延長石油國際有限公司
YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)
Stock Code: 00346

2023 ANNUAL REPORT

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延长石油
G-08

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR

Mr. Sun Jian

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Mr. Law Hing Lam

AUDIT COMMITTEE

Mr. Leung Ting Yuk *(Chairman)*
Mr. Ng Wing Ka
Mr. Sun Liming

REMUNERATION COMMITTEE

Mr. Sun Liming *(Chairman)*
Mr. Leung Ting Yuk
Mr. Feng Yinguo

NOMINATION COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr. Feng Yinguo
Mr. Law Hing Lam

AUDITORS

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
Industrial and Commercial Bank of China (Asia) Limited
China Construction Bank (Asia) Corporation Limited
Shanghai Pudong Development Bank Co., Limited
Bank of China Limited
National Bank of Canada

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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STOCK CODE

00346

WEBSITE

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

UPSTREAM OIL AND GAS PRODUCTION BUSINESS IN CANADA

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

(I) Efficiently organizing production and enhancing production

Novus has made production a top priority. Scientifically organizing production and construction in a fast and planned manner has significantly improved production and operation efficiency. Firstly, facing industrial recovery and tight raw materials supply, Novus purchased 60,000 meters of oil casing in advance, ensuring the materials supply for drilling construction. Secondly, to reduce the impact of snowfall on production and transportation in the first quarter, Novus maintained good communication with the government, obtained a short-term waiver of the road ban and proceeded with the construction work. These measures enabled Novus to complete the drilling of 4 wells before the end of May, and simultaneously grasp the drilling progress of wells in the prime time of the summer construction, and complete 94.73% of the year's drilling workload before the end of August, thus gaining valuable time for the full year's production. Thirdly, with no hope of finding another drilling rig due to the shortage in supply of service providers, Novus took a different approach and partnered with Whitecap Resources Inc. to drill 8 wells in July leveraging its drilling rigs, resulting in a net interest of 2.26 wells to Novus.

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

Novus has always been pursuing high-quality development and economic benefits. Taking the refined management of oilfields as the starting point, Novus controlled its budgets and costs in whatever means to increase benefits. Firstly, Novus increased the quantity of developed extended wells, with the number of extended wells increasing from 46% in 2022 to 75% in 2023, and while increasing single-well production (approximately 50%), Novus reduced its operating expenses and abandonment obligations by 50%. Secondly, Novus continued to implement small surface drilling rigs for one-start drilling, saving 16 hours of drilling time and approximately CAD10,000 per well. Thirdly, Novus strictly controlled various costs and expenses. Oilfield operating costs

CHAIRMAN'S STATEMENT

have been reduced for 3 years, with an average annual reduction of 3.95%. In 2023, oilfield on-site operating costs were controlled at CAD17.11/barrel, a year-on-year decrease of CAD0.24/barrel, or 1.38%. While oilfield production increased dramatically (2.3 times in 3 years), Novus had only added 1 regular staff and 1 sub-contracted employee and kept its administrative costs to CAD6.41/barrel. The relative controllable cost (excluding foreign exchange gains and losses, royalties, resource taxes, and depreciation and amortization) was CAD28.56 per barrel, representing a year-on-year decrease of CAD1.29 per barrel, a drop of 4.32%. The cost control effectiveness has been significant, with barrel oil revenue of CAD1.12 per barrel. Despite a decline in international crude oil prices and the rise in rigid expenses such as depreciation, mining rights tax, and financial expenses, Novus oilfield was able to maintain a profitable operation.

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

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

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

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

(V) Enhancing production safety, implementing environmental compliance obligations

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

DOWNSTREAM OIL AND BY-PRODUCTS SALES BUSINESS IN CHINA

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

CHAIRMAN'S STATEMENT

(I) Steadily and orderly progressing business

(1) *External sourcing*

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

(2) *Sales through highway channel*

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

(3) *Sales through railway channel*

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

(4) *Sales at oil depots*

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

(5) *Sales at gas stations*

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

(II) Remarkable achievements in business expansion

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

(III) Further strengthening of business assurance

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

CHAIRMAN'S STATEMENT

evaluating three key performance indicators of "shareholder return", "high-quality development" and "strategic target facilitation", with special assessments on regional market share, cost-saving, and consumption reduction. Yearly assessments for managerial personnel were conducted in management, performance, and cost categories, ensuring that "everyone has a mission".

(IV) Further consolidation of the safety foundation

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

OUTLOOK

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

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

Highlights on financial results

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

Segment revenue and segment results

For the year under review, the Group's operating segments comprised (i) exploration, exploitation and operation business, and (ii) supply and procurement business. During the year ended 31 December 2023, the Group's turnover was mainly derived from the production of oil and natural gas business in Canada as well as the oil and by-products trading business in the People's Republic of China ("PRC").

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

FINANCIAL REVIEW *(Continued)*

Highlights on financial results *(Continued)*

Segment revenue and segment results (Continued)

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

Other revenue

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

Purchases

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

Royalties

Royalties, including crown, freehold and overriding royalties were incurred by Novus for the oil and natural gas production business in Canada, increased from the last year of HK$60,305,000 to the current year of HK$93,109,000 due to increase in sales volume.

Field operation expenses

Due to increase in production, field operation expenses increased to this year of HK$108,712,000 from the previous year of HK$77,877,000. Such expenses were incurred by Novus in the production of oil and natural gas in Canada, which included labour costs, repairs and maintenance, processing costs, fluid hauling, lease rentals and workovers etc.

Exploration and evaluation expenses

Exploration and evaluation expenses amounted to HK$2,597,000 this year which represented the holding costs, mainly lease rentals, on the interests of non-producing lands held by Novus, compared to that of HK$2,620,000 in the previous year.

Selling and distribution expenses

Selling and distribution expenses, decreased from the previous year of HK$167,426,000 to the current year of HK$18,726,000. Such decrease in expenses was primarily attributable to the deconsolidation of Yanchang Petroleum (Zhejiang FTZ) Limited ("Yanchang Zhejiang") from the Group for the year under review.

Administrative expenses

Administrative expenses including directors' remuneration, staff costs, office rentals, professional fees and listing fee etc., amounted to HK$110,523,000 this year, as compared to HK$99,398,000 of the previous year.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation increased from the previous year of HK$169,571,000 to the current year of HK$240,726,000. It was mainly due to the increase in depletion of oil and gas assets of Novus in Canada alongside with the increase in production during the year under review.

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

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

Provision for expected credit loss

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Highlights on financial results *(Continued)*

Provision for litigations

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

Other gains and losses

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

Finance costs

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

Taxation

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

Profit/(loss) for the year

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

Highlights on financial position

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

FINANCIAL REVIEW *(Continued)*

Highlights on financial position *(Continued)*

Property, plant and equipment

Property, plant and equipment consisted of buildings, furniture, fixtures and equipment, plant and machineries, motor vehicles, petroleum and natural gas properties and construction-in-progress amounted to HK$1,859,533,000 as at 31 December 2023, similar to that of the last year.

Investment properties

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

Exploration and evaluation assets

Exploration and evaluation assets mainly represented the undeveloped lands held by Novus as at 31 December 2023.

Right-of-use assets

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

Goodwill and intangible asset

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

Inventories

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

Trade receivables

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

Prepayments, deposits and other receivables

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

Restricted cash

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

Cash and bank balances

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

Trade and other payables

Trade and other payables mainly represented trade payables to suppliers and prepayments received in advance from customers of oil and by-products trading business in the PRC as at 31 December 2023.

Bank borrowings and other loans

The amount represented loans from banks of the PRC for financing the refined oil trading business in the PRC and other unsecured loans from Shaanxi Yanchang Petroleum (Group) Co., Limited ("Yanchang Petroleum Group") and third parties.

Provision for litigations

As at 31 December 2023, the Group did not record any provision for litigations as a result of the deconsolidation of Yanchang Zhejiang from the Group as compared to the last year of HK$453,330,000.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Highlights on financial position *(Continued)*

Decommissioning liabilities

Decommissioning liabilities amounted to HK$171,349,000 as at 31 December 2023, representing the expected future costs associated with the plugging and abandonment of wells, facilities dismantlement and site reclamation in Canada incurred by Novus.

Lease liabilities

Lease liabilities amounted to HK$94,653,000 as at 31 December 2023, representing the obligation to make lease payments in relation to leasehold lands in the PRC and office rentals in the PRC, Hong Kong and Canada.

Secured term loans

Secured term loans included the US$35,000,000 3-year secured term loan granted to Novus by Yanchang Petroleum Group (Hong Kong) Co., Limited ("Yanchang Petroleum HK") and US$22,000,000 3-year secured term loan granted to the Company by Yanchang Petroleum HK as general working capital for operation.

LIQUIDITY AND FINANCIAL RESOURCES

The Group funded its operation mainly by its internal resources together with bank borrowings and secured term loans for the year ended 31 December 2023.

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

LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

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

On 20 December 2019, Novus drew down a secured term loan of US$35,000,000 granted by Yanchang Petroleum HK which bears interest rate at 4.8% per annum and repayable in 3 years. The secured term loan granted to Novus by Yanchang Petroleum HK as general working capital for operation. On 6 December 2022, Novus entered into a supplemental facility agreement with Yanchang Petroleum HK, pursuant to which Novus has renewed the secured term loan of US$35,000,000 which bears interest rate at 4.8% per annum and repayable in 3 years. The principal amount of relevant secured term loan was still outstanding as at 31 December 2023.

On 3 September 2021, the Company drew down a secured term loan of US$22,000,000, granted by Yanchang Petroleum HK which bears interest rate at 4.8% per annum and repayable in 3 years. The secured term loan granted to the Company by Yanchang Petroleum HK as general working capital for operation. The principal amount of relevant secured term loan was still outstanding as at 31 December 2023.

As at 31 December 2023, the Group had cash and bank balances of HK$226,188,000. As at 31 December 2022, the Group had cash and bank balances and restricted cash in aggregate of HK$436,615,000. In view of the cash on hand together with the available bank facilities, the Group has sufficient working capital to finance its business operation.

As at 31 December 2023, the gearing ratio of the Group, measured on the basis of total liabilities as a percentage of total equity, was 173.3% as compared to 862.5% of the previous year. The current ratio of the Group, measured on the basis of current assets as a percentage of current liabilities stood at 79.5% as at 31 December 2023 (31 December 2022: 68.5%).

SHARE SUBSCRIPTION

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

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

SHARE CONSOLIDATION

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

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

COMMODITY PRICE MANAGEMENT

Novus is engaged in crude oil and gas development, production and selling activities. Prices of crude oil and gas are affected by both domestic and global factors which are beyond the control of Novus. The fluctuations in such prices may have favourable or unfavourable impacts to the Group. Therefore the Group was exposed to general price fluctuations of crude oil and gas. No commodity contract was entered for the year ended 31 December 2023 (31 December 2022: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

TREASURY MANAGEMENT AND POLICIES

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

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

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

MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no material acquisitions and disposals for the year ended 31 December 2023 (31 December 2022: nil).

SIGNIFICANT INVESTMENTS

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

CAPITAL COMMITMENTS

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

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

PLEDGE OF ASSETS

US$35,000,000 secured term loan granted by Yanchang Petroleum HK, available to Novus, is secured by the debenture of US$70,000,000 with first and fixed charge over all of Novus' right, title and interest, with floating charge over all assets of Novus.

US$22,000,000 secured term loan granted by Yanchang Petroleum HK, available to the Company, is secured by 350 ordinary shares of Sino Union Energy International Limited ("Sino Union Energy") (representing 35% of the issued share capital of Sino Union Energy which is a direct wholly-owned subsidiary of the Company) under the share charge deed pursuant to which the Company agreed to provide a guarantee in favour of Yanchang Petroleum HK that the Company shall procure on the best effort basis the carrying valuation of Henan Yanchang will be not less than US$104,800,000.

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

CONTINGENT LIABILITIES

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

DECONSOLIDATION OF A SUBSIDIARY

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

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

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

* For illustrative purpose only

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2023, the Group's total number of staff was 207 (2022: 229). Salaries of employees were maintained at a competitive level with total staff costs for the year ended 31 December 2023 amounted to HK$82,938,000 (2022: HK$83,515,000). Remuneration policy is based on principle of equality, motivation, performance and prevailing market practice and remuneration packages are normally reviewed on an annual basis. Other staff benefits include provident fund, medical insurance coverage, etc. There is also a share option scheme offered to employees and eligible participants. No share option was granted under the Company's share option scheme during the year ended 31 December 2023 (31 December 2022: nil).

DIVIDENDS

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

HEALTH, SAFETY AND ENVIRONMENT POLICIES

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

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

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

– Work actively to continuously improve safety and environmental performance.

MANAGEMENT DISCUSSION AND ANALYSIS

HEALTH, SAFETY AND ENVIRONMENT POLICIES *(Continued)*

– Identify potential risks and hazards before work begins.

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

– Ensure personnel have sufficient training, resources and systems.

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

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

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

No environmental claims, lawsuits, penalties or administrative sanctions were reported to the Company's management. The Company is of the view that the Group was in compliance with all relevant laws and regulations in Hong Kong, Canada and the PRC, regarding environmental protection in all material respects during the year under review and as at the date of the annual report. The Group has also adopted and implemented the environmental policies on a standard which is not less stringent than the prevailing environmental laws and regulations of Hong Kong, Canada and the PRC.

RELATIONSHIP WITH SUPPLIERS, CUSTOMERS AND OTHERS

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

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

This section provides supplemental information on oil and gas activities in accordance with the Chapter 18 of Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

A. INFORMATION ON CRUDE OIL AND NATURAL GAS RESERVES

The Group has adopted the Canadian Oil and Gas Evaluation Handbook prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society) in reserves estimation that are consistent with the standards of National Instrument 51-101. Reserves are determined through analysis of geological and engineering data which appear, with reasonable certainty, to be economically producible in the future from known and discovered oil and natural gas reservoirs under existing economic conditions, operating methods and government regulation.

Reported total reserves are estimated by deterministic or probabilistic methods under the following levels of certainty under a specific set of economic conditions:

a. There is a 90% probability that at least the estimated proved reserves will be recovered.

b. There is a 50% probability that at least the sum of the estimated proved reserves plus probable reserves will be recovered.

A quantitative measure of the probability associated with a reserves estimate is generated only when a probabilistic estimate is conducted. The majority of reserves estimates is performed using deterministic methods that do not provide a quantitative measure of probability.

The Group engaged an independent third party consulting firm, Sproule Associates Limited to evaluate the Group's estimation on proved and probable reserves as at 31 December 2023 and its opinion that the reserve estimates are reasonable.

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

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

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

Net proved reserves		Canada	
	Oil and natural gas liquids (Mbbl)	**Natural gas** (MMcf)	**Total** (Mboe)
At 1 January 2023	9,697.8	17,912.0	12,683.3
Acquisition	–	–	–
Production	(878.9)	(1,271.0)	(1,090.9)
Disposals	–	–	–
Discoveries & revisions	824.9	2,191.0	1,190.1
At 31 December 2023	9,643.8	18,832.0	12,782.5

Net probable reserves		Canada	
	Oil and natural gas liquids (Mbbl)	**Natural gas** (MMcf)	**Total** (Mboe)
At 1 January 2023	4,042.0	8,230.0	5,413.5
Acquisition	–	–	–
Disposals	–	–	–
Discoveries & revisions	(84.5)	(40.0)	(91.0)
At 31 December 2023	3,957.5	8,190.0	5,322.5

Net proved + probable reserves		Canada	
	Oil and natural gas liquids (Mbbl)	**Natural gas** (MMcf)	**Total** (Mboe)
At 1 January 2023	13,739.8	26,142.0	18,096.8
Acquisition	–	–	–
Production	(878.9)	(1,271.0)	(1,090.9)
Disposals	–	–	–
Discoveries & revisions	740.4	2,151.0	1,099.1
At 31 December 2023	13,601.3	27,022.0	18,105.0

Notes:

1. Barrels of oil equivalent ("boe") is calculated using a conversion ratio of 6 Mcf/bbl.

2. The Group's net interest reserves represent the Group's working interests excluding interests owned by others in Canada.

3. bbl = barrels
   Mbbl = thousand barrels
   Mboe = thousand barrels of oil equivalent
   Mcf = thousand cubic feet
   MMcf = million cubic feet

B. MAJOR EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES

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

	Canada	**Madagascar**
Exploration activities:	5,245 hectares unproved land acquired	Nil
Development activities:	33 wells drilled 31 wells completed	Nil
Production activities:	Average daily net production Oil: 2,431 bbl Gas: 3,101 Mcf	Nil

C. GROUP'S SHARE OF COSTS INCURRED ON EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES

The following table summarised the Group's share of costs incurred on exploration, development and production activities for the year ended 31 December 2023:

	Canada HK$'000	**Madagascar** HK$'000	**Total** HK$'000
Exploration costs	2,597	–	2,597
Developments costs	349,366	–	349,366
Production costs *(note)*	108,712	–	108,712

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

EXECUTIVE DIRECTORS

Mr. Feng Yinguo

Aged 58, was appointed as an executive Director on 9 June 2020 and was also appointed as the chairman of the Board and an authorised representative of the Company on 1 April 2021. Mr. Feng is currently the executive director and the deputy secretary of the Party Committee of Shaanxi Yanchang Petroleum International Energy & Chemical Co., Limited under Shaanxi Yanchang Petroleum (Group) Co., Limited ("Yanchang Petroleum Group"). Mr. Feng joined Yanchang Petroleum Management Bureau under Yanchang Petroleum Group in December 1983. He was mainly responsible for oil mine management, exploration and development, and was promoted from technician to deputy officer. From December 2017 to March 2020, he served in Oil And Gas Exploration Company under Yanchang Petroleum Group and was promoted to deputy general manager. Mr. Feng obtained a master's degree in Executive Master of Business Administration at Shaanxi Master of Business Administration Institute, and is also a senior petroleum engineer. Mr. Feng has been engaged in oil and gas exploration, development and management for a long time, and has extensive experience in integrated oil and gas management and business leadership. Save as the aforesaid, Mr. Feng did not hold directorship in other listed companies in the past three years.

