The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

29 June 2016

The Directors
Shun Cheong Holdings Limited

REORIENT Financial Markets Limited
BOSC International Company Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Xilin Gol League Hongbo Mining Development Co., Ltd. (the "**PRC Target**") which comprise the statements of financial position as at 31 December 2013, 2014 and 2015 and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the cash flow statements, for each of the years ended 31 December 2013, 2014 and 2015 (the "**Relevant Periods**"), and a summary of significant accounting policies and other explanatory information (the "**Financial Information**"), for inclusion in the circular of Shun Cheong Holdings Limited (the "**Company**") dated 29 June 2016 (the "**Circular**") in connection with the proposed acquisition of the entire equity of the PRC Target.

The PRC Target was established in the People's Republic of China (the "**PRC**") on 29 July 2008 as a company with limited liability under the Company Law of the PRC.

The PRC Target has adopted 31 December as its financial year end date. The statutory financial statements of the PRC Target for the years ended 31 December 2013, 2014 and 2015 were prepared in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC and were audited by Xilinhot Anxin Certified Public Accountants (錫林浩特安信會計師事務所).

The directors of the PRC Target have prepared the financial statements of the PRC Target for the Relevant Periods (the "**Underlying Financial Statements**") in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). The Underlying Financial Statements for each of the years ended 31 December 2013, 2014 and 2015 were audited by KPMG Huazhen LLP (畢馬威華振會計師事務所(特殊普通合夥)) in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information has been prepared by the directors of the Company for inclusion in the Circular in relation to the acquisition of the entire equity interest in the PRC Target by the Company based on the Underlying Financial Statements with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with HKFRSs issued by the HKICPA and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of the PRC Target in respect of any period subsequent to 31 December 2015.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the financial position of the PRC Target as at 31 December 2013, 2014 and 2015 and of the PRC Target's financial performance and cash flows for the Relevant Periods then ended.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw your attention to Note 2(b) of Section B to the Financial Information which indicates that the PRC Target incurred a loss of RMB24,594,000 for the year ended 31 December 2015 and had net current liabilities of RMB252,748,000 as at 31 December 2015. These conditions indicate the existence of material uncertainties which may cast significant doubt on the PRC Target's ability to continue as a going concern.

The Financial Information has been prepared on a going concern basis, the validity of which is dependent on the availability of the ongoing financial support from the PRC Target's banker and its shareholder, Shanghai Hongbo Investment & Management (Group) Co., Ltd, and the successful completion of the Proposed Transactions (as defined in Note 1 of Section B to the Financial Information) to enable the PRC Target to operate as a going concern and meet its financial liabilities as they fall due for the foreseeable future. The Financial Information does not include any adjustments that would result should the PRC Target be unable to continue to operate as a going concern.

A. FINANCIAL INFORMATION OF THE PRC TARGET

1. STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Years ended 31 December		
	Section B	**2013**	**2014**	**2015**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*4*	232,176	191,341	98,761
Cost of sales		(157,112)	(118,547)	(88,773)
Gross profit		75,064	72,794	9,988
Other net loss	*5*	(23)	—	(20)
Exploration expenses, including dry holes		(26,187)	(11,238)	(1,215)
Taxes other than income tax	*6*	(17,973)	(15,406)	(6,897)
Administrative expenses		(39,251)	(40,832)	(18,026)
(Loss)/profit from operations		(8,370)	5,318	(16,170)
Finance income		59	29	108
Finance costs	*7(a)*	(14,600)	(15,000)	(9,131)
Net finance costs		(14,541)	(14,971)	(9,023)
Loss before taxation	*7*	(22,911)	(9,653)	(25,193)
Income tax	*8(a)*	(2,536)	(3,415)	599
Loss and total comprehensive income for the year		(25,447)	(13,068)	(24,594)

The accompanying notes form part of the Financial Information.

2. STATEMENTS OF FINANCIAL POSITION

	Section B Note	31 December 2013 RMB'000	2014 RMB'000	2015 RMB'000
Non-current assets				
Property, plant and equipment	*11*	603,334	542,145	488,601
Construction in progress	*12*	3,398	3,398	108
Intangible assets	*13*	26,982	25,924	24,916
Lease prepayments	*14*	4,219	9,692	9,436
Other non-current assets	*15*	15,350	25,523	32,009
Deferred tax assets	*23(b)*	3,415	—	599
		656,698	606,682	555,669
Current assets				
Inventories	*16*	4,349	4,302	6,456
Trade receivables	*17*	34,956	35,000	43,180
Prepaid expenses and other current assets	*18*	39,005	68,259	17,963
Current tax recoverable	*23(a)*	—	—	22,000
Cash and cash equivalents	*19*	10,686	7,341	12,498
		88,996	114,902	102,097
Current liabilities				
Bank and other borrowings	*20*	183,326	185,656	90,000
Trade payables	*21*	165,338	168,205	144,435
Accrued expenses and other payables	*22*	271,935	260,336	120,410
		620,599	614,197	354,845
Net current liabilities		(531,603)	(499,295)	(252,748)
Total assets less current liabilities		125,095	107,387	302,921
Non-current liabilities				
Provisions	*24*	48,760	44,120	32,728
NET ASSETS		76,335	63,267	270,193
CAPITAL AND RESERVES				
Paid-in capital	*25(a)*	203,400	203,400	434,920
Reserves		(127,065)	(140,133)	(164,727)
TOTAL EQUITY		76,335	63,267	270,193

The accompanying notes form part of the Financial Information.

3. STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital	Capital reserve	Specific reserve	Accumulated losses	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 25(a)	*Note 25(b)*	*Note 25(b)*		
Balance at 1 January 2013	203,400	21,394	1,008	(124,020)	101,782
Changes in equity:					
Loss and total comprehensive income for the year	—	—	—	(25,447)	(25,447)
Appropriation of safety production fund	—	—	1,154	(1,154)	—
Utilisation of safety production fund	—	—	(43)	43	—
Balance at 31 December 2013	203,400	21,394	2,119	(150,578)	76,335
Changes in equity:					
Loss and total comprehensive income for the year	—	—	—	(13,068)	(13,068)
Appropriation of safety production fund	—	—	1,004	(1,004)	—
Utilisation of safety production fund	—	—	(167)	167	—
Balance at 31 December 2014	203,400	21,394	2,956	(164,483)	63,267
Changes in equity:					
Loss and total comprehensive income for the year	—	—	—	(24,594)	(24,594)
Capitalisation of amounts due to shareholders *(Note 19(b))*	231,520	—	—	—	231,520
Appropriation of safety production fund	—	—	967	(967)	—
Balance at 31 December 2015	434,920	21,394	3,923	(190,044)	270,193

The accompanying notes form part of the Financial Information.

