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

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

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

The board of directors (the "Board") of Yanchang Petroleum International Limited (formerly known as Sino Union Energy Investment Group Limited) (the "Company") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2012 together with the unaudited comparative figures for the six months ended 30 September 2011 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

		Six months ended	
		30 June 2012	30 September 2011
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Turnover	*4*	**647,302**	321,869
Cost of sales		**(641,931)**	(314,581)
Gross profit		**5,371**	7,288
Other revenue	*4*	**1,002**	244
Other gains and losses	*5*	**(30,279)**	2,790
Selling and distribution costs		**(1,642)**	(3,862)
Administrative expenses		**(24,198)**	(20,802)
Equity-settled share option expenses		**(97)**	(152,643)
Loss from operating activities		**(49,843)**	(166,985)
Finance costs	*6*	**(8,517)**	—
Loss before taxation	*7*	**(58,360)**	(166,985)
Taxation	*8*	**—**	(391)
Loss for the period		**(58,360)**	(167,376)

	Notes	Six months ended **30 June 2012 (Unaudited) *HK$'000***	30 September 2011 (Unaudited) *HK$'000*
Other comprehensive (loss)/income			
Exchange differences arising on translation of foreign operations		**(427)**	2,881
Other comprehensive (loss)/income for the period, net of tax		**(427)**	2,881
Total comprehensive loss for the period		**(58,787)**	(164,495)
Loss attributable to			
— Owners of the Company		**(54,116)**	(167,376)
— Non-controlling interests		**(4,244)**	—
		(58,360)	(167,376)
Total comprehensive loss attributable to			
— Owners of the Company		**(53,734)**	(164,495)
— Non-controlling interests		**(5,053)**	—
		(58,787)	(164,495)
Loss per share			
— Basic, HK cents	*10*	**(0.80)**	(2.65)
— Diluted, HK cents	*10*	**(0.80)**	(2.65)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

	Notes	**30 June 2012 (Unaudited) *HK$'000***	31 December 2011 (Audited) *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**140,299**	143,875
Prepaid lease payments		**20,818**	21,247
Investment properties		**35,467**	39,652
Intangible assets		**314,288**	316,693
Exploration and evaluation assets		**8,561,850**	8,546,675
Available-for-sale investment	*11*	**196,072**	73,950
Goodwill		**51,418**	51,418
		9,320,212	9,193,510
Current assets			
Inventories		**109,098**	106,054
Trade receivables	*12*	**218**	46
Prepayments, deposits and other receivables		**118,036**	31,643
Pledged deposits		**76,986**	49,300
Cash and bank balances		**23,889**	29,485
		328,227	216,528
Total assets		**9,648,439**	9,410,038
EQUITY			
Capital and reserves			
Share capital	*13*	**136,911**	130,911
Reserves		**8,830,577**	8,741,714
Equity attributable to owners of the Company		**8,967,488**	8,872,625
Non-controlling interests		**88,684**	93,737
Total equity		**9,056,172**	8,966,362

	Notes	30 June 2012 (Unaudited) HK$'000	31 December 2011 (Audited) HK$'000
LIABILITIES			
Current liabilities			
Trade, bills and other payables	*14*	**289,734**	120,288
Tax payable		**22,666**	23,314
Promissory note		**84,654**	84,654
Borrowings		**110,506**	129,995
		507,560	358,251
Non-current liability			
Deferred taxation		**84,707**	85,425
Total liabilities		**592,267**	443,676
Total equity and liabilities		**9,648,439**	9,410,038
Net current liabilities		**(179,333)**	(141,723)
Total assets less current liabilities		**9,140,879**	9,051,787

NOTES:

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standard (the "HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

The unaudited condensed consolidated financial statements should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2011 as contained in the Company's annual report 2011 (the "Annual Report 2011"), which have been prepared in accordance with the Hong Kong Financial Reporting Standards (the "HKFRSs").

These unaudited condensed consolidated financial statements are presented in HK dollars ("HK$"). All values are rounded to the nearest thousand, unless otherwise stated. These unaudited condensed consolidated financial statements were approved for issue on 30 August 2012.

2. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial assets and liabilities that are measured at fair values.