Mr. Zhang Jianmin

Aged 58, was appointed as an executive Director on 1 April 2021. Mr. Zhang is currently the deputy chief accountant, deputy supervisor of the finance center and a member of the Party Committee of Yanchang Petroleum Group. At the same time, he is also the director and general manager of Yanchang Petroleum Group (Hong Kong) Co., Limited. Mr. Zhang joined the finance department of Yanchang Petroleum Management Bureau under Yanchang Petroleum Group in July 1987. Since August 2011, he has served as the deputy supervisor of the finance center of Yanchang Petroleum Group, and is mainly responsible for the financial control and accounting and formulating of the Company's financial works. He obtained a master's degree in economic management from the Party School of the Shaanxi Provincial Party Committee of the Communist Party of China, and is a semi-senior accountant. Mr. Zhang has been engaged in financial management in the petroleum industry for a long period of time and has many years of solid experience in finance and financial management, as well as petroleum operation governance. Save as the aforesaid, Mr. Zhang did not hold any directorship in other listed companies in the past three years.

Mr. Ding Jiasheng

Aged 36, was appointed as an executive Director on 1 April 2021. Mr. Ding is currently the executive chairman of Novus, an indirect wholly-owned subsidiary of the Company in Canada. Mr. Ding joined Novus in May 2014 and has served as the production engineer, exploration and development engineer, vice president and executive chairman of Novus. He has extensive technical and management experience. He holds a bachelor's degree in petroleum engineering from the University of Alberta in Canada and a master's degree in Earth and Environment from the Columbia University in U.S.A., and is a registered professional engineer in Canada. Save as the aforesaid, Mr. Ding did not hold any directorship in other listed companies in the past three years.

NON-EXECUTIVE DIRECTOR

Sun Jian

Aged 30, was appointed as a non-executive Director on 8 February 2023. Mr. Sun is currently the director of the Shenzhen office of Changan Huitong Co., Ltd., the executive director and general manager of Changan Huitong (Shenzhen) Investment Co., Ltd., and the director of Changan Huitong Investment (Hong Kong) Co., Ltd. He worked in Orient Securities Co., Limited and Research Institute of Guotai Junan Securities Co., Limited during 2017 to 2021. Mr. Sun graduated from Beijing Foreign Studies University with a Master's Degree in International Finance and Trade. Mr. Sun has extensive experience and professional knowledge in finance, investment and capital market. Save as the aforesaid, Mr. Sun did not hold any directorship in other listed companies in the past three years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Wing Ka

Aged 54, was appointed as an independent non-executive Director on 7 January 2005. Mr. Ng is also the chairman of the nomination committee and a member of the audit committee of the Company. Mr. Ng graduated with a Bachelor of Laws degree and a Post-graduated Certificate in Laws from The University of Hong Kong. He is the partner of Tung, Ng, Tse & Lam, Solicitors. Mr. Ng was elected as a member of the 14th Hong Kong delegation to the National People's Congress of the People's Republic of China in December 2022. Mr. Ng has been elected as a member of Court and was appointed as a member of the Council of the University of Hong Kong. Mr. Ng is also a Council Member of the Hong Kong Polytechnic University, a director of the Hong Kong Science & Technology Parks Corporation, a chairman of the Hong Kong Taiwan Business Co-operation Committee, a chairman of HKSAR Passports Appeal Board, a vice chairman of Independent Police Complaint Council, and a non-executive director of The Hong Kong Mortgage Corporation Limited, a member of Competition Commission and a member of the Chinese People's Political Consultative Conference of Shaanxi Province, the PRC. Mr. Ng has been appointed as an independent non-executive director of MTR Corporation Limited (a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) since May 2019. Mr. Ng has also been appointed as an independent non-executive director of Glorious Sun Enterprises Limited (a company listed on the Stock Exchange) since June 2019. He has been re-elected as a member of the Legislative Council (Industrial (Second) Functional Constituency) on 20 December 2021. He had been acted as an independent non-executive director of China Weaving Materials Holdings Limited (a company listed on the Stock Exchange) from 3 December 2011 to 30 December 2019. Save as the aforesaid, Mr. Ng did not hold any directorship in other listed companies in the past three years.

Mr. Leung Ting Yuk

Aged 49, was appointed as an independent non-executive Director on 3 December 2009. Mr. Leung is also the chairman of the audit committee and a member of the remuneration committee of the Company. Mr. Leung holds a bachelor of Commerce with major in accounting in University of Wollongong, Australia. He is a member of the Certified Practicing Accountants, Australia and the Hong Kong Institute of Certified Public Accountants. He has over 20 years' experience in financial management, accounting and auditing. Mr. Leung has been appointed as an independent non-executive director of Most Kwai Chung Limited (a company listed on the Stock Exchange) since March 2018 and he has also been appointed as an independent non-executive director of Xinyi Energy Holdings Limited (a company listed on the Stock Exchange) since November 2018. Mr. Leung has been appointed as an independent non-executive director of Tai United Holdings Limited (a company listed on the Stock Exchange) since July 2023. Save as the aforesaid, Mr. Leung did not hold any directorship in other listed companies in the past three years.

Mr. Sun Liming

Aged 70, was appointed as an independent non-executive Director, the chairman of the remuneration committee and a member of each of the audit committee and the nomination committee of the Company on 1 April 2012. Mr. Sun holds a bachelor's degree in management engineering from Xi'an Jiaotong University. Mr. Sun has extensive experience in corporate planning, and economic and financial management. Mr. Sun was a managing director of Lishan Company Limited in Hong Kong and a chief representative of Shaanxi Commerce Representative Office in Hong Kong for years, and he served as chief economist with 中國電子進出口陝西公司 (China Electronics Import and Export Shaanxi Company) as well as worked in stated-owned sectors for various senior economic and financial positions. Mr. Sun had been acted as an executive director, a co-chief executive officer and the chairman of the investment committee of DTXS Silk Road Investment Holdings Company Limited (a company listed on the Stock Exchange) from 1 February 2023 to 15 January 2024. Save as the aforesaid, Mr. Sun did not hold any directorship in other listed companies during the past three years.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Dr. Mu Guodong

Aged 66, was appointed as an independent non-executive Director on 28 December 2012. Dr. Mu was graduated from the School of Economics and Finance of Xi'an Jiaotong University (formerly known as "Shaanxi Institute of Finance & Economics") with a Master degree of Economics in 1988. He was appointed by the State Education Commission of the People's Republic of China as a visiting scholar of Macquarie University in Australia in 1993. Dr. Mu obtained the Endeavour Awards from the Australian Government to study the doctor's degree of Economics in 1995, and obtained his Doctor of Philosophy degree from The University of New England in 2001. Dr. Mu has been appointed as an independent non-executive director of Shaanxi Energy Investment Co., Limited. Dr. Mu had acted as the assistant to the general manager of the business development department of China Merchants Group Limited, the controlling shareholder of China Merchants Holdings (International) Company Limited, a company listed on the Stock Exchange). Dr. Mu had acted as the general manager of 招商金葵資本管理有限責任公司 (China Merchants Jinkui Capital Management Company Limited) and had acted as the assistant to the general manager of China Merchants Capital Limited and the general manager of the Fundraising and IR Department of China Merchants Capital Management (International) Limited. Dr. Mu has extensive experience in corporate finance and management, merger and acquisition and corporate restructuring. He led and participated in numbers of large-scale merger and acquisition projects over the past ten years, which included the projects of China Merchants Group Limited in Vietnam and Sri Lanka, the project of highway merger integration and the project of Qianhai Bonded Port Area in Shenzhen. Save as the aforesaid, Dr. Mu did not hold any directorship in other listed companies during the past three years.

COMPANY SECRETARY

Mr. Law Hing Lam

Aged 60, was appointed as the company secretary of the Company on 21 March 2011. Mr. Law is a member of the Hong Kong Institute of Certified Public Accountants and also a member of the American Institute of Certified Public Accountants. Mr. Law has extensive experience in accounting, auditing, taxation, finance and company secretarial matters. Prior to joining the Company, Mr. Law held the position of financial controller in certain listed companies in Hong Kong. Mr. Law is currently the financial controller and an authorised representative of the Company. He is also currently the financial controller and the director of certain subsidiaries of the Company.

REPORT OF THE DIRECTORS

The Board has pleasure in presenting the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2023.

The head office and principal place of business is situated at Room 3403, 34/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The principal activities of the Group engaged in supply and procurement operation of oil related products in the PRC as well as oil and gas exploration, exploitation, sale and operation in Canada and Madagascar. Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, are set out in the Chairman's Statement section on pages 3 to 9 and the Management Discussion and Analysis section on pages 10 to 18 of the annual report. This discussion forms part of the directors' report.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activities and geographical area of operations for the year ended 31 December 2023 is set out in note 7 to the consolidated financial statements on pages 90 to 94.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2023 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 51 to 133. The state of affairs of the Company on 31 December 2023 is set out in note 39 to the consolidated financial statements.

The Directors do not recommend the payment of any dividends for the year (2022: nil).

REPORT OF THE DIRECTORS

SUMMARY OF FINANCIAL INFORMATION

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

Results

	Year ended 31 December				
	2023	2022	2021	2020	2019
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**27,742,529**	29,936,206	19,776,474	27,256,800	8,197,422
Profit/(loss) before taxation	**588,392**	(608,271)	377,556	(779,496)	(372,104)
Taxation	**(8,260)**	(10,828)	(19,101)	(13,173)	(62,660)
Profit/(loss) for the year	**580,132**	(619,099)	358,455	(792,669)	(434,764)
Profit/(loss) attributable to					
– Owners of the Company	**217,593**	(199,510)	353,601	(795,765)	(443,742)
– Non-controlling interests	**362,539**	(419,589)	4,854	3,096	8,978
	580,132	(619,099)	358,455	(792,669)	(434,764)

Assets and liabilities

	At 31 December				
	2023	2022	2021	2020	2019
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**2,041,005**	2,050,401	1,653,596	1,136,873	1,776,739
Current assets	**1,643,537**	2,467,808	2,855,109	1,499,139	768,645
Total assets	**3,684,542**	4,518,209	4,508,705	2,636,012	2,545,384
Current liabilities	**(2,067,497)**	(3,600,546)	(2,906,621)	(1,324,754)	(1,032,930)
Non-current liabilities	**(268,879)**	(448,237)	(434,640)	(510,122)	(419,108)
Total liabilities	**(2,336,376)**	(4,048,783)	(3,341,261)	(1,834,876)	(1,452,038)
Total equity	**1,348,166**	469,426	1,167,444	801,136	1,093,346

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

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

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 17 and 18 to the consolidated financial statements respectively on pages 102 to 107.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital during the year and details of the Company's share option scheme are set out in note 26 to the consolidated financial statements on pages 114 to 117.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 55 and 56.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2023, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year and up to the date of this report.

DISTRIBUTABLE RESERVES

At 31 December 2023, the Company's reserve available for distribution and/or distribution in specie, calculated in accordance with the Companies Act of Bermuda, is HK$343,137,000 (2022: HK$137,536,000) which is the sum of the Company's share premium, contribution surplus and accumulated losses as stated in note 39 to the consolidated financial statements on page 133 which may only be distributed in certain circumstances.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

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

(1) The aggregate amount of sales attributable to the Group's five largest customers represented approximately 80% of the Group's total sales for the year. The amount of sales to the Group's largest customer included therein represented approximately 58%.

(2) The aggregate amount of purchases attributable to the Group's five largest suppliers represented approximately 85% of the Group's total purchases for the year. The amount of purchases from the Group's largest supplier included therein represented approximately 55%.

Yanchang Petroleum Group, a substantial shareholder of the Company, had beneficial interests in the largest supplier of the Group.

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

MATERIAL RELATED PARTY TRANSACTIONS

Details of the material related party transactions of the Group are set out in note 37 to the consolidated financial statements on pages 125 and 126.

PENSION SCHEMES AND COSTS

Details of the Group's pension schemes and costs charged to the consolidated statement of profit or loss and other comprehensive income for the year are set out in note 33 to the consolidated financial statements.

At 31 December 2023, the Group did not have any significant obligations for long service payments to its employees pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong.

DIRECTORS

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

Executive Directors

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

Non-executive Director

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

Independent Non-executive Directors

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

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules of the Stock Exchange. The Company considers all of the independent non-executive Directors are independent.

RE-ELECTION OF DIRECTORS

Pursuant to Bye-law 87 of the Company's Bye-laws, Mr. Feng Yinguo, Mr. Ng Wing Ka, Mr. Leung Ting Yuk, Mr. Sun Liming and Dr. Mu Guodong will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting ("2024 AGM") of the Company.

DIRECTORS' BIOGRAPHIES

Biographical details of the directors of the Company are set out in the section "Directors' and Senior Management's Biographies" on pages 22 to 24 of the annual report.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for three years, which can be terminated by either party giving notice in writing to the other party.

Save as disclosed above, no Director proposed for re-election at the 2024 AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACT

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

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT AND CONTRACT

Save as disclosed in note 37 to the consolidated financial statements, no transaction, arrangement and contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

PERMITTED INDEMNITY

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

DIRECTORS' INTERESTS IN SHARE CAPITAL

At 31 December 2023, the interests and short positions of the Directors and chief executives in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Interests and short positions in shares, underlying shares and debentures of the Company

Name of Director	Nature of interest	Long position/ Short position	Number of ordinary shares of the Company held	Approximate percentage of the total issued ordinary share capital of the Company
Mr. Sun Liming	Personal interest	Long position	30,000	0.003%
Dr. Mu Guodong ("Dr. Mu")	Personal interest and interest of spouse *(note)*	Long position	15,000	0.001%

Note: Out of these 15,000 shares, Dr. Mu personally held 11,500 Shares and his spouse held 3,500 shares. Dr. Mu is deemed to be interested in these 3,500 shares under the SFO.

Save as disclosed above, as at 31 December 2023, none of the Directors or chief executives of the Company or their respective associates had any personal, family, corporate or other interests in the share capital of the Company or any of its associated corporations as defined in the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Share Option Scheme" below, at no time during the year and up to the date of this report was the Company or any of its subsidiaries a party to any arrangement to enable the Company's Directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SHARE OPTION SCHEME

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

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

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Continued)*

As at 31 December 2023, no share options had been granted and remained outstanding under the 2022 Scheme (31 December 2022: Nil), representing 0% (31 December 2022: 0%) of the total number of the Shares of the Company in issue at that date, further details of which are set out in note 26 to the consolidated financial statements on pages 114 and 117.

EQUITY-LINKED AGREEMENTS

Save for the 2022 Scheme as disclosed above, the Company has not entered into any other equity-linked agreements for the year ended 31 December 2023.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2023, the interests of persons, other than a Director or chief executive of the Company, in the shares of the Company as recorded in the register maintained pursuant to Section 336 of the SFO were as follows:

Interests and short positions of substantial shareholders in shares and underlying shares of the Company

Name	Capacity	Long position/ Short position	Number of ordinary shares of the Company held	Approximate percentage of the total issued ordinary share capital of the Company
Yanchang Petroleum Group *(note 1)*	Interest of controlled corporation	Long position	634,310,161	57.66%
Yanchang Petroleum HK *(note 1)*	Directly owned	Long position	634,310,161	57.66%
Chang An Huitong Co., Limited ("Chang An Huitong") *(note 2)*	Interest of controlled corporation	Long position	183,350,467	16.67%
ChangAn Huitong Investment Management Co., Ltd ("ChangAn Huitong Investment") *(note 2)*	Interest of controlled corporation	Long position	183,350,467	16.67%
ChangAn Huitong HK *(note 2)*	Directly owned	Long position	183,350,467	16.67%

Notes:

1. Yanchang Petroleum Group beneficially held these 634,310,161 shares through its direct wholly-owned subsidiary, Yanchang Petroleum HK.

2. Chang An Huitong beneficially held these 183,350,467 shares through its directly wholly-owned subsidiary, ChangAn Huitong Investment, which in turn wholly owned ChangAn Huitong HK.

Save as disclosed above, the Company had not been notified of any other interests or short positions in the shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company as at 31 December 2023.

CONTINUING CONNECTED TRANSACTIONS

Yanchang Petroleum Group and Henan Yanchang (an indirect non-wholly owned subsidiary of the Company) renewed and entered into a new supply agreement dated 18 November 2022 and a supplemental agreement to revise annual caps dated 27 November 2023 (together the "Supply Agreement"), pursuant to which Yanchang Petroleum Group agreed to supply and Henan Yanchang agreed to purchase refined oil and by-products (including chemical products) for the three years ending 31 December 2025.

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

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

The independent non-executive Directors of the Company had reviewed the continuing connected transactions contemplated under the Supply Agreement and the Sales Agreements mentioned above and had confirmed that the Company had complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules:

(1) the aggregate value of the continuing connected transactions contemplated under the Supply Agreement for the year ended 31 December 2023 as indicated above did not exceed the 2023 annual cap amount of RMB15,148,000,000 (equivalent to approximately HK$16,547,675,200);

(2) the aggregate value of continuing connected transactions contemplated under the Sales Agreements for the year ended 31 December 2023 from the Henan Yanchang to Yanan Energy Chemical and Yanchang Shell Henan as indicated above did not exceed the 2023 annual cap amount of RMB42,000,000 (equivalent to approximately HK$45,880,800) and RMB470,000,000 (equivalent to approximately HK$513,428,000) respectively; and

(3) the continuing connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or on terms no less favourable to the Group than terms available from or to independent third parties; and (c) in accordance with the terms of the Supply Agreement and the Sales Agreements governing such transactions, which were fair and reasonable and in the interests of the Company and its shareholders as a whole.