4. CASH FLOW STATEMENTS

	Section B Note	Years ended 31 December 2013 RMB'000	2014 RMB'000	2015 RMB'000
Operating activities				
Loss before taxation		(22,911)	(9,653)	(25,193)
Adjustments for:				
Depreciation		97,440	62,090	43,876
Amortisation		2,738	2,663	2,848
Finance costs		14,481	14,400	8,923
Net loss on disposal of property, plant and equipment		23	—	20
Changes in working capital:				
Decrease/(increase) in inventories		3,032	47	(2,154)
Increase in trade receivables		(28,539)	(44)	(8,180)
(Increase)/decrease in prepaid expenses and other current assets		(9,794)	2,539	13,679
Increase/(decrease) in trade and other payables		47,339	9,386	(45,408)
Net cash generated from/(used in) operating activities		103,809	81,428	(11,589)
Investing activities				
Payment for the purchase of property, plant and equipment and intangible assets		(60,332)	(15,408)	(37,360)
Lease prepayments		—	(5,670)	—
Proceeds from disposal of property, plant and equipment		100	—	—
Net cash used in investing activities		(60,232)	(21,078)	(37,360)

		Years ended 31 December		
	Section B	**2013**	**2014**	**2015**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Financing activities				
Proceeds from advances and borrowings		218,780	253,395	167,179
Repayment of advances and borrowings		(258,104)	(309,625)	(110,990)
Interest paid		(2,320)	(7,465)	(2,083)
Net cash (used in)/generated from financing activities		(41,644)	(63,695)	54,106
Net increase/(decrease) in cash and cash equivalents		1,933	(3,345)	5,157
Cash and cash equivalents at the beginning of the year		8,753	10,686	7,341
Cash and cash equivalents at the end of the year	*19(a)*	10,686	7,341	12,498

The accompanying notes form part of the Financial Information.

B. NOTES TO FINANCIAL INFORMATION

1. BACKGROUND INFORMATION

Xilin Gol League Hongbo Mining Development Co., Ltd. (the "**PRC Target**") was established in the People's Republic of China (the "**PRC**") on 29 July 2008. The registered office and principal place of business of the PRC Target is Kulun South Road, Wuliyasitai Town, East Ujimqin Banner, Xilin Gol League, Inner Mongolia, the PRC.

At 31 December 2015, the PRC Target was held as to 60% by Shanghai Hongbo Investment & Management (Group) Co., Ltd (上海宏博投資管理(集團)有限公司, "**Hongbo Investment**") and 40% by Shanghai Lida Investment Management Company Limited (上海立大投資管理有限公司, "**Lida Investment**"). Lida Investment is 95% owned by Hongbo Investment.

The PRC Target is mainly engaged in the exploration, development, production and sale of crude oil through production cooperation contract in the PRC. The PRC Target entered into an exploration and production cooperation contract ("**EPCC**") with Shaanxi Yanchang Petroleum (Group) Company Limited (Yanchang Oil Mineral Administrative Bureau) (陝西延長石油(集團)有限責任公司(延長油礦管理局), "**Yanchang**") in July 2010. The EPCC gives the PRC Target the right to explore, develop, produce and sell the crude oil extracted from the two blocks (Block 212 and Block 378) located at Xilin Gol League, Inner Mongolia (the "**Area**"). Pursuant to the EPCC, all the capital expenditures and operation costs in relation to the Area shall be borne by the PRC Target and the revenue generated from the sales of crude oil extracted from the two blocks shall be shared between the PRC Target and Yanchang in the proportion of 80% and 20% respectively. The PRC Target commenced production in Block 212 during 2010. The PRC Target had not incurred significant exploration work in respect of Block 378 during the Relevant Periods.

Yanchang holds the mineral right in respect of the Area pursuant to two exploration permits granted by the Ministry of Land and Resources of the PRC ("**MOLR**") to it. The current exploration permit of Yanchang in respect of Block 212 will expire on 5 March 2017, and the current exploration permit of Yanchang in respect of Block 378 will expire on 9 November 2017. The EPCC was renewed in July 2012, June 2015 and February 2016 respectively and the expiry date of the EPCC is extended to 30 June 2018. Current production and development in Block 212 rely upon the exploration permit held by Yanchang for Block 212 and Yanchang's successful application of the production permit in relation to the relevant areas within Block 212. Yanchang is in the process of applying to the MOLR for a production permit for Block 212. Based on legal advice, subject to the fulfilment of the relevant terms of the EPCC by the PRC Target, Yanchang is obliged to renew the EPCC with the PRC Target with reference to the effective period of the production permit (to be obtained by Yanchang), which is usually 20 years and shall be renewable upon expiration of the initial effective period.

On 22 June 2015 (and as further amended), the PRC Target's shareholders entered into an acquisition agreement with Shun Cheong Holdings Limited (the "**Company**") pursuant to which the Company conditionally agreed to acquire from the PRC Target's shareholders the entire equity interests in the PRC Target at a consideration of RMB558,880,000 which shall be satisfied in cash upon completion of the acquisition (the "**Acquisition**"). The completion of the Acquisition is subject to certain conditions precedent and the completion of certain other agreements entered into by the Company ("**Proposed Transactions**"). As of the date of this report, the Acquisition is not completed.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Financial Information, the PRC Target has adopted all applicable new and revised HKFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting year beginning 1 January 2015. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning 1 January 2015 are set out in Note 33.

The Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) Going concern

During the year ended 31 December 2015, the PRC Target incurred a loss of RMB24,594,000. In addition, as at 31 December 2015, the PRC Target had net current liabilities of RMB252,748,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the PRC Target's ability to continue as a going concern and therefore the PRC Target may be unable to realise its assets and discharge their liabilities in the normal course of business.

In determining the appropriate basis of preparation of the Financial Information, the directors of the Company have reviewed the PRC Target's cash flow projections for the twelve months ending 31 December 2016. They are of the opinion that, taking into account the following measures, the PRC Target will have sufficient working capital to meet its financial obligations as and when they fall due and committed future capital expenditures within the next twelve months from the reporting period end date:

(i) Under the terms of the agreements entered into in connection with the Proposed Transactions and subject to the successful completion of the Proposed Transactions, the Company will raise proceeds from issue of new shares from certain subscribers. It is expected that the Company will provide funding amounting to approximately RMB798,000,000 for the PRC Target's working capital. The completion of the Proposed Transactions is subject to certain conditions including approvals by the Listing Committee of The Hong Kong Stock Exchange Limited and the independent shareholders of the Company; and

(ii) The PRC Target's shareholder, Hongbo Investment, has undertaken to provide continuing financial support to the PRC Target for, at least, the next twelve months from the reporting period end date should the Proposed Transactions not proceed.

Given the above, the directors of the Company consider it appropriate to prepare the Financial Information on a going concern. However, should the PRC Target be unable to continue to operate as a going concern, adjustments would be required that could have a material impact to the Financial Information. The effect of these adjustments has not been reflected in the Financial Information.