The accounting policies adopted in the condensed consolidated financial statements for the period from 1 January 2012 to 30 June 2012 are consistent with those followed in the preparation of the Group's consolidated financial statements for the 9 months ended 31 December 2011 except for the impact of the adoption of the new and revised HKASs, HKFRSs, amendments and interpretations (the "new HKFRSs").

In the current period, the Group has applied, for the first time, a number of the new HKFRSs issued by the HKICPA which are effective for the Group's financial period beginning 1 January 2012. A summary of the new HKFRSs are set out as below:

HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets
HKAS 12 (Amendments)	Deferred Tax — Recovery of Underlying Assets

The application of the above new HKFRSs had no material effect on the results and financial positions of the Group for the current or prior accounting periods which have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective.

Amendments to HKFRSs	Annual Improvements 2009–2011 Cycle[2]
HKFRS 1 (Amendments)	Government Loans[2]
HKFRS 7 (Amendments)	Disclosure — Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[4]
HKFRS 9 & HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosure[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 10, HKFRS 11 & HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities — Transaction Guidance[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[1]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
HKAS 32 (Amendments)	Presentation — Offsetting Financial Assets and Financial Liabilities[3]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of assessing the potential impact of the above new HKFRSs upon initial application but is not yet in a position to state whether the above new HKFRSs will have a significant impact on the Group's result of operations and financial position.

3. SEGMENT INFORMATION

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

(a) the supply and procurement operation segment involves trading and distribution of oil related products; and

(b) the oil and gas exploration, exploitation and operation segment involves oil and gas exploration, exploitation and operation. During the six months ended 30 June 2012 and 30 September 2011, this segment did not generate any revenue or profit to the Group.

Segments revenue and results

	Supply and procurement operation		Oil and gas exploration, exploitation and operation		Consolidated	
	For the six months ended		For the six months ended		For the six months ended	
	30 June 2012	30 September 2011	**30 June 2012**	30 September 2011	**30 June 2012**	30 September 2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Segment revenue:						
Sales to external customers	**647,302**	321,869	**—**	—	**647,302**	321,869
Segment results	**(6,964)**	3,165	**(1,725)**	(5,129)	**(8,689)**	(1,964)
Other revenue					**1,002**	244
Equity-settled share option expenses					**(97)**	(152,643)
Loss on disposal of subsidiaries					**—**	(210)
Loss on sale of available-for-sale investment					**(26,378)**	—
Reimbursement of share option expenses					**—**	3,000
Written off of investment property					**(3,901)**	—
Unallocated corporate expenses					**(11,780)**	(15,412)
Loss from operating activities					**(49,843)**	(166,985)
Finance costs					**(8,517)**	—
Loss before taxation					**(58,360)**	(166,985)
Taxation					**—**	(391)
Loss for the period					**(58,360)**	(167,376)

Revenue reported was generated from external customers. There were no inter-segment sales for the six months ended 30 June 2012 and 30 September 2011.

Segment loss represents the loss incurred by each segment without allocation of other revenue and corporate expenses including staff costs, finance costs, equity-settled share option expenses, written off of investment property and loss on sale of available-for-sale investment. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

Segments assets and liabilities

	Supply and procurement operation		Oil and gas exploration, exploitation and operation		Consolidated	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011	**30 June 2012**	31 December 2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)
Segment assets	**812,052**	692,828	**8,830,673**	8,709,141	**9,642,725**	9,401,969
Unallocated assets					**5,714**	8,069
Total assets					**9,648,439**	9,410,038
Segment liabilities	**479,925**	343,754	**6,707**	1,672	**486,632**	345,426
Unallocated liabilities					**105,635**	98,250
Total liabilities					**592,267**	443,676

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

- all assets are allocated to reportable segments other than other corporate financial assets; and goodwill is reallocated to the supply and procurement operation segment.

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

4. TURNOVER AND OTHER REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant inter-company transactions have been eliminated on consolidation.