BDO Limited, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Review of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. BDO Limited had issued their letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter had been provided by the Company to the Stock Exchange.

REPORT OF THE DIRECTORS

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules.

Having made specific enquiry of all Directors, they confirmed that they had complied with the required standard as set out in the Model Code as their code of conduct regarding Directors' securities transactions with the Company throughout the year ended 31 December 2023.

CORPORATE GOVERNANCE

The Company is committed to maintain a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the "Corporate Governance Report" on pages 35 to 46.

COMPLIANCE WITH LAWS AND REGULATIONS

As at 31 December 2023 and up to the date of this annual report, the Board was unaware of any non-compliance with the relevant laws and regulations that have a significant impact on the Company.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this annual report, based on information that is publicly available to the Company, and within the knowledge of the Directors, more than 25% of the issued capital of the Company were held by the public.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 28 May 2024 to 31 May 2024 (both days inclusive), during which period, no transfer of share(s) will be registered. In order to qualify for attending the annual general meeting of the Company to be held on 31 May 2024, all share transfers, accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited located at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration, not later than 4:30 p.m. on 27 May 2024.

AUDITORS

A resolution will be proposed at the 2024 AGM to re-appoint BDO Limited as the auditors of the Company for the ensuing year.

On behalf of the Board

Mr. Feng Yinguo
Chairman

Hong Kong, 28 March 2024

CORPORATE GOVERNANCE PRACTICE

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

In the opinion of the Board, the Company had complied with the code provisions set out in the Corporate Governance Code (the "CG Code") in Appendix 14 of the Listing Rules during the year ended 31 December 2023, except for the following deviations:

1. code provision B.2.4(b) of the CG Code provides that all the independent non-executive Directors have served more than nine years on the Board, the Company should appoint a new independent non-executive Director on the Board. Mr. Ng Wing Ka, Mr. Leung Ting Yuk, Mr. Sun Liming and Dr. Mu Guodong have served as the independent non-executive Directors for more than nine years. The Company would appoint an additional new independent non-executive Director as soon as practicable as the Company needs time to identify a qualified and suitable candidate. As at the date of this report, the Company has not yet identified a suitable candidate to assume the role of the new independent non-executive Director as provided by the code provision B.2.4(b).

2. code provision C.1.6 of the CG Code provides that the independent non-executive Directors and other non-executive Directors should also attend general meetings and develop a balance understanding of the views of shareholders. The independent non-executive Directors namely Mr. Ng Wing Ka and Mr. Leung Ting Yuk were unable to attend at the special general meeting of the Company held on 17 January 2023 due to other ad hoc engagements.

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

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

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

3. code provision C.2.1 of the CG Code provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The position of the chief executive officer of the Company was vacant following the resignation of Mr. Bruno Guy Charles Deruyck as an executive Director and chief executive officer on 1 June 2019. The Board considers that the balance of power and authority, accountability and independent decision-making under present arrangement is not impaired because of the diverse background and experience of the executive Directors, the non-executive Director and the independent non-executive Directors. The audit committee of the Company has free and direct access to the Company's senior management, external auditors and independent professional advisers when it considers necessary. Therefore, the Board considers that the deviation from code provision C.2.1 of the CG Code is not significant in such circumstance.

4. code provision F.2.2 of the CG Code provides that the chairman of the Board should attend the annual general meeting. He should also invite the chairman of the audit, remuneration, nomination and any other committees (as appropriate) to attend. The chairman of the Board, Mr. Feng Yinguo was unable to attend the annual general meeting held on 30 June 2023 due to other ad hoc engagements.

BOARD OF DIRECTORS

Board Composition

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

(a) three executive Directors, namely Mr. Feng Yinguo (Chairman), Mr. Zhang Jianmin and Mr. Ding Jiasheng;

(b) one non-executive Director, namely Mr. Sun Jian; and

(c) four independent non-executive Directors required under Rule 3.10(1) of the Listing Rules, namely Mr. Ng Wing Ka, Mr. Leung Ting Yuk, Mr. Sun Liming and Dr. Mu Guodong which represent more than one-third of the total number of the members of the Board. One of the independent non-executive Directors has appropriate professional qualifications with accounting and related financial expertise required under Rule 3.10(2) of the Listing Rules.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Board Composition *(Continued)*

The respective biographical details of each of the Directors are disclosed in the section of "Directors' and Senior Management's Biographies" in the annual report. Details of changes in the Board during the year are set out in the "Report of the Directors" of the annual report.

The Company considers that the Board members have the necessary skills and experience appropriate for discharging their duties as Directors in the best interest of the Company and that the current Board size is adequate for its present operations.

Each of the Directors keeps abreast of his responsibilities as a Director of the Company and of the conduct, business activities and development of the Company.

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

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

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

Corporate Governance Functions

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

Appointment and Re-election of Directors

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

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

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

BOARD OF DIRECTORS *(Continued)*

Board Diversity Policy

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

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

Board Meetings

The Board conducts meetings on a regular basis and on an ad hoc basis, as required by business needs. The Bye-laws of the Company allows board meetings to be conducted by way of telephone or video conference and any resolutions to be passed by way of written resolutions circulated to and signed by all Directors from time to time when necessary unless any matters in which a substantial shareholder or a Director or their respective associates has conflict of interest.

For the Board meetings, sufficient 14 days' notices for regular board meetings and reasonable days for non-regular Board meetings were given to all directors so as to ensure that each of them had an opportunity to attend the meetings, to include matters in the agenda and accompanying board papers were given to all Directors in a timely manner before the appointed date of the Board meetings. Every Board member has full access to the advice and services of the company secretary with a view to ensuring that Board procedures, and all applicable rules and regulations are followed. Sufficient information was also supplied by the management to the Board to enable it to discharge its duties and to make decisions, which are in the best interests of the Company.

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

Directors' Continuous Professional Development

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

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

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

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

Code provision C.2.1 of the CG Code provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The position of the chief executive officer of the Company was vacant following the resignation of Mr. Bruno Guy Charles Deruyck as an executive Director and chief executive officer on 1 June 2019.

The Board considers that the vacancy will not impair the balance of power and authority between the Board and the management as the Board comprises eight experienced individuals including three executive Directors, one non-executive Director and four independent non-executive Directors. In addition, one of the important roles of the chairman is to provide leadership to the Board to ensure that the Board always acts in the best interests of the Group. The chairman shall ensure that the Board works effectively and fully discharges its responsibilities, and that all key issues are discussed by the Board in a timely manner. All Directors have been consulted about any matters proposed for inclusion in the agenda. With the support of the company secretary, the chairman seeks to ensure that all Directors are properly briefed on issues arising at any Board meeting and have received adequate and reliable information in a timely manner.

NON-EXECUTIVE DIRECTOR

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

All the four independent non-executive Directors, Mr. Ng Wing Ka, Mr. Leung Ting Yuk, Mr. Sun Liming and Dr. Mu Guodong have served more than nine years on the Board and were appointed for a term of three years. No equity-based remuneration with performance-related elements have been granted to the independent non-executive Directors so that the independent non-executive Directors' objectivity and independence will not be impaired. They are also subject to retirement by rotation at least once every three years in accordance with the Bye-laws of the Company at the annual general meeting of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

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

Each of the independent non-executive Directors has made annual confirmation that he complied with the independence criteria set out in Rule 3.13 of the Listing Rules. The Board considers that all the four independent non-executive Directors are independent under these independence criteria and are capable to effectively exercise independent judgment.

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

BOARD COMMITTEES

The Company has established three Board committees, namely the audit committee, the remuneration committee and the nomination committee with defined terms of reference, to assist the Board in discharging its duties and responsibilities. Upon reasonable request, the Directors and each committee can engage outside consultants or experts to seek independent professional advice, at the Company's expense, as they consider necessary to discharge their responsibilities. Minutes of all committees' meetings are circulated to their members. To further reinforce independence and effectiveness, all audit committee members are independent non-executive Directors, and the nomination and remuneration committees have been structured with a majority of independent non-executive Directors as members.

Audit Committee

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

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

The audit committee is responsible for the appointment of external auditors, review of the Group's financial information and overseeing the Group's financial reporting, risk management and internal control systems. It is also responsible for reviewing the interim and annual results of the Group prior to recommending them to the Board for approval. It meets regularly to review financial reporting, risk management and internal control systems and to this end has unrestricted access to the Company's senior management and external auditors. Its written terms of reference are available on the websites of the Stock Exchange and the Company.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

During the year ended 31 December, 2023, the audit committee held six meetings. At the meetings, the committee reviewed (i) audit planning for the year ended 31 December 2022; (ii) profit warning announcement in relation to the financial year ended 31 December 2022; (iii) the annual results for the year ended 31 December 2022 with the external auditors, and reviewed and discussed the Group's financial reporting, risk management and internal control systems; (iv) positive profit alert announcement in relation to interim results for six months ended 30 June 2023; (v) the interim results for the period ended 30 June 2023; and (vi) audit planning for the year ended 31 December 2023.

Remuneration Committee

The remuneration committee currently comprises two independent non-executive Directors, namely Mr. Sun Liming and Mr. Leung Ting Yuk, and an executive Director, Mr. Feng Yinguo. Mr. Sun Liming is the chairman of the remuneration committee.

The remuneration committee was established for the purpose of making recommendations to the Board on the Company's policies and structure on remuneration of all Directors (including independent non-executive Directors) and senior management. The Remuneration Committee has adopted the approach under code provision E.1.2(c)(ii) of the CG Code to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. Its written terms of reference are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2023, the remuneration committee held two meetings. At the meetings, the committee reviewed and approved (i) the remuneration under the new service contracts for the Directors; and (ii) reviewed and approved the existing remuneration package of the Directors and senior management of the Company.

The remuneration paid to the senior management by band for the year ended 31 December 2023 and 31 December 2022 is set out as below:

	Number of individuals	
	2023	2022
HK$		
1,500,001–2,000,000	**2**	3
2,000,001–2,500,000	**1**	1
2,500,001–3,000,000	**–**	–
3,000,001–3,500,000	**1**	–
3,500,001–4,000,000	**–**	1
4,000,001–4,500,000	**1**	–
	5	5

BOARD COMMITTEES *(Continued)*

Nomination Committee

The nomination committee currently comprises two independent non-executive Directors, namely Mr. Ng Wing Ka and Mr. Sun Liming, and an executive Director, Mr. Feng Yinguo. Mr. Ng Wing Ka is the chairman of the nomination committee.

The nomination committee is responsible for reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy; identifying individuals suitably qualified to become Board members and assessing the independence of independent non-executive Directors; and making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors. The nomination committee will also give consideration to the board diversity policy (as defined above) when identifying suitable qualified candidates to become members of the Board, and the Board will review the board diversity policy, so as to develop and review measurable objectives for implementing the board diversity policy and to monitor the progress on achieving these objectives. Its written terms of reference are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2023, the nomination committee held two meetings. At the meetings, the committee reviewed and assessed (i) the new service contracts of the Directors; and (ii) the independence of all the independent non-executive Directors, the composition and structure of the Board and the retirement and re-election of Directors at the 2023 annual general meeting of the Company.

Details of the Directors' attendance (either in person or by phone) at the Board meetings, general meetings, audit committee meetings, remuneration committee meetings and nomination committee meetings held during the year ended 31 December 2023 are set out in the table below:

	No. of meetings attended/entitled to attend					
Directors	**Annual General Meeting**	**Special General Meeting**	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors:						
Mr. Feng Yinguo	0/1	0/3	12/12	–	2/2	2/2
Mr. Zhang Jianmin	0/1	0/3	11/12	–	–	–
Mr. Ding Jiasheng	1/1	0/3	12/12	–	–	–
Non-Executive Director:						
Mr. Sun Jian *(appointed on 8 February 2023)*	0/1	0/2	10/10	–	–	–
Independent Non-executive Directors:						
Mr. Ng Wing Ka	1/1	1/3	12/12	6/6	–	2/2
Mr. Leung Ting Yuk	1/1	1/3	10/12	6/6	2/2	–
Mr. Sun Liming	0/1	3/3	12/12	6/6	2/2	2/2
Dr. Mu Guodong	1/1	2/3	12/12	–	–	–

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

Mr. Law Hing Lam was appointed as the company secretary of the Company with effect from 21 March 2011. He is responsible to support the Board by ensuring good information flow within the Board and that Board meeting procedures and policies are followed. He is also responsible for advising the Board through the chairman and/or the chief executive officer on corporate governance matters and also facilitating induction and professional development of Directors. In addition, Mr. Law is directly responsible for the Group's compliance with the continuing obligations of the Listing Rules, Codes on Takeovers and Mergers and Share Repurchases, Companies Ordinance, SFO and other applicable laws, rules and regulations.

Mr. Law is also the financial controller and the authorised representative of the Company. The biographical details of Mr. Law is set out in the section "Directors' and Senior Management's Biographies" on page 24 of the annual report.

DIRECTORS' SECURITIES TRANSACTIONS

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

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The financial statements of the Company for the year ended 31 December 2023 have been reviewed by the audit committee and audited by the external auditors, BDO Limited. The Directors acknowledge their responsibilities for preparing the financial statements of the Group which give a true and fair view. The Directors' responsibilities for the accounts are set out in the independent auditor's report on pages 47 to 50.

The Directors would like to draw attention to Note 3(b) to the consolidated financial statements set out on pages 66 and 67, which indicates that the Group had net current liabilities of HK$423,960,000 as at 31 December 2023. As stated in Note 3(b) the conditions, indicate that a material uncertainty exists that may cast significant doubt about the Group's ability to continue as a going concern. In assessing the appropriateness of the use of the going concern basis in the preparation of the consolidated financial statements, the Directors have prepared a cash flow forecast covering a period of twelve months from the date of approval of these consolidated financial statements with careful consideration of the past and future financial performance and liquidity after taking account of the following:

(i) the Group expects to generate operating cash inflows;

(ii) the Group would be able to obtain additional finance from various sources including but not limited to banks, shareholders and other potential investors;

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

(iv) disposal of certain assets to obtain funding.

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

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

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

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

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

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

On the assumption of successful implementation of the above, the Directors considered that the Group would have sufficient financial resources to finance its operations and to meet financial obligations as and when they fall due. Accordingly, the consolidated financial statements are prepared on going concern basis. The independent auditor's opinion is not modified in respect of this matter, the consolidated financial statements of the Group give a true and fair view.

RISK MANAGEMENT AND INTERNAL CONTROL

The management has the responsibility to maintain appropriate and effective risk management and internal control systems, and the Board has the responsibility to review and monitor the effectiveness of the Group's risk management and internal control systems at least annually covering material controls, including financial, operational and compliance controls, to ensure that the systems in place are adequate and effective.

The Company has conducted an annual review on whether there is a need for an internal audit department. Given the Group's corporate and operation structure, as opposed to diverting resources to establish a separate internal audit department, the Board considers that it is more cost-effective to engage external independent consultants to perform such annual internal audit function.

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

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

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

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

The Group's risk management and internal control systems are, however, designed to manage and minimise rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

The Company engaged external independent consultants with professional staff in possession of relevant expertise to conduct an independent review of the risk management and internal control systems of the Group annually in order to maintain high standards of corporate governance. The Board and its audit committee has also reviewed the resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting functions and considered they are adequate and sufficient.

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company is aware of the relevant obligations under the SFO and the Listing Rules.

In order to enhance the Group's system of handling inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Group also adopts and implements an inside information policy and procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent breach of disclosure requirements in relation to the Group, which include:

- The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.

- Confidentiality covenants will be in place when the Group enters into significant negotiations.

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

The Board and its audit committee had reviewed the adequacy and effectiveness of the Group's risk management and internal control systems during the year under review. Several areas have been considered during such reviews, which include but not limited to (i) the changes in the nature and extent of significant risks since the last annual review, and the Group's ability to respond to changes in its business and the external environment; and (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems. Having confirmed by the management, the Board and its audit committee were not aware of any material internal control defects, and considered such systems effective and adequate throughout the year under review.

AUDITORS' REMUNERATION

Auditors' remuneration for the year amounted to a total of HK$2,752,000, which was incurred for audit service.

ANTI-CORRUPTION POLICES

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

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

WHISTLE-BLOWING POLICY

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

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

SHAREHOLDERS' RIGHTS

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

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

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS *(Continued)*

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

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

CONSTITUTIONAL DOCUMENTS

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

COMMUNICATION WITH SHAREHOLDERS

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

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

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

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

Shareholders' Communication Policy

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

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

OPINION

We have audited the consolidated financial statements of Yanchang Petroleum International Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 51 to 133, which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including material accounting policy information.

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the "Material Uncertainty Related to Going Concern" section, we have determined the matters described below to be the key audit matters to be communicated in our report.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

Assessing impairment of petroleum and natural gas properties

As at 31 December 2023, the Group had petroleum and gas properties with the carrying amount of approximately HK$1,739,123,000 (see note 17), which contributed 47.2% of the Group's total assets. Management reviewed petroleum and natural gas properties, which comprise different cash-generating units ("CGUs"), for indicators of possible impairment or reversal of impairment by considering events or changes in circumstances. Such events and changes in circumstances included the economic impact on these CGUs resulting from fluctuation of oil and gas prices, production costs and change in production and oil and gas reserve volumes.

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

As a result of the impairment assessment exercise, an impairment loss of petroleum and natural gas properties of HK$127,292,000 was recognised in profit or loss for the year ended 31 December 2023.

We identified the assessment of impairment of petroleum and natural gas properties as a key audit matter because the impairment assessments are complex and involve the exercise of significant management judgement in estimating the inputs in the impairment assessment models, which can be inherently uncertain and could be subject to management bias.