(c) Basis of measurement

The Financial Information is presented in Renminbi ("**RMB**"), rounded to the nearest thousand. It is prepared on the historical cost basis.

(d) Use of estimates and judgements

The preparation of Financial Information 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 the 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 Financial Information and major sources of estimation uncertainty are discussed in Note 3.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses (Note 2(i)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, other than oil and gas properties, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Buildings and structures	40 years
Machinery and equipment	14 years
Motor vehicles	8 years
Other property, plant and equipment	3–5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Oil and gas properties for the relevant area are amortised on a unit-of-production basis over the shorter of the economic life of the recoverable reserves or the terms of the relevant production licences.

(f) Exploration and evaluation costs

Geological and geophysical costs are charged to profit or loss as incurred.

Costs directly associated with an exploration well are initially capitalised as exploration and evaluation assets until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors.

If no potentially commercial hydrocarbons are discovered, the exploration asset is written off through the profit or loss as a dry hole. If extractable hydrocarbons are found and, subject to further appraisal activity (e.g., the drilling of additional wells), it is probable that they can be commercially developed, the costs continue to be carried as exploration and evaluation assets while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons. Costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalised as exploration and evaluation assets.

Regular review is undertaken for each area to determine the appropriateness of continuing to carry forward accumulated capitalised exploration and evaluation expenditure. To the extent that capitalised exploration and evaluation expenditure is no longer expected to be recovered, it is charged to profit or loss.

No amortisation is charged during the exploration and evaluation phase.

When the technical feasibility and commercial viability of extracting natural resources become demonstrable, the relevant capitalised expenditure is first assessed for impairment and (if required) any impairment loss is recognised, then the remaining balance is transferred to property, plant and equipment — oil and gas properties.

(g) Intangible assets

Intangible assets that are acquired by the company are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(i)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss. Cooperation right is amortised on a unit-of-production basis over the shorter of the economic life of the recoverable reserves or the expected terms of the relevant production licences to be granted.

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the company determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the company

Assets that are held by the company under leases which transfer to the company substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the company are classified as operating leases.

(ii) Operating lease charges

Where the company has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Lease prepayments represent land use rights paid to the relevant government authorities. Land use rights are carried at cost less accumulated amortisation and impairment losses (see Note 2(i)). The cost of lease prepayments is amortised on a straight line basis over the respective periods of the land use rights.

(i) Impairment of assets

(i) Impairment of receivables

Current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the company about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised. Impairment loss on current and non-current receivables carried at amortised cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

For impairment losses recognised in respect of trade debtors, whose recovery is considered doubtful but not remote, the impairment losses for doubtful debts are recorded using an allowance account. When the company is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— construction in progress;

— intangible assets; and

— lease prepayments

If any such indication exists, the asset's recoverable amount is estimated.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the cash-generating unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method less allowance for impairment of doubtful debts (see Note 2(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) 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.

(o) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

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

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the company can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Provisions for future dismantlement costs are initially recognised based on the present value of the future costs expected to be incurred in respect of the company's expected dismantlement and abandonment costs at the end of related oil and gas exploration and development activities. Any subsequent change in the present value of the estimated costs, other than the change due to passage of time which is regarded as interest cost, is reflected as an adjustment to the provision and the oil and gas properties.

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) Related parties

(a) A person, or a close member of that person's family, is related to the company if that person:

(i) has control or joint control over the company;

(ii) has significant influence over the company; or

(iii) is a member of the key management personnel of the company or the company's parent.

(b) An entity is related to the company if any of the following conditions applies:

(i) The entity and the company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the company or an entity related to the company.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity provides key management personnel services to the company or to the company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(u) Segment reporting

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

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 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.

The PRC Target is engaged in the development, production and sale of crude oil. The PRC Target's most senior executive management regularly review its financial statements to assess the performance and make resource allocation decisions. Accordingly, no segment information is presented.

All of the PRC Target's external customers and non-current assets are located in the PRC.

3. ACCOUNTING JUDGEMENTS AND ESTIMATES

Key sources of estimation uncertainty are as follows:

(a) Oil and gas properties and reserves

The accounting for the exploration and production's oil and gas activities is subject to accounting rules that are unique to the oil and gas industry. Engineering estimates of the PRC Target's oil and gas reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated oil and gas reserves can be designated as "proved". Proved and proved developed reserves estimates are updated at least annually and take into account recent production and technical information about each field. In addition, as prices and cost levels change from year to year, the estimate of proved and proved developed reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in relation to depreciation rates.

Future dismantlement costs for oil and gas properties are estimated with reference to engineering estimates after taking into consideration the anticipated method of dismantlement required in accordance with industry practices in similar geographic area, including estimation of economic life of oil and gas properties, technology and price level. The present values of these estimated future dismantlement costs are capitalised as oil and gas properties with equivalent amounts recognised as provisions for dismantlement costs.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expense, impairment loss and future dismantlement costs. Depreciation rates are determined based on estimated proved developed reserve quantities (the denominator) and capitalised costs of producing properties (the numerator). Producing properties' capitalised costs are amortised based on the units of oil or gas produced.

(b) Impairment losses of non-current assets

If circumstances indicate that the carrying amount of a non-current asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised. The carrying amounts of non-current assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets or cash-generating units are not readily available. In determining the value in use, expected cash flows generated by the asset or the cash-generating unit are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. Management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

(c) Depreciation

Property, plant and equipment, other than oil and gas properties, are depreciated on a straight line basis over the estimated useful lives of the assets, after taking into account the estimated residual values, if any. The PRC Target reviews the estimated useful lives and the residual values of the assets regularly in order to determine the amount of depreciation charge to be recorded during any reporting period. The determination of the useful lives and the residual values are based on the PRC Target's historical experience with similar assets and taking into account anticipated technological changes. The depreciation charge for future periods is adjusted if there are significant changes from previous estimates.

4. REVENUE

The PRC Target is engaged in the development, production and sale of crude oil. Revenue represents the sales value of goods supplied to customers, net of value added tax. The PRC Target only has one customer during the Relevant Periods.

5. OTHER NET LOSS

	Years ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Net loss on disposal of property, plant and equipment	23	—	20

6. TAXES OTHER THAN INCOME TAX

	Years ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Special oil income levy	3,236	3,373	—
Resources tax	11,538	9,797	5,910
City construction tax	1,704	1,397	617
Education surcharge	1,375	839	370
Others	120	—	—
	17,973	15,406	6,897

7. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

(a) Finance costs

	Years ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Interest on bank and other borrowings	11,741	11,453	6,482
Accretion expenses *(Note 24)*	2,740	2,947	2,441
Bank charges	119	600	208
	14,600	15,000	9,131

(b) Staff costs

	Years ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, wages and other benefits	30,505	29,297	12,758
Contributions to defined contribution retirement plan	1,707	1,768	888
	32,212	31,065	13,646

Pursuant to the relevant labour rules and regulations in the PRC, the PRC Target participates in defined contribution retirement scheme (the "**Scheme**") organised by the relevant local government authority for their employees. The PRC Target is required to make contributions to the Scheme at 20% of basic salaries of the employees. The local government authority is responsible for the entire pension obligations payable to retired employees. The PRC Target has no other material obligation to make payments in respect of pension benefits associated with this scheme other than the annual contribution described above.