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

	Six months ended	
	30 June 2012	30 September 2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Turnover		
Sale of fuel oil related products	**647,302**	321,869

	Six months ended	
	30 June 2012	30 September 2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Other revenue		
Bank interest income	**842**	244
Rental income	**159**	—
Others	**1**	—
	1,002	244

5. OTHER GAINS AND LOSSES

	Six months ended	
	30 June	30 September
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss on sale of available-for-sale investment	**(26,378)**	—
Written off of investment property	**(3,901)**	—
Loss on disposal of subsidiaries	**—**	(210)
Reimbursement of share option expenses	**—**	3,000
	(30,279)	2,790

6. FINANCE COSTS

	Six months ended	
	30 June	30 September
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest expenses on bank borrowings wholly repayable within five years	**5,445**	—
Interest expenses on bills payable	**3,072**	—
	8,517	—

7. LOSS BEFORE TAXATION

The Group's loss before taxation is arrived at after charging:

	Six months ended	
	30 June	30 September
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**641,931**	314,581
Depreciation of property, plant and equipment	**3,395**	519
Amortisation of prepaid lease payments	**256**	10
Minimum lease payments under operating lease of rented premises	**2,252**	1,933
Staff costs (including Directors' remuneration):		
— Salaries and wages	**5,194**	5,307
— Pension scheme contributions	**71**	81
Equity-settled share option expenses	**97**	152,643

8. TAXATION

No provision for Hong Kong profits tax has been made as the Group did not have assessable profits for the period (for the six months ended 30 September 2011: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended	
	30 June 2012	30 September 2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current taxation		
Charge for the period — Overseas	**—**	391

9. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividends in respect of the six months ended 30 June 2012 (for the six months ended 30 September 2011: Nil).

10. LOSS PER SHARE

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

	Six months ended	
	30 June 2012	30 September 2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss		
Loss attributable to owners of the Company for the purposes of basic and diluted loss per share	**(54,116)**	(167,376)

The weighted average number of ordinary shares for the purpose of basic and diluted loss per share for the six months ended 30 June 2012 was approximately 6,761,507,000 (for the six months ended 30 September 2011: 6,319,464,000).

Diluted loss per share for the six months ended 30 June 2012 was the same as the basic loss per share. The Company's outstanding share options were not included in the calculation of diluted loss per share because the effect of the Company's outstanding share options was anti-dilutive.

11. AVAILABLE-FOR-SALE INVESTMENT

As at 31 December 2011, the Group originally held 10% of the equity interests of Gold Grand Investment Limited ("Gold Grand"), a company established in Madagascar, at cost of HK$73,950,000.

On 6 January 2012, the Group and Jubilee Star Holdings Limited ("Jubilee Star"), an independent third party of the Group, entered into an agreement to acquire further 30% equity interests in Gold Grand. Pursuant to the agreement, the total consideration for the acquisition was HK$333,060,000 which was satisfied by issuing 300,000,000 shares of the Company (the share price of the Company at the completion date was HK$0.495) and a non-interest bearing promissory note (the "Promissory Note") of principal amount of RMB150,000,000 (approximately of HK$184,560,000) with maturity of 6 months. After further acquisition of 30% equity interests in Gold Grand, the Group was beneficially interested in 40% of the equity interests in Gold Grand.

Later on, the Group and Jubilee Star entered into a supplemental agreement on 31 May 2012 and agreed that the Promissory Note of principal amount of RMB150,000,000 should be fully redeemed by the Company while the equity interests acquired by the Group in Gold Grand would be amended from 30% to 11%. The cost of the disposed 19% equity interests in Gold Grand was HK$210,938,000. As a result, there was a loss of HK$26,378,000.

The Board does not believe that the Group is able to exercise significant influence over Gold Grand, as the remaining equity interests were held by one shareholder, who also manages the day-to-day operations of Gold Grand. Therefore, the investment in Gold Grand was not qualified as investment in an associate during the period.

12. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 30 days (31 December 2011: 30 days), are recognised and carried at the original invoiced amount less provision for impairment loss. It is the Group's policy to provide full impairment loss for all receivables over 1 year because historical experience is such that receivables past due beyond 1 year are generally not recoverable. Trade receivables are non-interest-bearing.

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

	30 June 2012 *HK$'000* **(Unaudited)**	31 December 2011 *HK$'000* (Audited)
0 to 30 days	**218**	46

Based on past experience, the Group believes that no impairment loss 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. There are no trade receivables which are past due at the end of the reporting period but not impaired. The Group does not hold any collateral or other credit enhancements over these balances.