Our response:

- assessing management's identification of indicators of potential impairment of petroleum and natural gas properties, identification of CGUs, the allocation of assets to those CGUs and the methodology adopted by management in the impairment assessments with reference to the requirements of the prevailing accounting standards;

- challenging the key inputs in the discounted cash flow forecasts, including future selling prices for crude oil and natural gas and future production profiles, with reference to the Group's business plans and external data and forecasts, together with oil and gas reserves reports issued by third party reserves specialists and considering whether there were any indicators of management bias in the selection of key inputs;

- involving our internal valuation specialists to assist us in assessing whether the discount rates applied by the Group in the discounted cash flow forecasts were within the range adopted by other companies in the same industry;

- assessing the competence, capabilities, independence and objectivity of the third party reserves specialists engaged by the Group to estimate the oil and gas reserves;

- comparing the actual results for the current year with management's forecasts prepared in the prior year to assess the historical accuracy of management's forecasting process;

- making enquiries of management as to the reasons for any significant variations identified and considering whether these had been taken into account in the current year's forecasts; and

- considering the disclosures in the consolidated financial statements in respect of the impairment assessment of petroleum and natural gas properties and the key assumptions adopted with reference to the requirements of the prevailing accounting standards.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The audit committee of the Company (the "Audit Committee") assists the directors in discharging their responsibility in this regard.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

INDEPENDENT AUDITOR'S REPORT

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO Limited
Certified Public Accountants

Alfred Lee
Practising Certificate Number P04960

Hong Kong, 28 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	2023 HK$'000	2022 HK$'000
Revenue	8	**27,742,529**	29,936,206
Other revenue	8	**17,784**	12,199
		27,760,313	29,948,405
Expenses			
Purchases		**(27,145,282)**	(29,472,861)
Royalties		**(93,109)**	(60,305)
Field operation expenses		**(108,712)**	(77,877)
Exploration and evaluation expenses		**(2,597)**	(2,620)
Selling and distribution expenses		**(18,726)**	(167,426)
Administrative expenses		**(110,523)**	(99,398)
Depreciation, depletion and amortisation	10	**(240,726)**	(169,571)
Net (recognition)/reversal of impairment loss of property, plant and equipment	17	**(158,489)**	169,786
Provision for expected credit loss	5(b)	**(43,923)**	(115,136)
Provision for litigations	35	**(84,274)**	(448,347)
Other gains and losses	9	**11,316**	(62,280)
		(27,995,045)	(30,506,035)
Loss from operating activities	10	**(234,732)**	(557,630)
Finance costs	13	**(58,926)**	(50,641)
Gain on deconsolidation of a subsidiary	36	**882,050**	–
Profit/(loss) before taxation		**588,392**	(608,271)
Taxation	14	**(8,260)**	(10,828)
Profit/(loss) for the year		**580,132**	(619,099)
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong			
– Exchange differences arising during the year		**33,355**	(78,842)
– Reclassification of exchange difference on deconsolidation of a subsidiary		**(10,673)**	–
Other comprehensive income for the year, with nil tax effect		**22,682**	(78,842)
Total comprehensive income for the year		**602,814**	(697,941)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	2023 HK$'000	2022 HK$'000
Profit/(loss) for the year attributable to:			
Owners of the Company		217,593	(199,510)
Non-controlling interests	*38(b)*	362,539	(419,589)
		580,132	(619,099)
Total comprehensive income for the year attributable to:			
Owners of the Company		237,064	(263,334)
Non-controlling interests		365,750	(434,607)
		602,814	(697,941)
			(Restated)
Earnings/(loss) per share			
Basic and diluted, HK cents	*16*	19.89	(21.76)

The notes on pages 59 to 133 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	Notes	2023 HK$'000	2022 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*17*	**1,859,533**	1,865,290
Investment properties	*18*	**12,590**	13,633
Exploration and evaluation assets	*19*	**11,384**	5,273
Right-of-use assets	*20*	**99,349**	108,056
Goodwill and intangible asset	*21*	**58,149**	58,149
Financial asset at fair value through other comprehensive income		**–**	–
		2,041,005	2,050,401
Current assets			
Inventories	*22*	**346,580**	846,178
Trade receivables	*23*	**1,014,916**	722,285
Prepayments, deposits and other receivables	*24*	**55,853**	460,277
Tax recoverable		**–**	2,453
Restricted cash	*25*	**–**	303,406
Cash and bank balances	*25*	**226,188**	133,209
		1,643,537	2,467,808
Total assets		**3,684,542**	4,518,209
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital	*26*	**440,041**	366,701
Reserves		**850,872**	406,255
Total equity attributable to the owners of the Company		**1,290,913**	772,956
Non-controlling interests	*38(b)*	**57,253**	(303,530)
Total equity		**1,348,166**	469,426

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	Notes	2023 HK$'000	2022 HK$'000
LIABILITIES			
Current liabilities			
Trade and other payables	*27*	**1,208,394**	2,167,196
Lease liabilities	*28*	**7,838**	6,941
Bank borrowings and other loans	*29*	**405,594**	700,032
Provision for litigations	*35*	**–**	453,330
Secured term loans	*32*	**445,355**	273,047
Tax payables		**316**	–
		2,067,497	3,600,546
Non-current liabilities			
Decommissioning liabilities	*30*	**171,349**	169,779
Lease liabilities	*28*	**86,815**	94,509
Deferred tax liabilities	*31*	**10,715**	11,249
Secured term loans	*32*	**–**	172,700
		268,879	448,237
Total liabilities		**2,336,376**	4,048,783
Total equity and liabilities		**3,684,542**	4,518,209
Net current liabilities		**(423,960)**	(1,132,738)
Total assets less current liabilities		**1,617,045**	917,663

Approved and authorised for issue by the board of directors on 28 March 2024.

Mr. Feng Yinguo
Chairman

Mr. Zhang Jianmin
Director

The notes on pages 59 to 133 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Attributable to the owners of the Company									
		Reserves								
	Share capital HK$'000	**Share premium** HK$'000 *(note i)*	**Contribution surplus** HK$'000 *(note ii)*	**Exchange reserve** HK$'000	**Statutory reserve** HK$'000 *(note iii)*	**Other reserve** HK$'000 *(note iv)*	**Accumulated losses** HK$'000 *(note v)*	**Sub-total** HK$'000	**Non-controlling interests** HK$'000	**Total** HK$'000
At 1 January 2022	366,701	2,115,311	6,400,652	(289,442)	24,544	2,834	(7,584,233)	669,666	131,077	1,167,444
Loss for the year	–	–	–	–	–	–	(199,510)	(199,510)	(419,589)	(619,099)
Other comprehensive income for the year										
Item that may be reclassified subsequently to profit or loss:										
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong										
– Exchange differences arising during the year	–	–	–	(63,824)	–	–	–	(63,824)	(15,018)	(78,842)
Total comprehensive income for the year	–	–	–	(63,824)	–	–	(199,510)	(263,334)	(434,607)	(697,941)
Transfer of reserves	–	–	–	–	–	(1,013)	1,013	–	–	–
Others	–	–	–	–	(77)	–	–	(77)	–	(77)
At 31 December 2022 and 1 January 2023	366,701	2,115,311	6,400,652	(353,266)	24,467	1,821	(7,782,730)	406,255	(303,530)	469,426
Profit for the year	–	–	–	–	–	–	217,593	217,593	362,539	580,132
Other comprehensive income for the year										
Item that may be reclassified subsequently to profit or loss:										
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong										
– Exchange differences arising during the year	–	–	–	35,811	–	–	–	35,811	(2,456)	33,355
– Reclassification of exchange difference on deconsolidation of a subsidiary *(note 36)*	–	–	–	(16,340)	–	–	–	(16,340)	5,667	(10,673)
Total comprehensive income for the year	–	–	–	19,471	–	–	217,593	237,064	365,750	602,814
Deconsolidation of a subsidiary	–	–	–	–	(2,569)	–	2,569	–	–	–
Share subscription	73,340	207,553	–	–	–	–	–	207,553	–	280,893
Transfer of reserves	–	–	–	–	–	4,490	(4,490)	–	–	–
Dividend paid to non-controlling interests *(note 38(b))*	–	–	–	–	–	–	–	–	(4,967)	(4,967)
At 31 December 2023	440,041	2,322,864	6,400,652	(333,795)	21,898	6,311	(7,567,058)	850,872	57,253	1,348,166

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

Notes:

(i) The share premium represents (a) the difference between the nominal value and the fair value of the consideration shares of the Company (as defined in note 1) paid for acquisition of subsidiaries in prior years and (b) the excess of the proceeds received over the nominal value of the shares of the Company issued, less expenses incurred in connection with the issue.

(ii) The contribution surplus of the Group (as defined in note 1) represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the Stock Exchange (as defined in note 1) set out in the Company's prospectus dated 30 March 2001, over the nominal value of the shares of the Company issued in exchange therefor.

(iii) As stipulated by the relevant laws and regulations in the PRC (as defined in note 1), the subsidiaries of the Company established in the PRC shall set aside 10% of their net profit after taxation for the statutory surplus reserve fund (except when the reserve balance has reached 50% of the subsidiaries' paid-up capital). The reserve fund can only be used, upon approval by the board of directors and by the relevant authority, to offset accumulated losses or increase capital.

(iv) The other reserve represents the safety production fund. Under PRC's laws and regulations, the Group is required to accrue safety production fund at a certain percentage of the sales of dangerous goods. The fund is earmarked for improving the safety of production. The fund is accrued from retained earnings to other reserve and converted back to retained earnings when used.

(v) Accumulated losses represent the cumulative net revenue, expenses, gains and losses recognised in profit or loss.

The notes on pages 59 to 133 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Notes	2023 HK$'000	2022 HK$'000
Profit/(loss) before taxation		**588,392**	(608,271)
Adjustments for:			
Interest income	*8*	**(12,263)**	(4,734)
Depreciation and depletion of property, plant and equipment	*17*	**232,354**	161,221
Depreciation of right-of-use assets	*20*	**8,372**	8,350
Fair value change on investment properties	*18*	**655**	251
Gain on deconsolidation of a subsidiary	*36*	**(882,050)**	–
Written off of expired exploration and evaluation assets	*19*	**281**	–
Net recognition/(reversal) of impairment loss of property, plant and equipment	*17*	**158,489**	(169,786)
Reversal of impairment loss of exploration and evaluation assets	*19*	**(474)**	(934)
Write down of inventories	*9*	**–**	24,550
Provision for litigations	*35*	**84,274**	448,347
Provision for expected credit loss	*5(b)*	**43,923**	115,136
Net foreign exchange (gain)/loss	*9*	**(11,778)**	30,618
Finance costs	*13*	**58,926**	50,641
Operating cash flows before movements in working capital		**269,101**	55,389
Increase in trade receivables		**(460,145)**	(223,021)
Decrease/(increase) in inventories		**121,765**	(441,705)
Decrease in prepayments, deposits and other receivables		**147,756**	761,577
Decrease/(increase) in restricted cash		**41,287**	(303,406)
Decrease in trade and other payables		**280,401**	246,487
Decrease/(increase) in decommissioning liabilities		**(5,005)**	7,463
Cash generated from operations		**395,160**	102,784
Interest received	*8*	**12,263**	4,734
Tax paid		**(605)**	(18,374)
Net cash generated from operating activities		**406,818**	89,144
Cash flows from investing activities			
Purchases of exploration and evaluation assets	*19*	**(6,978)**	(5,749)
Purchases of property, plant and equipment	*17*	**(350,503)**	(460,736)
Net cash used in investing activities		**(357,481)**	(466,485)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Notes	2023 HK$'000	2022 HK$'000
Cash flows from financing activities			
Proceeds from new bank borrowings	25(b)	**447,884**	391,611
Proceeds from other loans	25(b)	**274,050**	278,925
Interest paid	25(b)	**(35,240)**	(40,712)
Repayment of bank borrowings	25(b)	**(613,929)**	(477,520)
Repayment of other loans	25(b)	**(282,025)**	–
Share subscription	26	**280,893**	–
Dividend paid to non-controlling interests	38(b)	**(4,967)**	–
Capital element of lease rentals paid	25(b)	**(6,402)**	(5,865)
Interest element of lease rentals paid	25(b)	**(4,880)**	(5,120)
Net cash generated from financing activities		**55,384**	141,319
Net increase/(decrease) in cash and cash equivalents		**104,721**	(236,022)
Cash and cash equivalents at the beginning of the year		**133,209**	394,132
Effect of exchange rate changes on cash and cash equivalents		**(11,742)**	(24,901)
Cash and cash equivalents at the end of the year	25(a)	**226,188**	133,209

The notes on pages 59 to 133 form an integral part of these consolidated financial statements.

1. CORPORATE INFORMATION

Yanchang Petroleum International Limited (the "Company") was incorporated in Bermuda on 5 January 2001 as an exempted company with limited liability under the Bermuda Companies Act and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The Company acts as an investment holding company while its subsidiaries are engaged in supply and procurement of oil related products as well as oil and gas exploration, exploitation, sale and operation. The Company and its subsidiaries are collectively referred to as the "Group".

The consolidated financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand (HK$'000), unless otherwise stated.

The directors of the Company (the "Directors") consider the immediate parent and ultimate holding company of the Company to be Yanchang Petroleum Group (Hong Kong) Co., Limited ("Yanchang Petroleum HK"), a company incorporated in Hong Kong, and Shaanxi Yanchang Petroleum (Group) Co., Limited ("Yanchang Petroleum Group"), a state-owned corporation registered in the People's Republic of China (the "PRC") with limited liability, respectively. These entities do not produce financial statements available for public use.

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

(a) Adoption of new or amended HKFRSs

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of new or amendments to HKFRSs that are first effective for the current accounting period of the Group:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

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

HKFRS 17 – Insurance Contracts

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

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

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

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

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

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

Amendments to HKAS 8 – Definition of Accounting Estimates

The amendments clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

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

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

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

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

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

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

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

The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities.

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

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

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

The application of the amendments has had no material impact on the Group's consolidated financial positions and consolidated statement of profit or loss and other comprehensive income but has affected the disclosure of the Group's accounting policies set out in Note 3(n) to the consolidated financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

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

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

As disclosed in note 33, the Group has several subsidiaries operating in Hong Kong which are obliged to pay LSP to employees under certain circumstances. Meanwhile, the Group makes mandatory MPF contributions to the trustee who administers the assets held in a trust solely for the retirement benefits of each individual employee. Offsetting of LSP against an employee's accrued retirement benefits derived from employers' MPF contributions was allowed under the Employment Ordinance (Cap.57). In June 2022, the Government of the Hong Kong Special Administrative Region ("HKSAR") gazetted the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the "Amendment Ordinance") which abolishes the use of the accrued benefits derived from employers' mandatory MPF contributions to offset severance payment and LSP (the "Abolition"). The Abolition will officially take effect on 1 May 2025 (the "Transition Date"). In addition, under the Amendment Ordinance, the last month's salary immediately preceding the Transition Date (instead of the date of termination of employment) is used to calculate the portion of LSP in respect of the employment period before the Transition Date. In July 2023, the HKICPA published "Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong" which provides guidance for the accounting for the offsetting mechanism and the impact arising from abolition of the MPF-LSP offsetting mechanism in Hong Kong. In light of this, the Group has implemented the guidance published by the HKICPA in connection with the LSP obligation retrospectively so as to provide more reliable and more relevant information about the effects of the offsetting mechanism and the Abolition. The Group considered the accrued benefits arising from employer MPF contributions that have been vested with the employee and which could be used to offset the employee's LSP benefits as a deemed contribution by the employee towards the LSP. Historically, the Group has been applying the practical expedient in paragraph 93(b) of HKAS 19 "Employee Benefits" to account for the deemed employee contributions as a reduction of the service cost in the period in which the related service is rendered.

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

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

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

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

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

- Amendments to HKAS 1 – Classification of Liabilities as Current or Non-current and Hong Kong Interpretation 5 (Revised) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[2]
- Amendments to HKAS 1 – Non-current Liabilities with Covenants[2]
- Amendments to HKAS 7 and HKFRS 7 – Supplier Finance Arrangements[1]
- Amendments to HKFRS 16 – Lease Liability in a Sale and Leaseback[1]
- Amendments to HKAS 21 – Lack of Exchangeability[2]
- Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

1 Effective for annual periods beginning on or after 1 January 2024.

2 Effective for annual periods beginning on or after 1 January 2025.

3 The amendment shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) New or amendments to HKFRSs, that have been issued but are not yet effective *(Continued)*

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

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

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

Amendments to HKAS 1 – Non-current Liabilities with Covenants

The amendments further clarify that among covenants of a liability arising from a loan agreement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period.

Amendments to HKAS 7 and HKFRS 7 – Supplier Finance Arrangements

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

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

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

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

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) New or amendments to HKFRSs, that have been issued but are not yet effective *(Continued)*

Amendments to HKAS 21 – Lack of Exchangeability

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

The Amendments primarily include the following:

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

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

The HKICPA has made limited scope amendments to HKFRS 10 Consolidated Financial Statements and HKAS 28 Investments in Associates and Joint Ventures.

The amendments clarify the accounting treatment for sales or contribution of assets between an investor and their associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in HKFRS 3 Business Combinations).

Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interests in the associate or joint venture. The amendments apply prospectively.

The Directors do not anticipate that the application of the above amendments and revision in the future will have any material impact on the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

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

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

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that investment properties are stated at their fair value as explained in the accounting policies set out in note 3(g).

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 4.

As at 31 December 2023, the Group had net current liabilities of HK$423,960,000. In addition, as disclosed in note 5(b), the Group had financial liabilities totalling HK$1,972,127,000 that are on demand or have a contractual maturities within one year. The Group will be unable to repay these borrowings in full when they fall due unless it is able to generate sufficient net cash inflows from its operations and/or other sources. As at 31 December 2023, the Group had cash and cash equivalents of HK$226,188,000.

3. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

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

In assessing the appropriateness of the use of the going concern basis in the preparation of the consolidated financial statements, the Directors have prepared a cash flow forecast covering a period of twelve months from the date of approval of these consolidated financial statements with careful consideration of future financial performance and liquidity after taking account of the following:

(i) the Group expects to generate operating cash inflows;

(ii) the Group would be able to obtain additional finance from various sources including but not limited to banks, shareholders and other potential investors;

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

(iv) disposal of certain assets to obtain funding.

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

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

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

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

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

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

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

3. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. This is even if this results in the non-controlling interests having a deficit balance.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassify exchange reserve to profit or loss or transferred statutory reserve to another category of equity). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition of financial assets under HKFRS 9 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

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

3. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(d) Goodwill and intangible asset

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") (or groups of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A CGU (or groups of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or groups of CGUs). Any impairment loss is recognised in profit or loss and is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Intangible assets with indefinite useful lives, which are carried at cost less any subsequent accumulated impairment losses, are tested for impairment annually either individually or at the CGU level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

(e) Revenue

Income from sales of goods is classified by the Group as revenue as it arises from the ordinary course of the Group's business.

Revenue from sales of goods is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods promised under the contract on a relative stand-alone selling price basis. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(f) Property, plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent impairment losses, including the following items:

- interests in leasehold land and buildings where the Group is the registered owner of the property interest;
- right-of-use assets arising from leases over leasehold properties where the Group is not the registered owner of the property interest (see note 3(k)); and
- items of property, plant and equipment, including right-of-use assets arising from leases of underlying plant and equipment.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred.

Properties in the course of construction for production or for its own use purposes are carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Except for petroleum and natural gas properties, depreciation is recognised so as to write-off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The annual rates used are as follows:

Buildings	:	over the shorter of the term of the lease or 50 years
Plant and machinery	:	20%
Furniture, fixtures and equipment	:	20%–30%
Motor vehicles	:	20%–30%
Leasehold improvements	:	over the term of the related lease
Leasehold land	:	over the unexpired term of lease

Petroleum and natural gas properties are depleted on an area-by-area basis using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable reserves. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of gas to one barrel of oil. Calculation of depletion is based on total capitalised costs plus estimated future development costs of proved plus probable reserves. Changes in estimates used in prior periods, such as proved and probable reserves, that affect the unit-of-production calculations do not give rise to prior period adjustments and are dealt with on a prospective basis.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed and adjusted if appropriate, at least at the end of each reporting period.

3. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(f) Property, plant and equipment and right-of-use assets *(Continued)*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset including related decommissioning liability and is recognised in profit or loss.

(g) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

(h) Exploration and evaluation assets

Exploration and evaluation assets include costs capitalised by the Group in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Costs incurred before the Group has obtained the legal rights to explore an area are expensed. Exploration and evaluation assets are initially capitalised as intangible assets and are not amortised. Exploration and evaluation assets are assessed for impairment when facts and circumstances indicate that the carrying amount may exceed the recoverable amount. An impairment loss is recognised in profit or loss and separately disclosed. Once the technical feasibility and commercial viability of the extraction of resources in an area of interest are demonstrable based on technical data available to determine proved and/or probable reserves exist, exploration and evaluation assets attributable to that area are transferred to property, plant and equipment. For divestitures of exploration and evaluation assets, a gain or loss is recognised in profit or loss for the difference between the net disposal proceeds and the carrying amount of the asset.

(i) Impairment on tangible assets and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss or reversal (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest groups of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

3. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(i) Impairment on tangible assets and intangible assets *(Continued)*

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average costing method. Net realisable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale.

(k) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

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

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less which do not contain purchase option and leases of low-value assets which, for the Group are primarily laptops, office furniture and staff quarters. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

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

3. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(k) Leased assets *(Continued)*

(i) As a lessee (Continued)

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 3(f) and 3(i)).

The Group presents right-of-use assets and lease liabilities separately in the consolidated statement of financial position.

(ii) As a lessor

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

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

(l) Foreign currencies

(i) Functional and presentation currencies

The consolidated financial statements are presented in Hong Kong dollars which is the same as the financial currency.

During the year, the Company completed the subscription of new shares in Hong Kong dollars. The directors of the Company reassessed the Company's functional currency and have determined that Hong Kong dollars better reflects the economic substance of the Company as an investment holding company after considering the primary and additional factors provided in paragraph 10 of HKAS 21 "The Effects of Changes in Foreign Exchange Rates". Accordingly, the functional currency of the Company was changed from United States dollars to Hong Kong dollars. The change in functional currency of the Company was applied prospectively.

(ii) Foreign currencies translation

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

3. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(l) Foreign currencies *(Continued)*

(ii) Foreign currencies translation (Continued)

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

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

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

(m) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirements plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(n) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

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

3. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(n) Taxation *(Continued)*

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

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale.

(o) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Financial assets are classified into financial assets at amortised cost.

Accounts receivable
A receivable is recognised when the Group has an unconditional right to receive consideration.

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

3. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(o) Financial instruments *(Continued)*

Credit losses from financial instruments

The Group recognises a loss allowance for expected credit losses ("ECL") on financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables).

Measurement of ECLs

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

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

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

- variable-rate financial assets: current effective interest rate.

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

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

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

3. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(o) Financial instruments *(Continued)*

Credit losses from financial instruments *(Continued)*

Measurement of ECLs *(Continued)*
Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk
In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held) or (ii) the financial asset is 30 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable including historical experience and forward-looking information that is available without undue cost or effort.

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

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

3. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(o) Financial instruments *(Continued)*

Credit losses from financial instruments *(Continued)*

Significant increases in credit risk *(Continued)*
Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are re-measured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

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

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

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

3. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(o) Financial instruments *(Continued)*

Credit losses from financial instruments (Continued)

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Financial liabilities and equity instruments

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

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

Interest expense is recognised on an effective interest basis and subject to capitalisation (see note 3(r)).

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(p) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Decommissioning liabilities

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

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which, are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(r) Capitalisation of borrowing costs

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

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

3. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(s) Related party

Related parties are individuals and companies, including subsidiaries, fellow subsidiaries, fellow associates, immediate holding company, ultimate holding company and key management personnel, where the individual or company has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and operating decisions.

(t) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(u) Segment reporting

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or to provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The followings are key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

(a) Going concern

As disclosed in note 3(b), the Directors have prepared the financial statements on a going concern basis as they are of the opinion that the Group has adequate source of liquidity to fund the Group's working capital and to meet its obligations as they become due. Any adverse result on the assumptions would affect the Group's ability to continue as a going concern.

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

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

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

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

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

The discount rate used to calculate the net present value of future cash flows for impairment testing is based on estimates of market conditions, recent asset sales and an approximate company and industry peer group weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.

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

(c) Impairment of goodwill and intangible asset and property, plant and equipment other than petroleum and natural gas properties

Goodwill and intangible asset and property, plant and equipment other than petroleum and natural gas properties are tested for impairment when indicators exist. Further, irrespective of whether there is any indication of impairment, goodwill and intangible assets of supply agreement are required to be tested annually for impairment. For the purpose of impairment testing, goodwill and intangible assets of supply agreement has been allocated to a CGU operating in the supply and procurement of oil related products.

Determining whether goodwill and other assets allocated to a CGU is impaired requires an estimation of the value-in-use. The value-in-use calculation requires the Directors to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value.

(d) Decommissioning liabilities

The Group estimates future remediation costs of production facilities, well sites and gathering systems at different stages of development and construction of assets. In most instances, removal of assets occurs many years in the future. This requires an estimate regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future technologies in determining the removal cost and liability-specific discount rates to determine the present value of these cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2023 HK$'000	2022 HK$'000
Financial assets		
At amortised cost		
– Trade receivables *(note 23)*	1,014,916	722,285
– Deposits *(note 24)*	977	6,480
– Other receivables *(note 24)*	3,380	10,348
– Restricted cash *(note 25)*	–	303,406
– Cash and bank balances *(note 25)*	226,188	133,209
	1,245,461	1,175,728
Financial liabilities		
At amortised cost		
– Trade and other payables *(note 27)*	1,070,865	1,670,913
– Lease liabilities *(note 28)*	94,653	101,450
– Bank borrowings and other loans *(note 29)*	405,594	700,032
– Secured term loans *(note 32)*	445,355	445,747
	2,016,467	2,918,142

(b) Financial risk management objectives

The Group's financial instruments include trade and other receivables, other deposits, restricted cash, cash and bank balances, trade and other payables, lease liabilities, bank borrowings and other loans and secured term loans. Details of these financial instruments are disclosed in respective notes to the consolidated financial statements. The risks associated with these financial instruments include market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these risk exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency risk and interest rate risk.

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

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

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

Market risk *(Continued)*

(i) Foreign currency risk management

The Group operates in Hong Kong, Canada, and the PRC and is exposed to foreign currency risk arising from various currency exposures, primarily with respect to US dollars ("USD"), Canadian dollars ("CAD") and Renminbi ("RMB"). Foreign currency risk arises from the foreign currency denominated commercial transactions, monetary assets and monetary liabilities. The Group has no significant direct exposure to foreign currencies on commercial transactions as most of the commercial transactions are denominated in a currency same as the functional currency of each entity of the Group.

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

	2023 **HK$'000**	2022 HK$'000
Liabilities		
USD	**445,355**	443,116

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

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

Market risk *(Continued)*

(i) Foreign currency risk management *(Continued)*

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

	2023 (Increase)/ decrease in loss for the year and accumulated losses HK$'000	2022 (Increase)/ decrease in loss for the year and accumulated losses HK$'000
Changes in exchange rate:		
CAD depreciates by 5% against USD	**(16,701)**	(16,617)
CAD appreciates by 5% against USD	**16,701**	16,617

(ii) Interest rate risk management

The Group is exposed to cash flow interest rate risk because entities in the Group borrow funds from banks at floating interest rates. The effective interest rate for the bank borrowings was approximately 3.25% as at 31 December 2023 (2022: 3.25%). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of benchmark interest rate published by the People's Bank of China for the Group's RMB denominated borrowings and by the National Bank of Canada for the Group's USD denominated borrowings.

Sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the amount of financial instruments outstanding at the end of the reporting period was outstanding for the whole year. A 150 basis points (2022: 150 basis points) increase or decrease used represent management's assessment of the reasonably possible change in interest rates. Bank balances are excluded from sensitivity analysis as the Directors consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant.

If interest rates had been 150 basis points (2022: 150 basis points) higher/lower and all other variables were held constant, the Group's pre-tax profit for the year would decrease/increase by HK$1,973,000 (2022: pre-tax loss would increase/decrease by HK$4,603,000). This is mainly attributable to the Group's exposure to interest rates on its bank borrowings.

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

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

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group.

The carrying amounts of trade and other receivables, restricted cash and cash and bank balances included in the consolidated statement of financial position represent the Group's maximum exposure to credit risk in relation to the Group's financial assets. No other financial assets carry a significant exposure to credit risk.

The Group's concentration of credit risk by geographical location is mainly in Canada and the PRC.

The Group's exposure to credit risk is influenced mainly by individual characteristics of each customer. At the end of the reporting period, 96% (2022: 33%) and 99% (2022: 81%) of the total trade receivables was due from the Group's largest debtor and the five largest debtors respectively.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivables at the end of the reporting period to ensure that adequate loss allowance are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases. In addition, trade receivables that are credit-impaired are assessed for ECL individually.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables and deposits and other receivables:

		2023	
	Expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000
Trade receivables			
Collective assessment			
– Not yet past due	0.01%	993,085	125
– 0 to 30 days past due	0.02%	595	–
Individual assessment	65.79%–100%	65,393	44,032
		1,059,073	44,157
Deposits and other receivables			
Individual assessment	0.07%–2.39%	4,420	63

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

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

***Credit risk** (Continued)*

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

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

	Lifetime ECL (not credit impaired) HK$'000	**Lifetime ECL (credit impaired)** HK$'000	**Total** HK$'000
As at 1 January 2022	–	–	–
Impairment loss charged to profit or loss	129	114,931	115,060
Exchange realignment	1	1,277	1,278
As at 31 December 2022 and 1 January 2023	130	116,208	116,338
Impairment loss charged to profit or loss	**23**	**43,879**	**43,902**
Deconsolidation of a subsidiary	**(24)**	**(112,530)**	**(112,554)**
Exchange realignment	**(4)**	**(3,525)**	**(3,529)**
As at 31 December 2023	**125**	**44,032**	**44,157**

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

	Total HK$'000
As at 1 January 2022	–
Impairment loss charged to profit or loss	76
As at 31 December 2022 and 1 January 2023	76
Impairment loss charged to profit or loss	**21**
Deconsolidation of a subsidiary	**(31)**
Exchange realignment	**(3)**
As at 31 December 2023	**63**

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

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

Liquidity risk

The Group manages its liquidity risk by regularly monitoring current and expected liquidity requirements and ensuring sufficient liquid cash and intended lines of funding from major financial institutions to meet the Group's liquidity requirements in the short-term and long-term. Note 3(b) explains management's plan for managing liquidity needs of the Group to enable it to continue to meet its obligations as they fall due.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group is required to pay. The table includes both interest and principal cash flows.

	Weighted average interest rate	On demand or less than 1 year	2–5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2023						
Non-derivative financial liabilities						
Trade and other payables	–	1,070,865	–	–	1,070,865	1,070,865
Lease liabilities	4.93	12,407	36,497	84,831	133,735	94,653
Bank borrowings and other loans	1.53	411,799	–	–	411,799	405,594
Secured term loans	4.80	477,056	–	–	477,056	445,355
		1,972,127	36,497	84,831	2,093,455	2,016,467
31 December 2022						
Non-derivative financial liabilities						
Trade and other payables	–	1,670,913	–	–	1,670,913	1,670,913
Lease liabilities	4.94	11,910	38,457	96,122	146,489	101,450
Bank borrowings and other loans	2.13	714,947	–	–	714,947	700,032
Secured term loans	4.80	281,337	178,226	–	459,563	445,747
		2,679,107	216,683	96,122	2,991,912	2,918,142

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

(c) Fair value measurements of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

(i) The fair value of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid prices and ask prices respectively; and

(ii) The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models (e.g. discounted cash flow analysis using observable and/or unobservable inputs).

6. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the returns to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years. Further details regarding the Group's ability to continue as a going concern are disclosed in note 3(b).

The capital structure of the Group consists of debts which include total liabilities (which includes trade and other payables, tax payables, bank borrowings and other loans, secured term loans, lease liabilities, decommissioning liabilities and deferred tax liabilities) and total equity.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. The gearing ratio is calculated as total liabilities divided by total equity. The gearing ratio at 31 December 2023 and 31 December 2022 were as follows:

	2023 **HK$'000**	2022 HK$'000
Total liabilities	**2,336,376**	4,048,783
Total equity	**1,348,166**	469,426
Gearing ratio	**173.3%**	862.5%

7. SEGMENT INFORMATION

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

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

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

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

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

7. SEGMENT INFORMATION *(Continued)*

Segment revenue and results

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

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

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit/(loss) represents the profit earned/loss incurred by each segment without allocation of other revenue, fair value change on investment properties, net foreign exchange gain/(loss), net (recognition)/reversal of impairment loss of property, plant and equipment, reversal of impairment loss of exploration and evaluation assets, write down of inventories, unallocated corporate expenses, finance costs and taxation. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

7. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

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

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

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

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

7. SEGMENT INFORMATION *(Continued)*

Other segment information

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

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

Revenue from major products and services

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

7. SEGMENT INFORMATION *(Continued)*

Geographical information

The Group's operations are located in Canada, the PRC and Hong Kong.