(c) Other items

	Years ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Amortisation			
— intangible assets	1,215	1,058	1,008
— lease prepayments	115	197	256
— other non-current assets	1,408	1,408	1,584
Depreciation			
— property, plant and equipment	97,440	62,090	43,876
Operating leases charges: minimum lease payments			
— buildings	1,815	1,943	800
Auditors' remuneration			
— audit service	50	50	50
Cost of inventories# *(Note 16(b))*	157,112	118,547	88,773

\# Cost of inventories includes RMB105,471,000, RMB69,970,000, and RMB49,981,000 relating to staff costs and depreciation and amortisation charges for the years ended 31 December 2013, 2014 and 2015 respectively, which amount is also included in the respective total amounts disclosed separately above or in Note 7(b) for each of these types of expenses.

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

(a) Taxation in the statement of profit or loss and other comprehensive represents:

	Years ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Deferred tax			
Origination and reversal of temporary differences	2,536	3,415	(599)

(b) Reconciliation between tax expense and accounting loss at applicable tax rate:

	Years ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Loss before taxation	(22,911)	(9,653)	(25,193)
Notional tax on loss before taxation at PRC corporate income tax rate	(5,728)	(2,413)	(6,298)
Effect of non-deductible expenses	2,650	9,278	5,746
Effect of unrecognised temporary differences and tax losses	5,614	(3,450)	(47)
Actual tax expense	2,536	3,415	(599)

The PRC Target is subject to PRC corporate income tax at the statutory rate of 25% during the Relevant Periods. No provision for PRC corporate income tax has been made as the PRC Target sustained losses for taxation purpose or there was tax loss available for offsetting taxable profit during the Relevant Periods.

9. DIRECTORS' REMUNERATION

Directors' remuneration during the Relevant Periods is as follows:

	Year ended 31 December 2013				
	Directors' fees	**Salaries, allowances and benefits in kind**	**Discretionary bonuses**	**Retirement scheme contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chairman					
Shi Wei	—	961	77	36	1,074
Directors					
Wang Ping	—	417	32	36	485
Shi Jianji	—	661	55	—	716
Supervisor					
Xu Wenqin	—	304	25	—	329
	—	2,343	189	72	2,604

	Year ended 31 December 2014				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chairman					
Shi Wei (resigned as Chairman on 22 October 2014)	—	785	33	31	849
Shi Jianji (appointed as Chairman on 22 October 2014)	—	101	4	—	105
Directors					
Wang Ping	—	402	20	37	459
Shi Jianji (resigned as director on 22 October 2014)	—	539	22	—	561
Shi Wei (appointed as director on 22 October 2014)	—	157	7	6	170
Supervisor					
Xu Wenqin	—	288	20	—	308
	—	2,272	106	74	2,452

	Year ended 31 December 2015				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chairman					
Shi Jianji *(note b)*	—	—	—	—	—
Directors					
Wang Ping	—	730	—	40	770
Shi Wei *(note b)*	—	—	—	—	—
Supervisor					
Xu Wenqin *(note b)*	—	—	—	—	—
	—	730	—	40	770

Notes:

(a) During the Relevant Periods, no emoluments were paid by the PRC Target to the directors (including supervisor) as an inducement to join or upon joining the PRC Target or as compensation for loss of office. No director or supervisor has waived or agreed to waive any emoluments during the Relevant Periods.

(b) Remuneration of these persons were borne by Hongbo Investment during the year ended 31 December 2015.

10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The number of directors, supervisor, non-directors and non-supervisors included in the five highest paid individuals for the years ended 31 December 2013, 2014 and 2015 are set forth below:

	Years ended 31 December		
	2013	**2014**	**2015**
Directors and supervisor	2	2	1
Non-directors and non-supervisors	3	3	4
	5	5	5

The emoluments of the directors (including supervisor) are disclosed in Note 9. The aggregate of the emoluments in respect of the remaining highest paid individuals are as follows:

	Years ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other emoluments	1,810	1,404	1,777
Discretionary bonuses	186	208	—
Retirement scheme contributions	—	37	59
	1,996	1,649	1,836

The emoluments of the non-directors and non-supervisors with the highest emoluments are within the following bands:

	Years ended 31 December		
	2013	**2014**	**2015**
Nil to HKD1,000,000 (Nil to RMB840,000)	3	3	4

During the Relevant Periods, no emoluments were paid by the PRC Target to the five highest paid individuals as an inducement to join or upon joining the PRC Target or as compensation for loss of office.

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings and structures *RMB'000*	Machinery and equipment *RMB'000*	Motor vehicle *RMB'000*	Oil and gas properties *RMB'000*	Others *RMB'000*	Total *RMB'000*
Cost:						
At 1 January 2013	88,434	54,838	8,035	538,095	13,324	702,726
Additions	120	4,415	1,048	8,751	4,531	18,865
Reassessment of provision *(Note 24)*	—	—	—	(176)	—	(176)
Transferred from construction in progress	4,146	—	—	92,572	—	96,718
Disposals	—	—	(494)	—	—	(494)
At 31 December 2013	92,700	59,253	8,589	639,242	17,855	817,639
Additions	264	162	511	—	1,397	2,334
Reassessment of provision *(Note 24)*	—	—	—	(7,587)	—	(7,587)
Transferred from construction in progress	1,200	—	—	4,954	—	6,154
At 31 December 2014	94,164	59,415	9,100	636,609	19,252	818,540
Additions	—	587	—	364	165	1,116
Reassessment of provision *(Note 24)*	—	—	—	(14,197)	—	(14,197)
Transferred from construction in progress	—	—	—	3,433	—	3,433
Disposals	—	—	—	—	(315)	(315)
At 31 December 2015	94,164	60,002	9,100	626,209	19,102	808,577
Accumulated depreciation:						
At 1 January 2013	(2,686)	(8,013)	(1,554)	(102,385)	(2,598)	(117,236)
Charge for the year	(1,947)	(4,361)	(1,329)	(87,084)	(2,719)	(97,440)
Written back on disposals	—	—	371	—	—	371
At 31 December 2013	(4,633)	(12,374)	(2,512)	(189,469)	(5,317)	(214,305)
Charge for the year	(2,309)	(4,545)	(997)	(51,065)	(3,174)	(62,090)
At 31 December 2014	(6,942)	(16,919)	(3,509)	(240,534)	(8,491)	(276,395)
Charge for the year	(2,394)	(4,576)	(1,071)	(32,861)	(2,974)	(43,876)
Written back on disposals	—	—	—	—	295	295
At 31 December 2015	(9,336)	(21,495)	(4,580)	(273,395)	(11,170)	(319,976)
Net book value:						
At 31 December 2013	88,067	46,879	6,077	449,773	12,538	603,334
At 31 December 2014	87,222	42,496	5,591	396,075	10,761	542,145
At 31 December 2015	84,828	38,507	4,520	352,814	7,932	488,601