13. SHARE CAPITAL

	Number of shares		**Share capital**	
	30 June 2012 *'000*	31 December 2011 *'000*	**30 June 2012** *HK$'000* **(Unaudited)**	31 December 2011 *HK$'000* (Audited)
Authorised:				
Ordinary shares of HK$0.02 each	**100,000,000**	100,000,000	**2,000,000**	2,000,000
Issued and fully paid:				
At beginning of the period, ordinary shares of HK$0.02 each	**6,545,573**	6,319,464	**130,911**	126,389
Consideration shares *(Note)*	**300,000**	226,109	**6,000**	4,522
At the end of the period, ordinary shares of HK$0.02 each	**6,845,573**	6,545,573	**136,911**	130,911

Note:

During the period ended 30 June 2012, 300,000,000 shares have been issued by the Group to satisfy part of the consideration of the acquisition of 30% equity interests in Gold Grand. Please refer to Note 11 for details.

14. TRADE, BILLS AND OTHER PAYABLES

	30 June 2012 *HK$'000* **(Unaudited)**	31 December 2011 *HK$'000* (Audited)
Trade payables	**—**	264
Bills payables	**183,300**	98,600
Deposit received in advance from fuel oil customers	**90,178**	12,015
Other payables	**16,256**	9,409
	289,734	120,288

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

	30 June 2012 *HK$'000* **(Unaudited)**	31 December 2011 *HK$'000* (Audited)
0 to 30 days	**—**	264

The trade payables are non-interest-bearing and have an average credit period on purchase of one to three months (31 December 2011: one to three months).

The bills payables are with maturity period of six months during the six months ended 30 June 2012 (31 December 2011: four to six months). The outstanding bills payables as at 30 June 2012 will be matured in December 2012 (31 December 2011 were matured on February 2012).

At 30 June 2012, bills payables were secured by pledged deposits of HK$76,986,000 (31 December 2011: HK$49,300,000).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECT

In recent years, the Company has been tapping into overseas markets of oil and gas resources for sustainable business growth. The drilling of the 4 exploration wells (namely SKL-2, SKL-2n, BKM-1 and BKM-2) in the Oilfield Block 3113 located onshore in Madagascar had been completed in 2011 and satisfactory oil and gas logging results were obtained. The Company will pick up its pace of exploration and exploitation in the Oilfield Blocks 3113 and 2104 in Madagascar.

Whilst stepping up its efforts in exploring overseas oil and gas assets, the Company will also enhance its refined oil operations in the PRC. Henan Yanchang Petroleum Sales Co., Limited ("Henan Yanchang"), which was acquired by the Group last year, secures stable supply of refined oil from the Company's major shareholder — Shaanxi Yanchang Petroleum (Group) Co., Limited ("Yanchang Petroleum") with a favorable pricing term. Levering on the continuous support from Yanchang Petroleum, the Board believes that the refined oil business in the PRC can grow rapidly and will soon achieve economy of scale so as to generate stable returns and cash flows for the Group.

During the period under review, the Group further acquired 11% equity interests in Gold Grand from Jubilee Star, an independent third party. Together with the previously acquired 10% equity interests from Jubilee Star in late last year, the Group then holds 21% equity interests in Gold Grand. Gold Grand has a freehold land and also holds a business operation right grant by the government of Madagascar in relation to the development of industrial district for the provision of processing, production and sales of relevant energy and utilities businesses in Madagascar. In view of the rapid development of the oilfields in Madagascar along with pressing demand of energy for its industrial development, the government of Madagascar has been actively supporting the industrial development district and energy utilities projects. The Board is optimistic on the industrial and economic development of Madagascar, and believes the project will provide favorable conditions to facilitate the development of the Group's oilfields in Madagascar and create operating synergy in the long run.

The Company has established a closer strategic relationship with Yanchang Petroleum by appointing the latter's senior management as its executive directors in April 2012. Those senior management staff as recommended by Yanchang Petroleum acquainted with extensive experience in petroleum industry to join the Board will enhance the expertise and capability of the Board to manage and develop the Group's oil and gas business.