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

	Revenue from external customers		Non-current assets	
	2023	2022	**2023**	2022
	HK$'000	HK$'000	**HK$'000**	HK$'000
PRC	**27,240,712**	29,492,325	**287,304**	341,130
Canada	**501,817**	443,881	**1,750,986**	1,704,663
Hong Kong and others	**–**	–	**2,715**	4,608
	27,742,529	29,936,206	**2,041,005**	2,050,401

Information about major customers

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

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

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

8. REVENUE AND OTHER REVENUE

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

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

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

	2023 **HK$'000**	2022 HK$'000
Other revenue		
Bank interest income	**12,263**	4,734
Rental income *(note 18)*	**99**	435
Storage fee income	**1,590**	1,177
Others	**3,832**	5,853
	17,784	12,199

Total future minimum lease payments receivable by the Group

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

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

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For the year ended 31 December 2023

9. OTHER GAINS AND LOSSES

	2023 **HK$'000**	2022 HK$'000
Net foreign exchange gain/(loss)	**11,778**	(30,618)
Fair value change on investment properties *(note 18)*	**(655)**	(251)
Reversal of impairment loss of exploration and evaluation assets *(note 19)*	**474**	934
Write down of inventories	**–**	(24,550)
Others	**(281)**	(7,795)
	11,316	(62,280)

10. LOSS FROM OPERATING ACTIVITIES

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

	2023 **HK$'000**	2022 HK$'000
Auditors' remuneration		
– Audit services	**2,752**	2,856
– Non-audit services	**–**	416
Cost of inventories sold	**27,145,282**	29,472,861
Depreciation and depletion of property, plant and equipment *(note 17)*	**232,354**	161,221
Depreciation of right-of-use assets *(note 20)*	**8,372**	8,350
	240,726	169,571
Expense relating to variable lease payments not included in the measurement of lease liabilities	**–**	52,668
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	**2,341**	3,259
Staff costs (including Directors' remuneration)		
– Salaries and wages	**77,912**	79,010
– Pension scheme contributions *(note 33)*	**5,026**	4,505

11. DIRECTORS' REMUNERATION

The board of Directors is composed of executive Directors and independent non-executive Directors. Directors' remuneration disclosed pursuant to the Listing Rules and the Hong Kong Companies Ordinance, are as follows:

For the year ended 31 December 2023

	Directors' fees HK$'000	Salaries and other benefits HK$'000	Discretionary bonus HK$'000	Pension scheme contributions HK$'000	Equity-settled share option expenses HK$'000 *(note 26)*	Total HK$'000
Executive Directors						
Mr. Feng Yinguo *(Chairman)*	–	250	–	–	–	250
Mr. Zhang Jianmin	–	250	–	–	–	250
Mr. Ding Jiasheng	–	2,415	1,830	22	–	4,267
Sub-total	–	2,915	1,830	22	–	4,767
Non-executive Director						
Mr. Sun Jian	–	–	–	–	–	–
Sub-total	–	–	–	–	–	–
Independent non-executive Directors						
Mr. Ng Wing Ka	128	–	–	–	–	128
Mr. Leung Ting Yuk	128	–	–	–	–	128
Mr. Sun Liming	128	–	–	–	–	128
Dr. Mu Guodong	128	–	–	–	–	128
Sub-total	512	–	–	–	–	512
Total	512	2,915	1,830	22	–	5,279

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

11. DIRECTORS' REMUNERATION *(Continued)*

For the year ended 31 December 2022

	Directors' fees HK$'000	Salaries and other benefits HK$'000	Discretionary bonus HK$'000	Pension scheme contributions HK$'000	Equity-settled share option expenses HK$'000 *(note 26)*	Total HK$'000
Executive Directors						
Mr. Feng Yinguo *(Chairman)*	–	250	–	–	–	250
Mr. Zhang Jianmin	–	250	–	–	–	250
Mr. Ding Jiasheng	–	2,408	1,421	20	–	3,849
Sub-total	–	2,908	1,421	20	–	4,349
Independent non-executive Directors						
Mr. Ng Wing Ka	128	–	–	–	–	128
Mr. Leung Ting Yuk	128	–	–	–	–	128
Mr. Sun Liming	128	–	–	–	–	128
Dr. Mu Guodong	128	–	–	–	–	128
Sub-total	512	–	–	–	–	512
Total	512	2,908	1,421	20	–	4,861

The executive Directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive Directors' emoluments shown above were for their services as Directors.

No Directors waived or agreed to waive any remuneration during the year (2022: nil). In addition, no emoluments were paid by the Group to the Directors as an inducement to join, or upon joining the Group, or as compensation for loss of office (2022: nil).

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

12. SENIOR MANAGEMENT'S EMOLUMENTS AND INDIVIDUALS WITH HIGHEST EMOLUMENTS

(a) Senior management of the Group

Senior management of the Group represents the executive Directors during the years ended 31 December 2023 and 31 December 2022.

(b) Five highest paid individuals

The five highest paid employees of the Group during the year included one Director (2022: one), details of whose remuneration are set out in note 11 above. Details of the remuneration for the year of the remaining four (2022: four) highest paid individuals including two chief executives of the Company are as follows:

	2023 HK$'000	2022 HK$'000
Basic salaries	5,418	5,765
Pension scheme contributions	84	76
Bonuses	3,322	1,756
	8,824	7,597

The number of the highest paid employees who are not the Directors whose remuneration fall within the following band is as follows:

	Number of individuals	
	2023	2022
HK$		
1,000,001–1,500,000	–	–
1,500,001–2,000,000	2	3
2,000,001–2,500,000	1	1
2,500,001–3,000,000	–	–
3,000,001–3,500,000	1	–
	4	4

No emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2022: nil). No five highest paid individuals waived or agreed to waive any remuneration during the year (2022: nil).

During the year ended 31 December 2023, no share options to subscribe for ordinary shares of the Company were granted to these individuals under the Company's share option scheme (2022: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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13. FINANCE COSTS

	2023 HK$'000	2022 HK$'000
Interest expenses on bank borrowings and secured term loans wholly repayable within five years	29,742	36,576
Interest expenses on lease liabilities	4,880	5,120
Interest expenses on other loans	21,530	6,292
	56,152	47,988
Accretion expenses of decommissioning liabilities *(note 30)*	2,774	2,653
	58,926	50,641

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

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

	2023 HK$'000	2022 HK$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	–	–
Current tax – Outside Hong Kong		
Over-provision in prior year	–	(667)
Provision for the year	8,424	11,558
	8,424	10,891
Deferred tax		
Reversal of temporary differences *(note 31)*	(164)	(63)
	8,260	10,828

The provision for Hong Kong Profits tax for 2023 is calculated at 16.5% (2022: 16.5%) of estimated assessable profits for the year. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rate of taxation ruling in the relevant countries. The Canada blended statutory tax rate and the PRC corporate income tax rate applicable to the Group's subsidiaries in Canada and the PRC are 25% (2022: 25%) and 25% (2022: 25%) respectively.

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

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

	2023 **HK$'000**	2022 HK$'000
Profit/(loss) before taxation	**588,392**	(608,271)
Notional tax on profit/(loss) before taxation, calculated at the rates applicable to profit/(loss) in the countries concerned	**72,723**	(152,002)
Tax effect of non-deductible expenses	**4,845**	1,126
Tax effect of non-taxable income	**(145,624)**	(2,394)
Tax effect of unused tax losses not recognised	**25,867**	188,797
Tax effect of deductible temporary difference not recognised	**49,011**	(666)
Withholding tax on dividends from subsidiary outside of Hong Kong	**565**	–
Withholding tax on interest income from subsidiary outside of Hong Kong	**1,037**	–
Utilisation of tax losses previously not recognised	**–**	(23,300)
Over-provision in prior year	**–**	(667)
Others	**(164)**	(66)
Actual tax expense	**8,260**	10,828

15. DIVIDENDS

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

16. EARNINGS/(LOSS) PER SHARE

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

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

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

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

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

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17. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Petroleum and natural gas properties HK$'000	Construction in progress HK$'000	Total HK$'000
Cost								
At 1 January 2022	190,606	17,525	15,992	5,764	7,070	3,588,694	123,981	3,949,632
Additions	249	8,965	980	8	304	451,892	–	462,398
Transfer from exploration and evaluation assets *(note 19)*	–	–	–	–	–	1,991	–	1,991
Transfer from investment property *(note 18)*	2,566	–	–	–	–	–	–	2,566
Written off	–	–	(88)	–	–	–	–	(88)
Exchange differences	(14,975)	(1,280)	(1,152)	(454)	(225)	(214,233)	(9,796)	(242,115)
At 31 December 2022 and 1 January 2023	178,446	25,210	15,732	5,318	7,149	3,828,344	114,185	4,174,384
Additions	–	–	491	–	–	349,366	646	350,503
Deconsolidation of a subsidiary *(note 36)*	–	–	(582)	–	(2,504)	–	–	(3,086)
Transfer from exploration and evaluation assets *(note 19)*	–	–	–	–	–	1,261	–	1,261
Written off	–	–	(9)	–	–	–	–	(9)
Exchange differences	(5,046)	(713)	(165)	(151)	–	91,230	(3,239)	81,916
At 31 December 2023	173,400	24,497	15,467	5,167	4,645	4,270,201	111,592	4,604,969
Accumulated depreciation, depletion and impairment								
At 1 January 2022	57,179	11,789	12,956	3,615	5,103	2,316,553	61,806	2,469,001
Charge for the year	6,938	2,258	1,495	551	1,855	148,124	–	161,221
Eliminated on written off	–	–	(88)	–	–	–	–	(88)
Impairment (reversal)/loss during the year	–	–	–	–	–	(194,992)	25,206	(169,786)
Exchange differences	(4,425)	(903)	(910)	(279)	(83)	(140,068)	(4,586)	(151,254)
At 31 December 2022 and 1 January 2023	59,692	13,144	13,453	3,887	6,875	2,129,617	82,426	2,309,094
Charge for the year	6,543	2,595	1,171	496	245	221,304	–	232,354
Deconsolidation of a subsidiary *(note 36)*	–	–	(400)	–	(2,477)	–	–	(2,877)
Eliminated on written off	–	–	(9)	–	–	–	–	(9)
Impairment loss during the year	–	–	–	–	–	127,292	31,197	158,489
Exchange differences	(1,665)	(363)	(123)	(109)	2	52,865	(2,222)	48,385
At 31 December 2023	64,570	15,376	14,092	4,274	4,645	2,531,078	111,401	2,745,436
Net book value								
At 31 December 2023	108,830	9,121	1,375	893	–	1,739,123	191	1,859,533
At 31 December 2022	118,754	12,066	2,279	1,431	274	1,698,727	31,759	1,865,290

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Impairment loss of petroleum and natural gas properties

As discussed in note 4(d) to the consolidated financial statements, the Group's petroleum and natural gas properties are aggregated into different CGUs, based on management's judgment in defining the smallest identifiable groups of assets. The recoverable amount of each CGU was determined on the basis of fair value less costs of disposal calculations. Oil and natural gas prices beyond the fourth year are escalated at 2% per annum (2022: escalated at 2% per annum). All fair values less costs of disposal use post-tax future cash flow projection based on the drilling proposals on proved and probable reserves approved by management and discounted at 10.5% (2022: 10.5%). In determining the discount rates, the Group considered acquisition metrics of recent transactions completed on assets similar to those in the specific CGU's and industry peer group weighted average cost of capital. The methodologies of fair value less costs of disposal and value in use are in compliance with HKAS 36, Impairment of Assets.

At 31 December 2023, the Group assessed for indicators of impairment or recovery for all its CGUs of petroleum and natural gas properties. The primary source of cash flow information was derived from the Group's petroleum and natural gas reserves, which were prepared by an independent qualified reserve evaluator (Level 3 of the fair value hierarchy). The Group determined that there were indicators of impairment loss at 31 December 2023 at its CGUs. The main indicator of impairment loss was the third party reserves evaluation which included an decrease in the forward price deck resulting in an decrease in reserve and net present values across all CGUs. During the year ended 31 December 2023, the Group recognised an impairment loss on petroleum and natural gas properties of HK$127,292,000. The recoverable amount of the petroleum and natural gas properties has been determined on the basis of their fair values less costs of disposal, which is assessed to be higher than their value in use.

At 31 December 2022, the Group assessed for indicators of impairment or recovery for all its CGUs of petroleum and natural gas properties. The primary source of cash flow information was derived from the Group's petroleum and natural gas reserves, which were prepared by an independent qualified reserve evaluator (Level 3 of the fair value hierarchy). The Group determined that there were indicators of impairment reversal at 31 December 2022 at its CGUs. The main indicator of reversal of impairment loss was the third party reserves evaluation which included an increase in the forward price deck resulting in an increase in reserve and net present values across all CGUs. During the year ended 31 December 2022, the Group recognised an impairment reversal on petroleum and natural gas properties of HK$194,992,000. The recoverable amount of the petroleum and natural gas properties has been determined on the basis of their fair values less costs of disposal, which is assessed to be higher than their value in use.

The aggregate recoverable amount of the Group's petroleum and natural gas properties amounted to HK$1.74 billion (2022: HK$1.70 billion).

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17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Impairment loss of construction in progress

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

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

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

During the year ended 31 December 2022, the Group has recognised an impairment loss on construction in progress of HK$25,206,000 as further construction work on the construction in progress is subject to relevant government authority's approval. The recoverable amount of the construction in progress has been determined on the basis of its value in use, which is assessed to be higher than its fair value less costs of disposal. The pre-tax discount rate used to forecast the cash flows of the asset during the year ended 31 December 2022 was 12.38%.

18. INVESTMENT PROPERTIES

	HK$'000
Fair values	
At 1 January 2022	17,890
Transfer to property, plant and equipment *(note 17)*	(2,566)
Decrease in fair values recognised in profit or loss *(note 9)*	(251)
Exchange differences	(1,440)
At 31 December 2022 and 1 January 2023	**13,633**
Decrease in fair values recognised in profit or loss *(note 9)*	**(655)**
Exchange differences	**(388)**
At 31 December 2023	**12,590**

All of the Group's property interest held to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The fair values of the Group's investment properties in the PRC at 31 December 2023 have been arrived at on the basis of valuations carried out by Vincorn Consulting and Appraisal Limited ("Vincorn") (2022: Vincorn), independent qualified professional valuer not related to the Group. Vincorn has appropriate qualification and recent experience in the valuation of similar properties in the relevant locations.

At each financial year end, the management of the Group will (i) verify all major inputs to the independent valuation report; (ii) assess property valuations movements when compared to the prior year valuation report; and (iii) hold discussion with the independent valuer.

There were no transfers between Levels 1 and 2, or transfers into or out of Level 3 in the both years.

The Group's policy is to recognise transfer into and transfer out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

Valuation techniques

Income approach (term and reversion approach)

The income approach (term and reversion approach) estimates the value of investment properties on a market basis by capitalising net rental income on a fully leased basis. This method is typically used when a property is leased out for a specific term(s). This technique considers both the current passing rental income from existing tenancies and the potential future reversionary income at market level, by capitalising both at appropriate rates. In calculating the net rental income for this purpose, deduction is made for outgoings such as property management fees, vacancy loss, and other necessary expenses.

18. INVESTMENT PROPERTIES *(Continued)*

Valuation techniques *(Continued)*

Direct sales comparison approach

Direct sales comparison approach estimates the value of the property interest by comparing recent sales of similar interests in the building or buildings located in their surrounding area. By analysing such sales which qualify as "arm's-length" transactions, between willing buyers and sellers, adjustments are made for size, location, time, amenities and other relevant factors when comparing such sales prices to assess the value of the subject properties.

Significant observable and unobservable inputs used to determine fair value

	Fair value at				Range of significant observable and unobservable inputs			
	31 December 2023 HK$'000	31 December 2022 HK$'000	Valuation technique	Fair value hierarchy	Monthly market unit rent	Market unit value	Capitalisation rates	Sensitivity
Investment properties located in the PRC	12,590	13,633	Direct sales comparison approach and income approach	Level 3	RMB16.98 to RMB24.02 per square metre (2022: RMB12.44 to RMB25.58 per square metre)	RMB1,797 to RMB8,160 per square metre (2022: RMB1,889 to RMB8,589 per square metre)	3.4% to 15.3% (2022: 3.6% to 7.9%)	A significant increase in the monthly market unit rent used would result in a significant increase in fair value, and vice versa. A significant increase in the market unit value used would result in a significant increase in fair value, and vice versa. A slight increase in the capitalisation rate used would result in a significant decrease in fair value, and vice versa.

18. INVESTMENT PROPERTIES *(Continued)*

The Group's investment properties are mainly situated in the PRC and are held under medium-term lease.

There has been no significant change from the valuation technique used in the prior year.

Details of the Group's investment properties and information about the fair value hierarchy as at the end of the reporting period are as follows:

	Level 2 HK$'000	Level 3 HK$'000	Fair value as at 31 December 2023 HK$'000
Commercial and office buildings located in the PRC	**–**	**12,590**	**12,590**

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

The following shows the details of rental income earned and direct operating expenses incurred by the Group during the years ended 31 December 2023 and 31 December 2022:

	2023 HK$'000	2022 HK$'000
Gross rental income from investment properties *(note 8)*	**99**	435
Less: Direct operating expenses incurred for investment properties that generated rental income during the year	**–**	–
	99	435

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19. EXPLORATION AND EVALUATION ASSETS

	HK$'000
Cost	
At 1 January 2022	12,429,080
Additions	5,749
Transfer to property, plant and equipment *(note 17)*	(1,991)
Exchange differences	(11)
At 31 December 2022 and 1 January 2023	**12,432,827**
Additions	**6,978**
Written off	**(281)**
Transfer to property, plant and equipment *(note 17)*	**(1,261)**
Exchange differences	**201**
At 31 December 2023	**12,438,464**
Accumulated impairment	
At 1 January 2022	12,428,488
Reversal of impairment loss *(note 9)*	(934)
At 31 December 2022 and 1 January 2023	**12,427,554**
Reversal of impairment loss *(note 9)*	**(474)**
At 31 December 2023	**12,427,080**
Carrying amount	
At 31 December 2023	**11,384**
At 31 December 2022	5,273

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

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

19. EXPLORATION AND EVALUATION ASSETS *(Continued)*

Impairment test – E&E in Canada

The Group assessed E&E in Canada for any indication of impairment or recovery due to industry pricing fundamentals. Based on recent land sales and future drilling plans, the Group recognised a recovery of HK$474,000 during the year ended 31 December 2023 (2022: HK$934,000).

Impairment test – Two Exploration Blocks

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

The Two Exploration Blocks in Madagascar were fully impaired during the year ended 31 December 2016. In November 2017, the rights to explore in the Two Exploration Blocks were expired. There was no impairment loss or reversal of impairment loss recognised for the years ended 31 December 2023 and 31 December 2022.

20. RIGHT-OF-USE ASSETS

	HK$'000
Cost	
At 1 January 2022	109,231
Additions	29,472
Exchange differences	(8,175)
At 31 December 2022 and 1 January 2023	**130,528**
Additions	**2,594**
Exchange differences	**(3,322)**
At 31 December 2023	**129,800**
Accumulated depreciation	
At 1 January 2022	14,897
Charge for the year	8,350
Exchange differences	(775)
At 31 December 2022 and 1 January 2023	**22,472**
Charge for the year	**8,372**
Exchange differences	**(393)**
At 31 December 2023	**30,451**
Net book value	
At 31 December 2023	**99,349**
At 31 December 2022	108,056

20. RIGHT-OF-USE ASSETS *(Continued)*

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

	2023 HK$'000	2022 HK$'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Ownership interests in leasehold land	**440**	450
Other properties leased for own use	**7,932**	7,900
	8,372	8,350

The Group entered a new lease agreement for the use of office or gas station for the year ended 31 December 2023 (31 December 2022: 2). The leases of offices and gas stations contain minimum annual lease payment terms that are fixed.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 25(c) and 28 respectively.