During the Relevant Periods, certain property, plant and equipment with the following net book values have been pledged to bank to secure a credit facility granted to the PRC Target:

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Buildings	—	63,609	62,055

12. CONSTRUCTION IN PROGRESS

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	26,313	3,398	3,398
Additions	73,803	6,154	143
Transferred to property, plant and equipment	(96,718)	(6,154)	(3,433)
At the end of the year	3,398	3,398	108

13. INTANGIBLE ASSETS

	Cooperation right
	RMB'000
Cost:	
At 1 January 2013, 31 December 2013, 31 December 2014, and 31 December 2015	30,000
Accumulated amortisation:	
At 1 January 2013	(1,803)
Charge for the year	(1,215)
At 31 December 2013	(3,018)
Charge for the year	(1,058)
At 31 December 2014	(4,076)
Charge for the year	(1,008)
At 31 December 2015	(5,084)
Net book value:	
At 31 December 2013	26,982
At 31 December 2014	25,924
At 31 December 2015	24,916

14. LEASE PREPAYMENTS

Lease prepayments comprise interests in leasehold land held for own use under operating leases located in the PRC as follows:

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Land use rights held under medium-term leases	4,219	9,692	9,436

During the Relevant Periods, certain land use right with the following net book values has been pledged to bank to secure a credit facility granted to the PRC Target:

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Land use right	—	4,104	3,996

15. OTHER NON-CURRENT ASSETS

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Prepayments for construction in progress			
— a fellow subsidiary	—	—	3,000
— third parties	4,197	3,490	3,801
Performance deposit	5,455	5,455	5,455
Expenditures on public facilities	5,698	16,578	19,753
	15,350	25,523	32,009

16. INVENTORIES

(a) Inventories in the statement of financial position comprise:

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Spare parts and consumables	3,948	4,076	3,084
Finished goods	401	226	3,372
	4,349	4,302	6,456

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	Years ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount of inventories sold *(Note 7(c))*	157,112	118,547	88,773

17. TRADE RECEIVABLES

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables			
— third party	34,956	35,000	43,180

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 month	19,084	22,983	8,818
1–6 months	15,872	12,017	34,362
	34,956	35,000	43,180

According to the crude oil sales agreement, payment by the customer should be made one day in advance of each delivery. In June 2013, a supplementary agreement was signed by the PRC Target and the customer. Pursuant to the supplementary agreement, a guarantee deposit of RMB35,000,000 was paid by the customer to the PRC Target in return for a maximum 180 days credit period for an amount up to RMB35,000,000.

(b) Impairment of trade receivables

Impairment loss in respect of trade receivables is recorded using an allowance account unless the PRC Target is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivable (see Note 2(k)).

The ageing analysis of the PRC Target's trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Neither past due nor impaired	34,956	35,000	35,000
Less than 1 month past due	—	—	8,180
	34,956	35,000	43,180

Receivables that were past due but not impaired relate to an independent customer that has a good track record with the PRC Target. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

(c) Transfer of financial assets

During the years ended 31 December 2013, 2014 and 2015, the PRC Target discounted certain trade receivables with an aggregate amount of RMB32,911,000, RMB98,799,000 and RMB32,891,000 to a bank for cash proceeds amounting to RMB29,600,000, RMB88,800,000 and RMB29,600,000 respectively. If the trade receivables are not paid at maturity, the bank has the right to request the PRC Target to pay the unsettled balance. As the PRC Target has not transferred the significant risks and rewards relating to these trade receivables, it continues to recognise the full carrying amount of the trade receivables and has recognised the cash received on the transfer as a secured borrowing.

At 31 December 2013, 2014 and 2015, the carrying amount of the trade receivables that have been transferred but have not been derecognised amounted to RMB32,911,000, RMB32,899,000 and Nil respectively, and the carrying amounts of the associated liability were RMB29,600,000, RMB29,600,000 and Nil respectively (see Note 20).

18. PREPAID EXPENSES AND OTHER CURRENT ASSETS

		31 December	
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Prepayment to suppliers	7,115	6,671	7,034
Value-added tax recoverable	2,900	—	974
Amounts due from related parties			
— holding company	—	19,671	—
— fellow subsidiaries	20,828	32,607	3,294
Others	8,162	9,310	6,661
	39,005	68,259	17,963

At 31 December 2013, 2014 and 2015, amounts due from related parties were unsecured, interest free and had no fixed terms of repayment.

All of the prepaid expenses and other current assets (including amounts due from related parties) are expected to be recovered or recognised as expense within one year.

19. CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

		31 December	
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Cash at bank and in hand	10,686	7,341	12,498

(b) Major non-cash transactions

During the year ended 31 December 2015, pursuant to agreements between the PRC Target, the PRC Target's shareholders (Hongbo Investment and Lida Investment) and certain fellow subsidiaries (collectively "**Hongbo Investment and its affiliates**"), amounts due from, amounts due to and loans from Hongbo Investment and its affiliates, amounting to RMB22,024,000, RMB92,338,000 and RMB161,206,000 respectively, were restructured into net amounts due to Hongbo Investment and Lida Investment of RMB138,912,000 and RMB92,608,000 respectively. Pursuant to a resolution passed at the shareholders' meeting held on 21 May 2015, the above amounts due to Hongbo Investment and Lida Investment were converted into the PRC Target's paid-in capital.

20. BANK AND OTHER BORROWINGS

		31 December		
		2013	**2014**	**2015**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Bank borrowing	*(i)*	29,600	29,600	—
Other borrowings				
— related parties	*(ii)*	153,726	156,056	—
— third party	*(iii)*	—	—	90,000
		183,326	185,656	90,000

Notes:

(i) During the Relevant Periods, the PRC Target obtained a one-year trade finance bank facility of RMB29,600,000 which was expired on 24 February 2016. The bank facility was secured by certain buildings and land use rights of the PRC Target (see Notes 11 and 14) and guaranteed by Hongbo Investment. The bank facility was utilised to the extent of RMB29,600,000, RMB29,600,000 and Nil at 31 December 2013, 2014 and 2015 respectively (see Note 17(c)).

(ii) Borrowings from related parties comprise:

- Unsecured loan from holding company, Hongbo Investment with no fixed terms of repayment. The loan was bearing interest at prevailing market interest rate published by the People's Bank of China ("**PBOC**"). The outstanding balances of the loan at 31 December 2013, 2014 and 2015 were RMB20,000,000, RMB20,000,000 and Nil, respectively.