Besides, the recent change of the Company's name from Sino Union Energy Investment Group Limited to Yanchang Petroleum International Limited in May 2012 marks an important milestone for the development of international business both for the Company and Yanchang Petroleum. With the strong support from Yanchang Petroleum, the Company will serve as a platform for Yanchang Petroleum to expand its overseas business and acquisition. The Company will strengthen its efforts in search of overseas acquisition opportunities, while oil and gas assets in politically stable zone as well as already commenced production will be the Company's primary target for acquisition. The Company will strive to become an international energy enterprise through dynamic expansion in the overseas business and investment.

FINANCIAL REVIEW

For the period under review, the Group's operating segments comprised (i) storage, transportation, supply and procurement of fuel oil and (ii) oil and gas exploration, exploitation and operation. Due to the change of financial year end date from 31 March to 31 December for the Group, current period covered six months from 1 January to 30 June 2012 as compared to that of last period covered six months from 1 April to 30 September 2011.

All the turnover of the Group was derived from fuel oil trading and distribution business in the PRC during the six months ended 30 June 2012. Sales doubled from the last period of HK$321,869,000 to HK$647,302,000 for the period under review. The increase mainly came from the refined oil business in Henan Province of the PRC acquired by the Group in last year. Under the circumstances of high volume sales with slim margin, despite the higher sales volume, the overall gross profit margin for trading and distribution of fuel oil dropped from the last period of 2.3% to the current period of 0.8% and gross profit of HK$5,371,000 recorded for the period under review (for the six months ended 30 September 2011: HK$7,288,000).

In addition to the profit from trading and distribution of fuel oil, there were other net loss of HK$30,279,000 recorded for the period under review which represented mainly the one-off loss on disposal of 19% interests in the industrial development district project in Madagascar held by the Group.

Selling and distribution costs had been reduced from the last period of HK$3,862,000 to the current period of HK$1,642,000 due to mainly the saving on commission and handling expenses.

The increase in administrative expenses amounted to HK$3,396,000 during the period under review was mainly attributable to the inclusion of administrative expenses incurred by the refined oil business in Henan Province acquired by the Group last year.

Equity-settled share option expenses had been significantly decreased by HK$152,546,000 to HK$97,000. The huge share option expenses of the last period, which was merely an one-off non-cash accounting charge, incurred mainly in respect of 1 billion share options granted to Yanchang Petroleum in June 2011.

Finance costs of about HK$8,517,000 were interest expenses incurred for bills and bank borrowings from Henan Yanchang in support of running the refine oil business in the PRC.

In the absence of the huge share option expenses, the loss of the Group had been substantially reduced from the last period of HK$167,376,000 to the current period of HK$58,360,000.

LIQUIDITY AND FINANCIAL RESOURCES

The Group funded its operation mainly by bank borrowings together with its internal resources for the six months ended 30 June 2012.

The Group had outstanding bank borrowings of HK$97,760,000 under Henan Yanchang as at 30 June 2012 (31 December 2011: HK$123,250,000). As at 30 June 2012, the Group had cash and bank balances of HK$23,889,000 (31 December 2011: HK$29,485,000) and pledged deposits of HK$76,986,000 (31 December 2011: HK$49,300,000). With the available bank facilities, the Group has sufficient working capital to finance its business operation.

As at 30 June 2012, the gearing ratio of the Group, measured on the basis of total liabilities as a percentage of total equity, remained in a low and healthy ratio of 6.5% (31 December 2011: 4.9%). The current ratio of the Group, measured on the basis of current assets as a percentage of current liabilities, was higher than 60% as at 31 December 2011 and stood at 65% as at 30 June 2012.

TREASURY MANAGEMENT AND POLICIES

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

Cash has been generally placed in short-term deposits denominated in Hong Kong dollar, US dollar and Renminbi. The Group has obtained bank facilities and borrowings with a stable interest rate, though on floating basis. The Group does not foresee any significant interest rate risks. Since the Group's transactions and investment are mostly denominated in Hong Kong dollar, United Stated dollar and Renminbi, of which the exchange rates are relatively stable, and hence the Group does not anticipate any material foreign exchange exposures and risks.

