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**延長石油國際有限公司**

**YANCHANG PETROLEUM INTERNATIONAL LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 00346)**

**CLARIFICATION ANNOUNCEMENT TO ANNUAL REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2014**

Reference is made to the annual report for the year ended 31 December 2014 (the “2014 Annual Report”) of Yanchang Petroleum International Limited (the “Company” and together with its subsidiaries, the “Group”). Terms used herein shall have the same meanings as defined in the 2014 Annual Report unless otherwise stated.

In addition to the information disclosed in the 2014 Annual Report, the board (the “Board”) of directors of the Company would like to advise that the following paragraphs should be included:

**A. Under the sections of “Management Discussion and Analysis” and “Notes to the Consolidated Financial Statements” of the 2014 Annual Report**

***(i) Intangible assets on page 9 and page 107***

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

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

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

***(ii) Exploration and evaluation assets on page 10 and page 108***

In view of the international crude oil price decreased significantly, the Group carried out an impairment testing on its exploration and evaluation assets in relation to the Oilfield Blocks 2104 and 3113 in Madagascar with reference to a valuation performed by Cushman & Wakefield, which has appropriate qualification and experience in the valuation of similar assets. The recoverable amount of the exploration and evaluation assets is its fair value less costs of disposal and the fair value measurement is categorised as Level 2. As such, impairment loss of HK\$4,517,062,000 on the exploration and evaluation assets in relation to the Oilfield Blocks 2104 and 3113 has been made for the year ended 31 December 2014.

Three common valuation approaches, namely cost approach, income approach and market approach have been considered in the valuation by Cushman & Wakefield. Cushman & Wakefield considered that the cost approach is not considered to be an appropriate approach for valuing income-generating assets, while the income approach is not considered to be appropriate as it is not able to estimate the future economic benefits using reliable parameters and assumptions under the current operating stage in the Oilfield Blocks 2104 and 3113. Market approach has been consistently adopted for impairment testing of the said exploration and evaluation assets since its acquisition by the Group. The market approach was adopted for the valuation of the Group's exploration and evaluation assets situated at the Oilfield Blocks 2104 and 3113 in Madagascar because it is the most direct approach which reflects the value obtained as a result of consensus of market participants. The comparable transactions method was applied by comparing similar recent purchase and sale transactions. The key assumptions adopted by Cushman & Wakefield were to use the adjusted consideration price to adjusted proved and probable reserve (the "Price/Reserve") multiples of the comparable transactions to determine the market value of the exploration and evaluation assets. The adjusted consideration prices were determined by adding corresponding debts and subtracting corresponding working capitals, and land values etc of the acquired assets. The adjusted proved and probable reserves were determined by proved and probable reserves multiplied by one minus the corresponding government royalty rates.

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

**B. Under the section of “Notes to the Consolidated Financial Statements” of the 2014 Annual Report**

***Note 32. Share Capital - Share Option - New Share Option Scheme on page 119***

The maximum number of shares available for issue under options which may be granted under the New Scheme of the Company is 684,557,304 (2013: 684,557,304) shares (being not more than 10% of the total number of shares in issue as at the date of adoption of the New Scheme), representing 5.6% (2013: 8.4%) of the total number of shares in issue as at the date of this annual report.

Save for the aforesaid additional information, the Board confirms that all the other information contained in the 2014 Annual Report remains unchanged.

By Order of the Board  
**Yanchang Petroleum International Limited**  
**Zhang Kaiyong**  
*Chairman*

Hong Kong, 5 August 2015

***Executive Directors:***

Mr. Zhang Kaiyong (*Chairman*)  
Mr. Ren Yansheng (*Chief Executive Officer*)  
Mr. Hui Bo (*Vice President*)  
Mr. Shen Hao  
Mr. Feng Dawei  
Mr. Zhao Jie  
Mr. Andres Pena Salceda

***Independent Non-Executive Directors:***

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