- Unsecured loan from a fellow subsidiary, Shanghai Zhongshan Lida Industry Co., Ltd. with no fixed terms of repayment. The loan was bearing interest at prevailing market interest rate published by the PBOC. The outstanding balances of the loan at 31 December 2013, 2014 and 2015 were RMB59,840,000, RMB64,010,000 and Nil, respectively.

- Unsecured loan from a fellow subsidiary, Shanghai B&K Trading Co., Ltd. with no fixed terms of repayment. The loan was bearing interest at prevailing market interest rate published by the PBOC. The outstanding balances of the loan at 31 December 2013, 2014 and 2015 were RMB69,046,000, RMB72,046,000 and Nil, respectively.

- Unsecured loan from a fellow subsidiary, Shanghai New Mainstream Media Technology Service Co., Ltd. with no fixed terms of repayment. The loan was bearing interest at prevailing market interest rate published by the PBOC. The outstanding balances of the loan at 31 December 2013, 2014 and 2015 were RMB4,840,000, Nil and Nil, respectively.

(iii) During the year ended 31 December 2015, the PRC Target obtained certain short-term loans amounting to RMB90,000,000 in aggregate from a third party, Guangzhou Zhang Su Investment Consulting Co., Ltd. ("Zhang Su"). The loans, amounting to RMB70,000,000, are bearing interest at 110% of the prevailing market interest rate published by the PBOC and secured by the PRC Target's paid-in capital of RMB120,026,000 held by Hongbo Investment, representing 27.6% of the equity interest in the PRC Target at 31 December 2015. The remaining loan of RMB20,000,000 is unsecured, bearing interest at 4.80% per annum and repayable in 6 months.

21. TRADE PAYABLES

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
A fellow subsidiary	1,188	1,188	—
Third parties	164,150	167,017	144,435
	165,338	168,205	144,435

All of the trade payables are expected to be settled within one year or are repayable on demand.

As of the end of the reporting period, the ageing analysis of trade payables, based on the invoice date (or date of recognition, if earlier), is as follows:

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	150,141	105,377	57,211
Over 1 year but within 2 years	13,726	61,136	79,262
Over 2 years but within 3 years	871	221	6,998
Over 3 years	600	1,471	964
	165,338	168,205	144,435

22. ACCRUED EXPENSES AND OTHER PAYABLES

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Amounts due to related parties			
— holding company	71,581	57,970	—
— fellow subsidiaries	60,033	50,864	—
— other related party	20,066	19,370	—
Taxes other than income tax	19,036	16,028	7,689
Guarantee deposit	35,000	35,000	35,000
Payable to Yanchang	62,439	76,903	74,170
Others	3,780	4,201	3,551
	271,935	260,336	120,410

All of the accrued expenses and other payables (including amounts due to related parties) are expected to be settled within one year or are repayable on demand.

23. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Current tax recoverable in the statement of financial position represents:

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	—	—	—
Income tax paid	—	—	22,000
At 31 December	—	—	22,000

(b) Deferred tax assets and liabilities recognised

The components of deferred tax assets/(liabilities) recognised in the statement of financial position and the movements during the Relevant Periods are as follows:

	Provision for future dismantlement costs	**Property, plant and equipment**	**Intangible assets**	**Accruals**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2013	600	(340)	(29)	5,720	5,951
Credited/(charged) to profit or loss	684	825	(26)	(4,019)	(2,536)
At 31 December 2013	1,284	485	(55)	1,701	3,415
Credited/(charged) to profit or loss	737	(6,501)	(5)	2,354	(3,415)
At 31 December 2014	2,021	(6,016)	(60)	4,055	—
Credited/(charged) to profit or loss	610	(8,233)	10	8,212	599
At 31 December 2015	2,631	(14,249)	(50)	12,267	599

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(p), the PRC Target has not recognised deferred tax assets in respect of cumulative tax losses amounting to RMB46,005,000, RMB32,347,000 and RMB48,830,000 and deductible temporary differences amounting to RMB33,621,000, RMB33,482,000 and Nil at 31 December 2013, 2014 and 2015 respectively, as it is not probable that future taxable profits against which the losses and deductible temporary differences can be utilised/reversed will be available in the relevant tax jurisdiction of the PRC Target.

The unutilised tax losses in the PRC Target can be carried forward up to five years from the year in which the loss was originated to offset future taxable profits. At 31 December 2015, the PRC Target's unutilised tax losses will be expired in 2017 and thereafter.

24. PROVISIONS

The amount represents provision for future dismantlement costs of oil and gas properties. Movements of provision during the Relevant Periods are set out as follows:

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	37,445	48,760	44,120
Additions	8,751	—	364
Reassessment	(176)	(7,587)	(14,197)
Accretion expense	2,740	2,947	2,441
At the end of the year	48,760	44,120	32,728

25. CAPITAL AND RESERVES

(a) Paid-in capital

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Registered and paid-in capital:			
At the beginning of the year	203,400	203,400	203,400
Capital contributions	—	—	231,520
At the end of the year	203,400	203,400	434,920

According to the resolution passed at the shareholders' meeting held on 21 May 2015, the registered capital of the PRC Target was increased by RMB231,520,000 to RMB434,920,000. Pursuant to which, amounts due to shareholders, amounting to RMB231,520,000, were converted into the PRC Target's paid-in capital (see Note 19(b)).

(b) Nature and purpose of reserves

(i) Capital reserve

Capital reserve represents the PRC Target's share premium, being the difference between the paid-in capital and the fair value of the considerations received from the capital contributions made by the investors.

(ii) Specific reserve

According to relevant PRC rules and regulations, the PRC Target is required to transfer an amount to specific reserve for the safety production fund based on the production volume of crude oil and natural gas. The amount of safety production fund utilised would be transferred from the specific reserve back to retained earnings.

26. CAPITAL MANAGEMENT

The PRC Target's primary objectives when managing capital are to safeguard the PRC Target's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The PRC Target actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The PRC Target monitors its capital structure on the basis of adjusted net debt-to-equity ratio. For this purpose, adjusted net debt is defined as interest-bearing loans and borrowings less cash and cash equivalents.

The PRC Target's strategy is to maintain adequate funding from bank and related parties according to the operating needs and the capital commitments, and to maintain the net debt-to-equity ratio at a range considered reasonable by management.

The adjusted net debt-to-equity ratio at 31 December 2013, 2014 and 2015 was as follows:

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Bank and other borrowings	183,326	185,656	90,000
Less: cash and cash equivalent	(10,686)	(7,341)	(12,498)
Adjusted net debt	172,640	178,315	77,502
Total equity	76,335	63,267	270,193
Adjusted net debt-to-equity ratio	2.26	2.82	0.29

The PRC Target is not subject to externally imposed capital requirements.

27. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and price risks arises in the normal course of the PRC Target's business.

The PRC Target's exposure to these risks and the financial risk management policies and practices used by the PRC Target to manage these risks are described below.

(a) Credit risk

The PRC Target's credit risk is primarily attributable to cash at bank and trade and other receivables. Management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis.

Substantially all of the PRC Target's cash at bank are deposited in the stated-owned/controlled or listed PRC banks which the directors of the PRC Target assessed the credit risk to be insignificant.

In respect of trade and other receivables, individual credit evaluations are performed on all debtors. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

The PRC Target does not provide any guarantees which would expose the PRC Target to credit risk.

(b) Liquidity risk

The PRC Target is responsible for its overall cash management, including raising of loans to cover expected cash demands. At 31 December 2013, 2014 and 2015, the PRC Target had net current liabilities of RMB531,603,000, RMB499,295,000 and RMB252,748,000, respectively. The liquidity of the PRC Target is primarily dependent on its ability to (1) obtain sufficient financing from its banker and shareholder; and (2) the Proposed Transactions will be successfully completed and sufficient funding will be provided by the Company to the PRC Target to enable the PRC Target to meet its financial obligations as and when they fall due and to meet its committed future capital expenditures. The directors of the Company have carried out a detailed review of the PRC Target's cash flow projections for the twelve months ending 31 December 2016. Based on such projections, the directors of the Company have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements during that period. In preparing the cash flow projections, the directors of the Company have considered historical cash requirements of the PRC Target as well as other key factors including sufficient financing from its banker, shareholder and the Company. The directors of the Company are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

The following tables show the remaining contractual maturities at the end of the reporting period of the PRC Target's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the PRC Target can be required to pay:

	31 December 2013	
	Contractual undiscounted cash outflow — within 1 year or on demand	**Carrying amount**
	RMB'000	*RMB'000*
Bank and other borrowings	183,326	183,326
Trade payables	165,338	165,338
Accrued expenses and other payables	236,935	236,935
	585,599	585,599

	31 December 2014	
	Contractual undiscounted cash outflow — within 1 year or on demand	**Carrying amount**
	RMB'000	*RMB'000*
Bank and other borrowings	185,656	185,656
Trade payables	168,205	168,205
Accrued expenses and other payables	225,336	225,336
	579,197	579,197

	31 December 2015	
	Contractual undiscounted cash outflow — within 1 year or on demand	Carrying amount
	RMB'000	*RMB'000*
Bank and other borrowings	91,697	90,000
Trade payables	144,435	144,435
Accrued expenses and other payables	85,410	85,410
	321,542	319,845

(c) Interest rate risk

The PRC Target's interest rate risk arises primarily from interest-bearing borrowings. The PRC Target regularly reviews and monitors the mix of fixed and variable rate bank borrowing in order to manage its interest rate risks.

The following table details the interest rate profile of the PRC Target's interest-bearing borrowings at the respective reporting period end dates.

	31 December 2013	
	Effective interest rate	Carrying amount
	%	*RMB'000*
Fixed rate — bank borrowing	5.88%	29,600
Floating rate — other borrowings	6.55%–6.56%	153,726
		183,326

	31 December 2014		31 December 2015	
	Effective interest rate	Carrying amount	Effective interest rate	Carrying amount
	%	*RMB'000*	%	*RMB'000*
Fixed rate — other borrowing	5.88%	29,600	4.80%	20,000
Floating rate — other borrowings	6.00%–7.00%	156,056	5.06%	70,000
		185,656		90,000

At the respective reporting period end dates, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have (increased)/decreased the PRC Target's loss after tax and accumulated losses as follows:

	31 December		
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
100 basis points increase	(1,537)	(1,561)	(700)
100 basis points decrease	1,537	1,561	700

(d) Price risk

The PRC Target is engaged in petroleum-related activities. Prices of crude oil are affected by a wide range of global and domestic political, economic and military factors which are beyond the control of the PRC Target. A decrease in such prices could adversely affect the PRC Target's financial position. The PRC Target has not used any derivative instruments to hedge against potential price fluctuations of crude oil.

(e) Fair values measurement

The PRC Target did not have financial instruments carried at fair value during the Relevant Periods. The carrying amounts of the PRC Target's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2013, 2014 and 2015 because of the short term maturity of the financial instruments.

28 EXPLORATION SERVICE AGREEMENT

(a) Agreement signed on 1 May 2015

On 1 May 2015, the PRC Target entered into a service agreement ("**Exploration Service Agreement**") with Xilin Gol League Hongjin Engineering Technical Service Company Limited ("**Hongjin Engineering**"). Hongjin Engineering is held as to 60% by Hongbo Investment and 40% by Lida Investment. Pursuant to the Exploration Service Agreement, the PRC Target shall pay Hongjin Engineering a fixed fee of RMB30,000,000 within 3 years from the date of the Exploration Service Agreement, based on the progress of the exploration and development works as agreed between the PRC Target and Hongjin Engineering, and a monthly variable fee equivalent to 95% of the crude oil sales revenue generated from Block 378, after deduction of the 20% sharing by Yanchang. The PRC Target has the option to acquire 100% of the equity interests in Hongjin Engineering from its shareholders for a cash consideration of RMB200,000,000 within 3 years of the date of the Exploration Service Agreement ("**Call Option**"). If, within 3 years of the date of the Exploration Service Agreement, certain criteria relating to the production activities of any of the exploration wells in Block 378 are met, Hongjin Engineering will have the option to terminate the Exploration Service Agreement ("**Termination Option**") and the PRC Target shall pay Hongjin Engineering a termination fee of RMB200,000,000 less any fees paid/payable by the PRC Target to Hongjin Engineering under the Exploration Service Agreement prior to termination.

During the period from 1 May 2015 to the date of approval of New Exploration Service Agreement (see Note 28(b)), no major exploration work was performed on Block 378. Accordingly, the directors of the Company are of the opinion that the fair values of the Call Option and Termination Option were Nil.

(b) Agreement signed on 19 September 2015

The above agreement signed on 1 May 2015 was subsequently superseded by a new service agreement dated 19 September 2015 ("**New Exploration Service Agreement**"). The expiry date of the New Exploration Service Agreement is the same as that of EPCC subject to early termination as set out in the New Exploration Service Agreement. Pursuant to which, the PRC Target shall pay Hongjin Engineering a fixed fee of RMB30,000,000 within 3 years from the date of the New Exploration Service Agreement based on the progress of the exploration and development works as agreed between the PRC Target and Hongjin Engineering. After Hongjin Engineering has spent the fixed fee of RMB30,000,000 on the exploration work on Block 378, it can choose to terminate the New Exploration Service Agreement based on its judgement of Block 378's commerciality. If Hongjin Engineering does not decide to terminate the New Exploration Service Agreement, it will be responsible to finance any further exploration work of Block 378 thereafter at its own cost and expenses. If, within the term of the New Exploration Service Agreement, certain criteria relating to the production activities of any of the exploration wells in Block 378 are met, the PRC Target and Hongjin Engineering will have the right to terminate the New Exploration Service Agreement. Upon termination, the PRC Target shall pay Hongjin Engineering a success fee of RMB200,000,000, and Hongjin Engineering shall transfer all its property, plant and equipment, intangible assets and rights relating to Block 378's exploration and development to the PRC Target.