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

MATERIAL ACQUISITIONS AND DISPOSALS

On 6 January 2012, the Group and Jubilee Star, an independent third party, entered into an agreement for the acquisition of 30% equity interests in Gold Grand. Pursuant to the agreement, 300,000,000 shares of the Company at HK$0.716 each and the promissory note in the principal amount of RMB150,000,000 have been issued to satisfy the consideration. Later on, the Group and Jubilee Star entered into a supplemental agreement on 31 May 2012 and agreed that the said promissory note should be fully redeemed by the Company while the equity interests acquired by the Group in Gold Grand would be amended from 30% to 11%. Together with the previously acquired 10% equity interests from Jubilee Star in December 2011, the Group then holds 21% equity interests in Gold Grand. Gold Grand has a freehold land and also holds a business operation right grant by the government of Madagascar in relation to the development of industrial district for the provision of processing, production and sales of relevant energy and utilities businesses in Madagascar.

Save as the aforesaid, the Group had no other material acquisitions and disposals for the six months ended 30 June 2012.

SIGNIFICANT INVESTMENTS

Save as the investment in Gold Grand mentioned above, the Group did not hold any significant investments during the six months ended 30 June 2012.

CAPITAL COMMITMENT

As at 30 June 2012, the Group had committed to pay the balances of a sub-pipeline construction fees amounted to HK$646,000 (31 December 2011: HK$788,000).

Save as the aforesaid, the Group did not have any other material commitments as at 30 June 2012.

PLEDGE OF ASSETS

As at 30 June 2012, certain cash held by Henan Yanchang had been pledged in favour of banks in the PRC against the bill payables amounted to HK$183,300,000 (31 December 2011: HK$98,600,000).

CONTINGENT LIABILITY

As at 30 June 2012, the Group did not have any significant contingent liabilities (31 December 2011: Nil).

LITIGATION

As at 30 June 2012, the Group had no litigation.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2012, the Group's total number of staff was around 80 (31 December 2011: 90). Salaries of employees are maintained at a competitive level with total staff costs (excluding the equity-settled share-based expenses) for the six months ended 30 June 2012 amounted to HK$5,265,000 (for the six months ended 30 September 2011: HK$5,388,000). Remuneration policy is based on principle of equality, motivation, performance and prevailing market practice and remuneration packages are normally reviewed on an annual basis. Other staff benefits including provident fund, medical insurance coverage and share option scheme are offered to the employees. No share options were granted to the eligible participants under the Company's share option scheme during the period under review and there were outstanding share options of 12,000,000 as at 30 June 2012 (31 December 2011: 12,000,000).

INTERIM DIVIDEND

The Board resolved not to declare the payment of interim dividend for the six months ended 30 June 2012 (for the six months ended 30 September 2011: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieve a high standard of corporate governance with a view to enhance the management of the Company as well as to safeguard the interests of the shareholders as a whole in terms of transparency, independence, accountability, responsibilities and fairness. In the opinion of the Board, the Company had complied with the code provisions set out in the Code on Corporate Governance Practices (the "Former CG Code") in Appendix 14 of the Listing Rules throughout the period from 1 January 2012 to 31 March 2012, except for the following deviations:

1. code provision A.2.1 of the Former CG Code provides that the roles and responsibilities of chairman ("Chairman") and chief executive officer ("CEO") should be separate. During the three months ended 31 March 2012, Dr. Zhuo Ze Fan ("Dr. Zhuo") assumed the roles of both the Chairman of the Board and the CEO of the Company. Dr. Zhuo has substantial experience in commerce, investments, mergers and acquisitions covering a wide range of businesses which include petroleum, chemical and metal mining, and owns several patents of device and was granted various awards and prizes in the PRC that is essential to fulfilling the role of the Chairman. At the same time, Dr. Zhuo has the appropriate management skills and business acumen that are the pre-requisites for assuming the role of the CEO in the day-to-day management of the Group. During the three months ended 31 March 2012, the Board was composed of eight executive directors of the Company (the "Director(s)") (including the Chairman) and three independent non-executive Directors with a balance of skills and experience appropriate for the requirements of the Group. The Board considered that there was no need to segregate the roles of the Chairman and the CEO as the balance of power and authority was already ensured by the said Board structure. The Board at that time considered that the combination of the roles of the Chairman and the CEO which were performed by the same individual i.e. Dr. Zhuo, would be beneficial to the overall corporate performance of the Group.