21. GOODWILL AND INTANGIBLE ASSET

The carrying amount of goodwill of HK$51,418,000 as at 31 December 2023 (2022: HK$51,418,000) has been allocated to a CGU of supply and procurement of oil related products.

During the year ended 31 December 2023, the Directors determine that no impairment loss should be provided in respect of goodwill (2022: nil).

The recoverable amount of the above CGU was determined on the basis of value-in-use calculation. The recoverable amount is based on certain assumptions. All value-in-use calculations use cash flow projections based on the financial budgets approved by management covering a 3-year period. The pre-tax discount rate used is 17.90% (2022: 18.40%). Cash flows beyond 3-year period are extrapolated using a steady growth rate of 3% per annum. The Directors believe that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

The key assumption used in the value-in-use calculation of the CGU is as follows:

Budgeted operating margin	Average operating margin achieved in the period immediately before the budget period. The value assigned to the assumptions reflects past experience.

Note: Trading and distribution of oil related products belongs to supply and procurement segment to the Group's business for the years ended 31 December 2023 and 31 December 2022.

The intangible asset of HK$6,731,000 (2022: HK$6,731,000) represents the supply agreements (as stated in note 37) which enable the Group to have stable and sufficient supply of refined oil in the PRC.

22. INVENTORIES

Inventories represented the merchandise of refined oil and by-products at the end of the reporting period.

23. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of up to 90 days (2022: up to 90 days), are recognised and carried at the original invoiced amount less allowance for doubtful debt. Trade receivables are non-interest bearing.

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

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

Details of the Group's credit policy and impairment assessment on trade receivables for the years ended 31 December 2023 and 31 December 2022 are set out in note 5(b). The Group does not hold any collaterals or other credit enhancements over these balances.

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

	2023	2022
	HK$'000	HK$'000
0 to 30 days past due	**21,956**	48,390

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24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2023 HK$'000	2022 HK$'000
Prepayments to suppliers of refined oil products	**31,162**	374,746
Other prepayments	**3,353**	2,470
VAT recoverable	**16,981**	66,233
Deposits	**977**	6,480
Other receivables	**3,380**	10,348
	55,853	460,277

In determining the recoverability of deposits and other receivables, the Group considers any change in credit quality of the receivables from the date credit was initially granted up to the end of the reporting period. Details of impairment assessment on deposits and other receivables are set out in note 5(b). The Group does not hold any collateral over these balances.

25. CASH AND BANK BALANCES AND OTHER CASH FLOW INFORMATION

Bank balances carry interest at market rates which range from 0.001% to 5.08% (2022: 0.001% to 1.20%) per annum.

Included in the cash and bank balances as at 31 December 2023 were amounts in RMB equivalent to HK$118,518,000 (2022: HK$368,351,000) which are not freely convertible into other currencies.

(a) Cash and bank balances comprise:

	2023 HK$'000	2022 HK$'000
Deposits with banks	**226,141**	133,162
Cash at bank and on hand	**47**	47
Cash and cash equivalents in the consolidated statement of financial position and consolidated statement of cash flows	**226,188**	133,209
Restricted cash *(note)*	**–**	303,406
Cash and bank balances	**226,188**	436,615

Note: During the year ended 31 December 2023, the financial statements of Yanchang Zhejiang were deconsolidated from the consolidated financial statements of the Group. As at 31 December 2022, the balance of RMB268,953,000 (equivalent to HK$303,406,000) has been frozen by relevant court orders.

25. CASH AND BANK BALANCES AND OTHER CASH FLOW INFORMATION *(Continued)*

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows are, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Secured term loans *(note 32)* HK$'000	Bank borrowings and other loans *(note 29)* HK$'000	Lease liabilities *(note 28)* HK$'000	Total HK$'000
At 1 January 2022	442,998	427,350	84,913	955,261
Changes from financing cash flows:				
Proceeds from new bank borrowings	–	391,611	–	391,611
Repayment of bank borrowings	–	(477,520)	–	(477,520)
Proceeds from other loans	–	278,925	–	278,925
Capital element of lease rentals paid	–	–	(5,865)	(5,865)
Interest element of lease rentals paid	–	–	(5,120)	(5,120)
Other interest paid	(20,596)	(20,116)	–	(40,712)
Total changes from financing cash flows	(20,596)	172,900	(10,985)	141,319
Other changes:				
Interest expenses *(note 13)*	20,596	22,272	5,120	47,988
Proceeds from other loans to settle trade payables	–	107,788	–	107,788
Addition to lease liabilities	–	–	29,472	29,472
Total other changes	20,596	130,060	34,592	185,248
Exchange adjustments	2,749	(30,278)	(7,070)	(34,599)
At 31 December 2022 and 1 January 2023	445,747	700,032	101,450	1,247,229
Changes from financing cash flows:				
Proceeds from new bank borrowings	**–**	**447,884**	**–**	**447,884**
Repayment of bank borrowings	**–**	**(613,929)**	**–**	**(613,929)**
Proceeds from other loans	**–**	**274,050**	**–**	**274,050**
Repayment of other loans	**–**	**(282,025)**	**–**	**(282,025)**
Capital element of lease rentals paid	**–**	**–**	**(6,402)**	**(6,402)**
Interest element of lease rentals paid	**–**	**–**	**(4,880)**	**(4,880)**
Other interest paid	**(19,738)**	**(15,502)**	**–**	**(35,240)**
Total changes from financing cash flows	**(19,738)**	**(189,522)**	**(11,282)**	**(220,542)**
Other changes:				
Interest expenses *(note 13)*	**19,738**	**31,534**	**4,880**	**56,152**
Changes in trade and other payables	**–**	**(18,204)**	**–**	**(18,204)**
Addition to lease liabilities	**–**	**–**	**2,594**	**2,594**
Deconsolidation of a subsidiary *(note 36)*	**–**	**(105,879)**	**–**	**(105,879)**
Total other changes	**19,738**	**(92,549)**	**7,474**	**(65,337)**
Exchange adjustments	**(392)**	**(12,367)**	**(2,989)**	**(15,748)**
At 31 December 2023	**445,355**	**405,594**	**94,653**	**945,602**

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For the year ended 31 December 2023

25. CASH AND BANK BALANCES AND OTHER CASH FLOW INFORMATION *(Continued)*

(c) Total cash outflows for leases

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

	2023 **HK$'000**	2022 HK$'000
Within operating cash flows	**2,341**	55,927
Within financing cash flows	**11,282**	10,985
	13,623	66,912

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

(d) Non-cash transaction

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

26. SHARE CAPITAL

	Par value	**Number of shares**		**Amount**	
	HK$	**2023** **'000**	2022 '000	**2023** **HK$'000**	2022 HK$'000
Ordinary shares					
Authorised:					
At the beginning of the year	0.02	**100,000,000**	100,000,000	**2,000,000**	2,000,000
Share consolidation	n/a	**(95,000,000)**	–	**–**	–
At the end of the year	0.4	**5,000,000**	100,000,000	**2,000,000**	2,000,000
Issued and fully paid:					
At the beginning of the year	0.02	**18,335,047**	18,335,047	**366,701**	366,701
Subscription of new shares	0.02	**3,667,009**	–	**73,340**	–
Share consolidation	n/a	**(20,901,953)**	–	**–**	–
At the end of the year	0.4	**1,100,103**	18,335,047	**440,041**	366,701

26. SHARE CAPITAL *(Continued)*

Share subscription

On 13 January 2023, an aggregate of 3,667,009,346 subscription shares were allotted and issued to ChangAn HuiTong Investment (Hong Kong) Company Limited ("ChangAn Huitong HK") at the subscription price of HK$0.0766 per subscription share (the "Subscription") under the general mandate granted to the Directors by ordinary resolution passed at the annual general meeting of the Company held on 27 May 2022. Upon completion of the Subscription, the total number of issued shares of the Company increased from 18,335,046,733 shares to 22,002,056,079 shares (before share consolidation).

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

Share consolidation

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

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

Share options

2012 Scheme

The Company operates 2012 Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the 2012 Scheme included the Directors and other employees of the Group. The 2012 Scheme was adopted on 25 May 2012, unless otherwise cancelled or amended, will remain in force for ten years from that date. It expired on 25 May 2022.

The maximum number of shares in respect of which share options may be granted under the 2012 Scheme shall not exceed 10% of the share capital of the Company in issue as at the date of approval of the 2012 Scheme. In addition, the maximum number of shares in respect of which share options may be granted to any eligible person within any 12-month period is limited to 1% of the total number of the shares of the Company in issue at any time. Any future grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The exercise price of the share options is determinable by the Directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated on the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day; (ii) the average closing price of the Company's shares as stated on the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

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For the year ended 31 December 2023

26. SHARE CAPITAL *(Continued)*

Share options *(Continued)*

2012 Scheme (Continued)

The offer of a grant of share options may be accepted within 28 days from the date of the offer with a consideration of HK$1 being payable by the grantee. An option may be exercised in accordance with the terms of the 2012 Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on the date on which the offer is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof and to the minimum period for which the option has to be held before it can be exercise as the Directors may at their discretion determine.

The maximum number of shares available for issue under options which may be granted under the 2012 Scheme of the Company is 684,557,304 shares (being not more than 10% of the total number of the shares in issue as at the date of adoption of the 2012 Scheme), representing 3.7% of the total number of shares in issue as at 30 March 2023.

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

None of share option was granted under the 2012 Scheme during the years ended 31 December 2022.

2022 Scheme

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

The maximum number of shares in respect of which share options may be granted under the 2022 Scheme shall not exceed 10% of the share capital of the Company in issue as at the date of approval of the 2022 Scheme. In addition, the maximum number of shares in respect of which share options may be granted to any eligible person within any 12-month period is limited to 1% of the total number of the shares of the Company in issue at any time. Any future grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

26. SHARE CAPITAL *(Continued)*

Share options *(Continued)*

2022 Scheme (Continued)

The exercise price of the share options is determinable by the Directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated on the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day; (ii) the average closing price of the Company's shares as stated on the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

The offer of a grant of share options may be accepted within 28 days from the date of the offer with a consideration of HK$1 being payable by the grantee. An option may be exercised in accordance with the terms of the 2022 Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on the date on which the offer is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof and to the minimum period for which the option has to be held before it can be exercise as the Directors may at their discretion determine.

The maximum number of shares available for issue under options which may be granted under the 2022 Scheme of the Company is 110,010,280 (2022: 1,833,504,673) shares after the Share Consolidation became effective (being not more than 10% of the total number of the shares in issue as at the date of adoption of the 2022 Scheme), representing 10% (2022: 10%) of the total number of shares in issue as at the date of this annual report.

As at 31 December 2023, none of shares in respect of which options had been granted and remained outstanding under the 2022 Scheme (2022: nil).

None of share option was granted under the 2022 Scheme during the years ended 31 December 2023 (31 December 2022: nil).

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For the year ended 31 December 2023

27. TRADE AND OTHER PAYABLES

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

Note:

Contract liabilities

Contract liabilities as at 31 December 2023 and 31 December 2022 mainly represent the advance received from customers upon order placement, and were fully recognised as revenue during the year when the control over a product is transferred to customer. The Group typically receives advance on acceptance of orders. The amount of the advance, if any, was negotiated on a case by case basis with customers.

Contract liabilities of HK$39,495,000 were recognised as at 31 December 2023 (2022: HK$479,522,000) as a result of the receipt of payment during the year in advance of the satisfaction of performance obligation, and are expected to be fully recognised as revenue within one year.

The table below details movements in contract liabilities:

	2023 HK$'000	2022 HK$'000
At 1 January	479,522	1,565,757
Amount included in contract liabilities that was recognised as revenue during the year	(80,516)	(1,233,541)
Cash received in advance of performance and not recognised as revenue during the year	38,708	270,572
Deconsolidation of a subsidiary	(384,660)	–
Exchange differences	(13,559)	(123,266)
At 31 December	39,495	479,522

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

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

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

28. LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting period:

	31 December 2023		31 December 2022	
	Present value of the future lease payments HK$'000	**Total future lease payments HK$'000**	Present value of the future lease payments HK$'000	Total future lease payments HK$'000
Within 1 year	**7,838**	**12,407**	6,941	11,910
After 1 year but within 2 years	**6,095**	**10,295**	6,605	11,212
After 2 years but within 5 years	**15,104**	**26,202**	15,121	27,245
After 5 years	**65,616**	**84,831**	72,783	96,122
	86,815	**121,328**	94,509	134,579
	94,653	**133,735**	101,450	146,489
Less: total future interest expenses		**(39,082)**		(45,039)
Present value of lease liabilities		**94,653**		101,450

29. BANK BORROWINGS AND OTHER LOANS

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

	2023 HK$'000	2022 HK$'000
Carrying amount repayable within one year or on demand:		
Unsecured bank borrowings *(note (a))*	**131,544**	306,843
Unsecured other loans *(note (b))*	**274,050**	393,189
	405,594	700,032

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

	2023	2022
Bank borrowings		
Floating rate	**1.40%–3.99%**	3.15%–4.00%
Other loans		
Fixed rate	**0.05%–2.65%**	0.05%–2.65%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

29. BANK BORROWINGS AND OTHER LOANS *(Continued)*

Notes:

(a) As at 31 December 2023, Henan Yanchang Petroleum Sales Co., Limited ("Henan Yanchang"), a subsidiary of the Company, has drawn down unsecured bank borrowings of RMB120,000,000 (equivalent to HK$131,544,000) (2022: RMB272,000,000 (equivalent to HK$306,843,000)). The bank borrowings denominated in RMB bear interest at the prevailing market rates quoted by the People's Bank of China and repayable within next twelve months.

(b) The balance represents loan advances from ultimate holding company of approximately HK$274,050,000 (2022: HK$111,164,000 and HK$282,025,000, being advance from third parties and ultimate holding company respectively). As at 31 December 2023, loan advance from ultimate holding company is unsecured, interest-bearing of 2.20% (2022: 2.65%) per annum and repayable in December 2024.

30. DECOMMISSIONING LIABILITIES

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

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

	2023 **HK$'000**	2022 HK$'000
At the beginning of the year	**169,779**	169,863
Additional provision in the year	**7,901**	23,435
Utilisation in the year	**(12,906)**	(15,972)
Accretion expenses *(note 13)*	**2,774**	2,653
Exchange differences	**3,801**	(10,200)
At the end of the year	**171,349**	169,779

The inflated, undiscounted amount of the future cash flows required to settle the obligations is estimated to be CAD31,500,000 (equivalent to HK$185,535,000) (2022: CAD31,100,000 (equivalent to HK$179,136,000)). The obligations were calculated using a risk-free interest rate of 1.85% (2022: 1.85%) and an inflation rate of 2.0% (2022: 2.0%). The risk-free interest rate adopted was referenced to the Bank of Canada Benchmark bond rate. It is expected that the obligations will be funded from the Group resources at the time the costs are incurred, none of which are expected to be short-term.

31. DEFERRED TAX LIABILITIES

	2023 **HK$'000**	2022 HK$'000
Deferred tax liabilities	**(10,715)**	(11,249)

31. DEFERRED TAX LIABILITIES *(Continued)*

	Property, plant and equipment HK$'000	Prepaid lease payments HK$'000	Investment properties HK$'000	Total HK$'000
At 1 January 2022	(7,438)	(1,766)	(3,230)	(12,434)
Credited to profit or loss during the year *(note 14)*	–	–	63	63
Exchange differences	728	139	255	1,122
At 31 December 2022 and 1 January 2023	**(6,710)**	**(1,627)**	**(2,912)**	**(11,249)**
Credited to profit or loss during the year *(note 14)*	**–**	**–**	**164**	**164**
Exchange differences	**242**	**46**	**82**	**370**
At 31 December 2023	**(6,468)**	**(1,581)**	**(2,666)**	**(10,715)**

The Group did not have any significant unprovided deferred tax liabilities at 31 December 2023 and 2022.

32. SECURED TERM LOANS

(a) On 20 December 2019, Novus Energy Inc. ("Novus"), a subsidiary of the Company, drew down a secured term loan of US$35,000,000, pursuant to the loan agreement between Novus (as the borrower) and Yanchang Petroleum HK (as the lender), the immediate parent of the Company, signed on 5 November 2019. The relevant secured term loan denominated in US dollars bears interest rate at 4.8% per annum and was repayable in three years. The maturity date of the secured loan was 20 December 2022. On 6 December 2022, Novus entered into an agreement to extend the facility by entering into a supplemental facility agreement with Yanchang Petroleum HK. Under the deed of undertaking regarding the secured term loan dated 12 December 2022, the lender agreed to waive the right to exercise its right under the debenture during the period from 20 December 2022 to 17 January 2023. On 17 January 2023, the supplementary facility agreement was approved at the special general meeting by independent shareholders of the Company and become effective as all condition precedents have been fulfilled. The term of the relevant secured term loan was extended for an additional three years and the secured term loan is now due on 17 January 2026.

The relevant secured term loan is secured by a US$70,000,000 debenture with the following charges: (1) first and fixed charge over all of Novus' right, title and interest, whether freehold, leasehold or other, under or in respect of the lands, in relation to the properties held by Novus from time to time; (2) a first priority security interest to and over all of Novus' present and after-acquired personal property (i.e. movable property) from time to time, tangible and intangible, in each case, of every nature and kind and wherever situate and all proceeds thereof; and (3) a floating charge over all of Novus' property to the extent not otherwise described above (excluding any agreement, right, franchise, intellectual property, license or permit). The relevant secured term loan is subject to a financial covenant that requires Novus to maintain a working capital ratio of at least 1:1. As at 31 December 2023, this ratio was 0.20:1 (31 December 2022: 0.43:1). The Group did not fulfil the financial covenant as required in the loan agreement. The outstanding balance is presented as a current liability as at 31 December 2023 and 2022 as the lender is contractually entitled to request immediately repayment.