Up until 31 December 2015, no major exploration work was performed by Hongjin Engineering on Block 378.

29. COMMITMENTS

(a) Capital commitments outstanding at the respective reporting period end dates not provided for in the Financial Information were as follows:

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Contracted for			
— property, plant and equipment	—	10,865	5,365

(b) As at the respective reporting period end dates, total future minimum lease payments under non-cancellable operating leases payable are as follows:

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	75	800	800

The PRC Target leases certain buildings through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments.

30. MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the PRC Target, directly or indirectly, including directors and supervisor of the PRC Target.

Remuneration for key management personnel of the PRC Target, including amounts paid to the PRC Target's directors (including supervisor) as disclosed in Note 9 and certain of the highest paid employees as disclosed in Note 10, is as follows:

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Short-term employee benefits	5,692	4,944	2,805
Post-employment benefits	206	254	135
	5,898	5,198	2,940

Total remuneration is included in "staff costs" (see Note 7(b)).

(b) Contribution to defined contribution retirement plan

The PRC Target participates in a defined contribution retirement plan organised by the relevant local government authority. As at 31 December 2013, 2014 and 2015, there was no material outstanding contribution to post-employment benefit plan. Details of the PRC Target's defined contribution retirement plan are set out in Note 7(b).

(c) Transactions with other related parties

The PRC Target had the following material transactions with related parties during the Relevant Periods:

	Years ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
With Hongbo Investment and its affiliates			
— advances received	(70,975)	(66,909)	(16,950)
— repayment of advances	127,380	123,105	24,590
— proceeds from borrowings	(119,070)	(100,050)	(22,350)
— repayment of borrowings	130,724	97,720	17,200
— interest expense	10,876	9,959	2,467
— rental expense	—	—	800
— purchase of construction materials	522	—	—
— prepayment	—	—	3,000
— decrease/(increase) in net payables	977	7,993	(14,837)
With other related party *(note a)*			
— (increase)/decrease in net payables	(501)	696	19,370

The PRC Target's outstanding balances with related parties are as follows:

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Prepaid expenses and other current assets			
— holding company	—	19,671	—
— fellow subsidiaries	20,828	32,607	3,294
Other non-current assets			
— a fellow subsidiary	—	—	3,000
Other borrowings *(note b)*			
— holding company	(20,000)	(20,000)	—
— fellow subsidiaries	(133,726)	(136,056)	—
Trade payables			
— a fellow subsidiary	(1,188)	(1,188)	—
Accrued expenses and other payables			
— holding company	(71,581)	(57,970)	—
— fellow subsidiaries	(60,033)	(50,864)	—
— other related party *(note a)*	(20,066)	(19,370)	—

Notes:

(a) Other related party represents a close family member of a director of the PRC Target.

(b) Further details of borrowings from related parties are disclosed in Note 20.

31. CONTINGENT LIABILITIES

The PRC Target acquired the cooperation right with Yanchang under the EPCC pursuant to an agreement entered into between Hongbo Investment and a third party (the "**Third Party**") dated 15 June 2008 (the "**15 June 2008 Agreement**"), and an agreement entered into between the PRC Target, Hongbo Investment and Ningxia Tianpu Mining Investment Consulting Company Limited (寧夏天普礦業投資諮詢有限公司).

In September 2011, the Third Party commenced legal action against Hongbo Investment, the PRC Target and Yanchang. The Third Party's claim was for Hongbo Investment, the PRC Target and Yanchang to pay it outstanding mineral rights transfer fees of RMB20,000,000, and the entitlement to the profit and management rights in respect of 2 oil wells in Block 212 to be selected based on certain criteria. Shaanxi Higher People's Court issued a judgement dated 4 April 2014, pursuant to which Hongbo Investment was ordered to pay RMB20,000,000 of the outstanding mineral rights transfer fees to the Third Party together with penalty interest. The Third Party's claims for profit and management rights of the 2 oil wells were dismissed. Hongbo Investment subsequently paid RMB20,000,000 and penalty interest to the Third Party in 2014.

On 1 July 2015, the PRC Target and Hongbo Investment entered into an agreement pursuant to which Hongbo Investment would be responsible for any direct loss suffered by the PRC Target caused by any dispute with the Third Party relating to the 15 June 2008 Agreement.

On 10 August 2015, the Supreme People's Court issued an order for rehearing of the same case by the Supreme People's Court.

Based on legal advice from the legal counsel of Hongbo Investment and the PRC Target, the PRC Target is an independent legal entity and shall not be liable for obligations in the agreement signed between Hongbo Investment and the Third Party. Accordingly, this matter will not have material adverse impact on the financial position of the PRC Target.

32. IMMEDIATE HOLDING COMPANY

At 31 December 2013, 2014 and 2015, the directors consider the immediate parent and ultimate controlling party of the PRC Target to be Hongbo Investment, which is established in the PRC. This entity does not produce financial statements available for public use.

33. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2015

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2015 and which have not been adopted in these financial statements. These include the following which may be relevant to the PRC Target:

	Effective for accounting periods beginning on or after
HKFRS 14, Regulatory deferral accounts	1 January 2016
Amendments to HKFRS 11, Accounting for acquisitions of interests in joint operations	1 January 2016
Amendments to HKAS 16 and HKAS 38, Clarification of acceptable methods of depreciation and amortisation	1 January 2016
Amendments to HKAS 16 and HKAS 41, Agriculture: Bearer plants	1 January 2016
Amendments to HKAS 27, Equity method in separate financial statements	1 January 2016
Amendments to HKFRS 10, HKFRS 12 and HKAS 28, Investment entities: Applying the consolidation exception	1 January 2016
Amendments to HKAS 1, Disclosure initiative	1 January 2016
HKFRS 15, Revenue from contracts with customers	1 January 2018
HKFRS 9, Financial instruments	1 January 2018
HKFRS 16, Leases	1 January 2019

The PRC Target is in the process of making an assessment of what the impact of these amendments and interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the PRC Target's results of operations and financial position.

C. SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS

No audited financial statements have been prepared by the Company in respect of any period subsequent to 31 December 2015. No dividend or distribution has been declared or made by the PRC Target in respect of any period subsequent to 31 December 2015.

Yours faithfully,

KPMG
Certified Public Accountants
Hong Kong