,000).

Save as the aforesaid, the Group did not have any other material commitments as at 31 December 2019.

PLEDGE OF ASSETS

US$35 million secured term loan granted by Yanchang Petroleum HK, available to Novus, is secured by the debenture of US$70 million with first and fixed charge over all of Novus's right, title and interest, with floating charge over all assets of Novus.

Save as the aforesaid, none of the Group's other assets had been pledged for granting the bank and other borrowings.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any significant contingent liabilities (31 December 2018: Nil).

LITIGATION

As at 31 December 2019, the Group had no material litigation (31 December 2018: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group's total number of staff was 163 (2018: 158). Salaries of employees are maintained at a competitive level with total staff costs for the year ended 31 December 2019 amounted to HK$63,719,000 (2018: HK$67,892,000). 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. No share option was granted under the Company's share option scheme during the year ended 31 December 2019 and 31 December 2018.

DIVIDENDS

The Board does not recommend the payment of any dividends for the year ended 31 December 2019 (31 December 2018: 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 2019 and 2018.

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 and the PRC, regarding environmental protection in all material respects during the year under review and as at the date of the annual report for 2019. The Group has also adopted and implemented the environmental policies on a standard which is not less stringent than the prevailing environmental laws and regulations of Hong Kong, Canada and the PRC.

RELATIONSHIP WITH SUPPLIERS, CUSTOMERS AND OTHERS

The Group understands the importance of maintaining a good relationship with its suppliers and customers to meet its immediate and long-term goals. The Group has built up long-term relationship with suppliers and customers. During the year under review, there were no material and significant dispute between the Group and its suppliers and/or customers.

CORPORATE GOVERNANCE PRACTICE

The Board is committed to achieve a high standard of corporate governance practices and procedures with a view to enhance the management of the Company as well as to safeguard the interests of 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 2019, except for the following deviations:

1. code provision A.6.7 of the CG Code provides that independent non-executive Directors and other non-executive Directors should also attend the general meetings and develop a balanced understanding of the views of shareholders. One of the independent non-executive Directors, Mr. Sun Liming was unable to attend at annual general meeting of the Company held on 30 May 2019 due to other ad hoc engagements.

2. code provision A.2.1 of the CG Code provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The position of the chief executive officer of the Company was temporarily vacant following the resignation of Mr. Bruno Guy Charles Deruyck as an executive Director and chief executive officer on 1 June 2019 as the Company needs times to identify a suitable candidate to assume the role of the chief executive officer.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code").

Having made specific enquiry of all Directors, they confirmed that they have complied with the required standards set out in the Model Code as their code of conduct regarding Directors' securities transactions with the Company throughout the year ended 31 December 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

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

The Audit Committee has reviewed the accounting principles and policies adopted by the Company and discussed with management the risk management, internal control systems and financial reporting matters. The Audit Committee has reviewed the results of the Group for the year ended 31 December 2019.

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, to the amounts set out in the Group's consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG, Certified Public Accountants, in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement for the year ended 31 December 2019 is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.yanchanginternational.com). The Company's annual report for 2019 will be despatched to the shareholders of the Company and available on the above websites in due course.

ANNUAL GENERAL MEETING

The annual general meeting (the "AGM") of the Company will be held on 5 June 2020 and the notice of the 2020 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 2 June 2020 to 5 June 2020 (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 5 June 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration, not later than 4:30 p.m. on 1 June 2020.

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

Hong Kong, 26 March 2020

Executive Directors:	*Independent Non-Executive Directors:*
Mr. Li Yi *(Chairman)*	Mr. Ng Wing Ka
Ms. Sha Chunzhi	Mr. Leung Ting Yuk
Mr. Gao Hairen	Mr. Sun Liming
Mr. Li Jun	Dr. Mu Guodong