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For the year ended 31 December 2023

32. SECURED TERM LOANS *(Continued)*

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

The relevant secured term loan is secured by 350 ordinary shares of Sino Union Energy International Limited ("Sino Union Energy") (representing 35% of the issued share capital of Sino Union Energy which is a direct wholly-owned subsidiary of the Company) under the share charge deed pursuant to which the Company agreed to provide a guarantee in favour of Yanchang Petroleum HK that the Company shall procure on the best effort basis the carrying valuation of Henan Yanchang will be not less than US$104,800,000. As at 31 December 2023, the Sino Union Energy was able to maintain the above-mentioned valuation of Henan Yanchang.

(c) As at 31 December 2023, the carrying amount of the secured term loans was HK$445,355,000 (2022: HK$445,747,000).

33. RETIREMENT BENEFITS PLANS

The Group operates a defined contribution MPF Scheme in Hong Kong under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1 December 2000. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

Pursuant to the regulations of the relevant authorities in the PRC, the Group participates in the state-managed retirement benefit schemes ("PRC Schemes") whereby the Group is required to contribute to the PRC Schemes to fund the retirement benefits of the eligible employees. Contributions made to the PRC Schemes are calculated based on certain percentages of the applicable payroll costs as stipulated under the requirements in the PRC. The relevant authorities of the PRC are responsible for the entire pension obligations payable to the retired employees. The only obligation of the Group with respect to the PRC Schemes is to pay the ongoing required contributions under the PRC Schemes. The retirement benefit schemes contribution represents gross contributions by the Group to the PRC Schemes operated by the relevant authorities of the PRC.

The employees of the Group's subsidiary which operates in Canada may make voluntary contributions to a RRSP. The subsidiary matches the employee contributions up to an annual maximum. The subsidiary has no further payment obligation once the contributions have been paid. The contributions are recognised as staff costs when they are due.

The total cost charged to profit or loss of HK$5,026,000 for the year ended 31 December 2023 (2022: HK$4,505,000) represented contributions payable to the above schemes by the Group.

34. CAPITAL COMMITMENTS

The Group had capital commitments for purchase of property, plant and equipment amounting to HK$275,000 (2022: HK$8,296,000) which were contracted but not provided for as at 31 December 2023.

35. LITIGATIONS

Referring to the Company's announcement dated 2 June 2022, a claim was made by Chongqing Longhai Petroleum and Chemical Company Limited (重慶龍海石化有限公司, "Chongqing Longhai") against Yanchang Petroleum (Zhejiang FTZ) Limited ("Yanchang Zhejiang") for processing fees of approximately RMB442,696,000 and the relevant costs and interest so arisen. Yanchang Zhejiang also made a counter claim against Chongqing Longhai on the liquidated damages arising from the failure in completion of the processing contract and the amount of such counter claim was approximately RMB45,483,000. In December 2022, the court announced its judgement that Yanchang Zhejiang was required to bear the alleged damage (including processing fees, storage fee, interest and court processing fee) to Chongqing Longhai with a total of approximately RMB266,514,000 (equivalent to HK$297,350,000). In February 2023, Yanchang Zhejiang lodged appeal against the decision by the court.

Referring to the Company's announcements dated 2 June 2022, 9 June 2022, 8 July 2022, 22 July 2022, 3 August 2022, 12 August 2022, 19 August 2022, 14 September 2022, 15 September 2022, 28 October 2022, 14 November 2022 and 21 December 2022, various customers and suppliers of Yanchang Zhejiang sued for outstanding purchase procurement fees, transportation fees, purchase amounts.

The Directors of the Company are of the view that the above claims and the legal proceedings are likely to result in material outflows of economic benefit from the Group. For the year ended 31 December 2023, the provision for these litigations in the amount of HK$84,274,000 (31 December 2022: HK$448,347,000) was made during the year.

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

	2023	2022
	HK$'000	HK$'000
At 1 January	**453,330**	–
Additional provision in the year	**84,274**	448,347
Deconsolidation of a subsidiary *(note 36)*	**(525,078)**	–
Exchange differences	**(12,526)**	4,983
At 31 December	**–**	453,330

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36. DECONSOLIDATION OF A SUBSIDIARY

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

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

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

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

Net liabilities deconsolidated:	HK$'000
Property, plant and equipment *(note 17)*	209
Inventories	352,256
Trade receivables	106,856
Prepayments, deposits and other receivables	240,208
Restricted cash	262,119
Trade and other payables	(1,201,724)
Tax payables	(344)
Other loans *(note 25(b))*	(105,879)
Provision for litigations *(note 35)*	(525,078)
Net liabilities deconsolidated of	(871,377)
Gain on deconsolidation of a subsidiary:	
Net liabilities deconsolidated of	871,377
Fair value of 51% retained interest which become a financial asset at fair value through other comprehensive income	–
Release of exchange reserves	10,673
Gain on deconsolidation	882,050

* For illustrative purpose only

37. MATERIAL RELATED PARTIES TRANSACTIONS AND BALANCES

Save as disclosed elsewhere in the consolidated financial statements, during the year the Group had the following transactions with related parties.

Remuneration for key management personnel, including emoluments paid to the Company's Directors and certain highest paid employees, as disclosed in notes 11 and 12 to the consolidated financial statements, are as follows:

Key management personnel

	2023 **HK$'000**	2022 HK$'000
Salaries, bonus and allowances	**13,485**	11,850
Share-based payment expenses	**–**	–
Pension scheme contributions	**105**	96
	13,590	11,946

Related party transactions

Relationship	**Nature of transactions**	**2023** **HK$'000**	2022 HK$'000
Ultimate holding company	Purchase of refined oil *(note 1)*	**14,843,751**	9,138,943
Fellow subsidiary	Purchase of refined oil *(note 2)*	**–**	8,317
Fellow associates	Sales of refined oil *(note 3)*	**19,837**	69,807
Fellow subsidiary	Sales of refined oil and by-products *(note 3)*	**8,569**	5,821
Immediate holding company	Secured term loan interest expenses	**19,738**	20,596
Ultimate holding company	Other loan interest expenses	**5,700**	4,137

Notes:

(1) The Group had connected transactions with ultimate holding company arising from the refined oil supply agreement dated 12 November 2019 and the supplemental agreements dated 30 September 2020 and 18 November 2022 entered into between Henan Yanchang and Yanchang Petroleum Group in respect of the purchases of refined oil from Yanchang Petroleum Group by Henan Yanchang for the three years ended 31 December 2022 and for the three years ending 31 December 2025 respectively.

(2) The Group had connected transactions with a fellow subsidiary arising from the refined oil supply agreement dated 20 April 2022 entered into between Henan Yanchang and Shaanxi Yanchang Petroleum Xinghua New Energy Co., Limited ("Xinghua New Energy") in respect of the purchases of refined oil from Xinghua New Energy by Henan Yanchang for the period from 20 April 2022 until 31 December 2022.

(3) The Group had connected transactions with Shaanxi Yanchang Petroleum Yanan Energy Chemical Company Limited ("Yanan Energy Chemical"), a fellow associate, and Yanchang Shell Henan Petroleum Limited ("Yanchang Shell Henan"), a fellow subsidiary, arising from the sales of refined oil and by-products for the years ended 31 December 2023 and 2022. Further, Henan Yanchang, a subsidiary of the Company, entered into sales agreements with each of Yanan Energy Chemical and Yanchang Shell Henan, respectively, on 13 May 2021 and with effect from 1 July 2021 in respect of the sales of refined oil and by-products from Henan Yanchang to Yanan Energy Chemical and Yanchang Shell Henan, respectively, for the three years ended 31 December 2023. Subsequently, Henan Yanchang entered into supplemental agreements with Yanan Energy Chemical and Yanchang Shell Henan on 27 November 2023, respectively, in respect of the sales of refined oil and by-products for the three years ending 31 December 2026.

(4) The above transactions constitute continuing connected transactions under Chapter 14A of the Listing Rules.

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

Following is a summary of related party balances as at 31 December 2023 and 31 December 2022.

	2023	2022
	HK$'000	HK$'000
Trade receivables		
– amount due from a fellow subsidiary	**190**	–
– amount due from a fellow associate	**706**	285
Prepayments to suppliers of refined oil products		
– prepayment to ultimate holding company	**29,555**	6,068
– prepayment to a fellow subsidiary	**2,320**	3,305
Other receivables		
– amount due from a fellow associate	**10**	1,313
– amount due from a fellow subsidiary	**713**	–
Trade payables		
– amount due to ultimate holding company	**(396,202)**	(401,911)
– amount due to a fellow subsidiary	**(444,170)**	–
Other payables		
– amount due to ultimate holding company	**(21,696)**	(14,004)
– amount due to immediate holding company	**(6,854)**	–
– amounts due to fellow subsidiaries	**(686)**	–
Other loan		
– amount due to ultimate holding company *(note 29)*	**(274,050)**	(282,025)
Secured term loans		
– amount due to immediate holding company *(note 32)*	**(445,355)**	(445,747)

38. PARTICULARS OF SUBSIDIARIES

(a) General information of subsidiaries

Particulars of the principal subsidiaries of the Company as at 31 December 2023 were as follows:

Name of subsidiary	Place of incorporation/ establishment	Place of operation	Nominal value of issued and fully paid-up share/ registered capital	Percentage of ownership interests and voting power held by the Company		Principal activities
				Directly	Indirectly	
Forever Peace Investment Limited	Hong Kong	Hong Kong	HK$1	–	100	Investment holding
Henan Yanchang^	PRC	PRC	Registered and paid-up capital of RMB35,000,000	–	70	Wholesale, retail, storage and distribution of refined oil
Henan Yanchang Petroleum Energy Technology Limited ("Henan Yanchang Energy")^	PRC	PRC	Registered and paid-up capital of RMB50,000,000	–	70	Distribution of refined oil
Noble Soar Limited	British Virgin Islands	Hong Kong	Ordinary US$1	100	–	Investment holding
Novus	Canada	Canada	Common CAD215,371,475	–	100	Acquiring, exploring for, developing and producing crude oil and natural gas
Yanchang International (Canada) Limited	Canada	Canada	Common CAD314,100,594	–	100	Investment holding
Yanchang Petroleum (Shenzhen) Limited^^	PRC	PRC	Registered and paid-up capital of RMB10,000,000	–	100	Fuel oil and oil related product trading
Yanchang Petroleum International Energy Trading Limited ("Yanchang Energy Trading")	Hong Kong	Hong Kong	HK$10,000	–	51	Investment holding

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

^^ This entity is established in the PRC in the form of solely funded by Taiwan, Hong Kong or Macao corporate body.

38. PARTICULARS OF SUBSIDIARIES *(Continued)*

(a) General information of subsidiaries *(Continued)*

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting power held by non-controlling interests		Profit/(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2023	2022	**2023**	2022	**2023**	2022
				HK$'000	HK$'000	**HK$'000**	HK$'000
Henan Yanchang	PRC	**30%**	30%	**(9,874)**	5,079	**76,736**	94,242
Henan Yanchang Energy	PRC	**30%**	30%	**(9,359)**	(7,889)	**(19,481)**	(10,383)
Yanchang Energy Trading and its subsidiary, Yanchang Zhejiang *(note 36)*	PRC	**49%**	49%	**381,772**	(416,779)	**(2)**	(387,389)
Total				**362,539**	(419,589)	**57,253**	(303,530)

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

38. PARTICULARS OF SUBSIDIARIES *(Continued)*

Henan Yanchang

	2023 HK$'000	2022 HK$'000
Current assets	**1,576,488**	1,437,612
Non-current assets	**234,039**	257,438
Current liabilities	**(1,453,335)**	(1,272,261)
Non-current liabilities	**(101,404)**	(108,648)
Equity attributable to the owners of the Company	**179,052**	219,899
Non-controlling interests	**76,736**	94,242
Revenue	**27,240,468**	27,878,623
Cost of sales	**(27,145,002)**	(27,741,268)
Expenses	**(128,379)**	(120,425)
(Loss)/profit for the year attributable to the owners of the Company	**(23,039)**	11,851
(Loss)/profit for the year attributable to the non-controlling interests	**(9,874)**	5,079
(Loss)/profit for the year	**(32,913)**	16,930
Other comprehensive income for the year attributable to the owners of the Company	**(6,338)**	(17,634)
Other comprehensive income for the year attributable to the non-controlling interests	**(2,716)**	(7,559)
Other comprehensive income for the year	**(9,054)**	(25,193)
Total comprehensive income for the year attributable to the owners of the Company	**(29,377)**	(5,783)
Total comprehensive income for the year attributable to the non-controlling interests	**(12,590)**	(2,480)
Total comprehensive income for the year	**(41,967)**	(8,263)
Dividend paid to non-controlling interests	**(4,967)**	–
Net cash inflows from operating activities	**54,928**	94,662
Net cash outflows from investing activities	**(1,043)**	(10,885)
Net cash outflows from financing activities	**(166,045)**	(85,909)
Net cash outflows	**(112,160)**	(2,132)

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38. PARTICULARS OF SUBSIDIARIES *(Continued)*

Henan Yanchang Energy

	2023 HK$'000	2022 HK$'000
Current assets	155	43
Non-current assets	–	32,217
Current liabilities	(65,093)	(66,871)
Equity attributable to the owners of the Company	(45,457)	(24,228)
Non-controlling interests	(19,481)	(10,383)
Revenue	–	–
Expenses	(31,197)	(26,296)
Loss for the year attributable to the owners of the Company	(21,838)	(18,407)
Loss for the year attributable to the non-controlling interests	(9,359)	(7,889)
Loss for the year	(31,197)	(26,296)
Other comprehensive income for the year attributable to the owners of the Company	609	275
Other comprehensive income for the year attributable to the non-controlling interests	261	118
Other comprehensive income for the year	870	393
Total comprehensive income for the year attributable to the owners of the Company	(21,229)	(18,132)
Total comprehensive income for the year attributable to the non-controlling interests	(9,098)	(7,771)
Total comprehensive income for the year	(30,327)	(25,903)
Net cash outflows from operating activities	–	(1,091)
Net cash outflows from investing activities	–	–
Net cash inflows from financing activities	–	–
Net cash outflows	–	(1,091)

38. PARTICULARS OF SUBSIDIARIES *(Continued)*

Yanchang Energy Trading and its subsidiary, Yanchang Zhejiang

	2023 HK$'000	2022 HK$'000
Current assets	–	948,784
Non-current assets	54	450
Current liabilities	(58)	(1,739,824)
Non-current liabilities	–	–
Equity attributable to the owners of the Company	(2)	(403,201)
Non-controlling interests	(2)	(387,389)
Revenue	–	1,578,415
Cost of sales	–	(1,696,534)
Income/(expenses)	(102,924)	(732,451)
Gain on deconsolidation of a subsidiary	882,050	–
Profit/(loss) for the year attributable to the owners of the Company	397,354	(433,791)
Profit/(loss) for the year attributable to the non-controlling interests	381,772	(416,779)
Profit/(loss) for the year	779,126	(850,570)
Other comprehensive income for the year attributable to the owners of the Company	5,898	(7,887)
Other comprehensive income for the year attributable to the non-controlling interests	5,666	(7,578)
Other comprehensive income for the year	11,564	(15,465)
Total comprehensive income for the year attributable to the owners of the Company	403,252	(441,678)
Total comprehensive income for the year attributable to the non-controlling interests	387,438	(424,357)
Total comprehensive income for the year	790,690	(866,035)
Net cash outflows from operating activities	(3,536)	(276,402)
Net cash outflows from investing activities	–	(110)
Net cash outflows	(3,536)	(276,512)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Statement of financial position of the Company

	2023 HK$'000	2022 HK$'000
Assets		
Non-current assets		
Interests in subsidiaries	939,522	673,779
Property, plant and equipment	22	40
Right-of-use assets	2,654	4,528
	942,198	678,347
Current assets		
Prepayments and other receivables	4,980	3,510
Cash and bank balances	19,131	7,485
	24,111	10,995
Total assets	966,309	689,342
Equity		
Capital and reserves attributable to the owners of the Company		
Share capital	440,041	366,701
Reserves	343,137	137,536
Total equity	783,178	504,237
Liabilities		
Current liabilities		
Other payables	7,194	7,334
Secured term loan	172,700	–
Lease liabilities	2,467	2,354
	182,361	9,688
Non-current liabilities		
Lease liabilities	770	2,717
Secured term loans	–	172,700
	770	175,417
Total liabilities	183,131	185,105
Total equity and liabilities	966,309	689,342
Net current (liabilities)/assets	(158,250)	1,307
Total assets less current liabilities	783,948	679,654

39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY
(Continued)

Movement in the Company's reserves

	Share premium HK$'000	Contribution surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2022	2,115,311	6,454,818	(8,595,312)	(25,183)
Profit and total comprehensive income for the year	–	–	162,719	162,719
At 31 December 2022 and 1 January 2023	2,115,311	6,454,818	(8,432,593)	137,536
Loss and total comprehensive income for the year	**–**	**–**	**(1,952)**	**(1,952)**
Share subscription	**207,553**	**–**	**–**	**207,553**
At 31 December 2023	**2,322,864**	**6,454,818**	**(8,434,545)**	**343,137**

40. APPROVAL FOR CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of Directors on 28 March 2024.

SCHEDULE OF INVESTMENT PROPERTIES

The particulars of the investment properties at 31 December 2023 are as follows:

Location	Type	Tenure	Attributable interest to the Group
No. 22 Xinjian North Road, Xinzheng City, Zhengzhou, Henan Province, The PRC	Building and land	Medium-term lease	70%
No. 1601–1609 on level 16 of Zijincheng, No. 16 Zijinshan Road, Jinshui District, Zhengzhou City, Henan Province, The PRC	Building and car park space	Medium-term lease	70%