2. code provision A.4.1 of the Former CG Code provides that the non-executive directors should be appointed for a specific term. Messrs. Leung Ting Yuk and Ng Wing Ka, the independent non-executive Directors, were not appointed for a specific term but they are subject to retirement by rotation at least once every three years in accordance with the Bye-laws of the Company.

3. code provision A.4.2 of the Former CG Code provides that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. In accordance with the Bye-laws of the Company, any Director appointed to fill a casual vacancy shall hold office only until the next following annual general meeting ("AGM") of the Company and shall then be eligible for re-election. The Board considers that such a deviation is not material as casual vacancy seldom happens and duration between appointment to fill casual vacancy and the immediate following AGM of the Company is less than one year and is considered to be short.

The Company had also complied with the code provisions set out in the Corporate Governance Code (the "Revised CG Code") (which amended the Former CG Code and took effect on 1 April 2012) in Appendix 14 of the Listing Rules throughout the period from 1 April 2012 to 30 June 2012, except for the following deviations:

1. code provision A.2.1 of the Revised CG Code provides that the roles and responsibilities of chairman ("Chairman") and chief executive officer ("CEO") should be separate. On 1 April 2012, Dr. Zhuo resigned from the positions of both the Chairman of the Board and the CEO of the Company whereas Mr. Zhang Kaiyong was appointed as an executive Director and the Chairman of the Board, but no CEO was being appointed to fill the position pending the appointment of a suitable candidate. On 10 April 2012, Mr. Ren Yansheng was appointed as an executive Director and the CEO of the Company, and the said code provision A.2.1 has been complied with since then.

2. code provision A.4.1 of the Revised CG Code provides that the non-executive directors should be appointed for a specific term. Mr. Ng Wing Ka, an independent non-executive Director, was not appointed for a specific term but he is subject to retirement by rotation at least once every three years in accordance with the Bye-laws of the Company.

   Following the execution of a formal appointment letter as independent non-executive Director between the Company and Mr. Leung Ting Yuk ("Mr. Leung") on 1 April 2012, Mr. Leung was appointed for a terms of two years commencing from 1 April 2012 but he is subject to retirement by rotation at least once every three years in accordance with the Bye-laws of the Company.

3. code provision A.4.2 of the Revised CG Code provides that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. Details and reasons of the deviation of the said code provision are the same as disclosed above regarding the deviation of the code provision A.4.2 of the Former CG Code.

4. code provision A.6.7 of the Revised CG Code provides that independent non-executive directors and other non-executive directors should also attend general meetings and develop a balanced understanding of the views of shareholders. One of the independent non-executive Directors, Mr. Leung Ting Yuk, was unable to attend the annual general meeting of the Company held on 25 May 2012 due to other ad hoc business engagements.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code regarding its Directors' securities transactions on the Company's Shares.

Having made specific enquiry of all Directors, the Directors confirmed that they had complied with the required standards as set out in the Model Code as their code of conduct regarding Directors' securities transactions with the Company throughout the six months ended 30 June 2012.

AUDIT COMMITTEE

The Audit Committee currently comprises the three independent non-executive Directors, namely Mr. Leung Ting Yuk, Mr. Ng Wing Ka and Mr. Sun Liming. Mr. Leung Ting Yuk is the chairman of the Audit Committee. The Audit Committee has reviewed the accounting principles and policies adopted by the Company and discussed with management the internal control and financial reporting matters. The Audit Committee has reviewed the unaudited interim financial statements of the Group for the six months ended 30 June 2012.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement for the period ended 30 June 2012 is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.yanchangpetroleum.com). The Company's interim report for 2012 will be despatched to the shareholders of the Company and available on the above websites in due course.

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

Hong Kong, 30 August 2012

Executive Directors:
Mr. Zhang Kaiyong *(Chairman)*
Dr. William Rakotoarisaina *(Vice Chairman)*
Mr. Ren Yansheng *(Chief Executive Officer)*
Mr. Hui Bo *(Vice President)*
Mr. Shen Hao
Mr. Feng Da Wei
Mr. Yang Jie
Mr. To Kwan

Independent Non-Executive Directors:
Mr. Ng Wing Ka
Mr. Leung Ting Yuk
Mr. Sun Liming