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 2014

The board (the "Board") of directors (the "Director(s)") of Yanchang Petroleum International Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2014 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

		Six months ended 30 June	
		2014	2013
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue			
Turnover	*4*	**9,396,499**	8,042,305
Other revenue	*4*	**7,410**	6,205
		9,403,909	8,048,510
Expenses			
Purchases		**(8,914,631)**	(7,971,586)
Royalties		**(46,838)**	–
Field operation		**(58,356)**	–
Exploration and evaluation expenses		**(1,977)**	–
Selling and distribution expenses		**(24,937)**	(1,286)
Administrative expenses		**(78,768)**	(25,995)
Depreciation, depletion and amortisation		**(139,467)**	(3,132)
Other gains and losses	*5*	**(15,630)**	–
		(9,280,604)	(8,001,999)
Profit from operating activities		**123,305**	46,511
Finance costs	*6*	**(24,902)**	(9,988)
Profit before taxation	*7*	**98,403**	36,523
Taxation	*8*	**(29,237)**	(12,438)
Profit for the period		**69,166**	24,085

	Notes	Six months ended 30 June **2014** **(Unaudited)** ***HK$'000***	 2013 (Unaudited) *HK$'000*
Other comprehensive (loss)/income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**(1,717)**	4,388
Other comprehensive (loss)/income for the period, net of tax		**(1,717)**	4,388
Total comprehensive income for the period		**67,449**	28,473
Profit attributable to			
– Owners of the Company		**62,866**	13,200
– Non-controlling interests		**6,300**	10,885
		69,166	24,085
Total comprehensive income attributable to			
–Owners of the Company		**64,641**	16,274
–Non-controlling interests		**2,808**	12,199
		67,449	28,473
Earnings per share			
– Basic, HK cents	*10*	**0.54**	0.16
– Diluted, HK cents	*10*	**0.54**	0.16

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2014

	Notes	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**2,799,889**	171,102
Prepaid lease payments		**20,197**	20,962
Investment properties		**28,567**	29,099
Intangible assets		**285,792**	293,120
Exploration and evaluation assets	*11*	**8,664,087**	8,584,612
Available-for-sale investment		**196,072**	196,072
Goodwill		**51,418**	51,418
		12,046,022	9,346,385
Current assets			
Inventories		**115,271**	28,106
Trade receivables	*12*	**62,097**	–
Prepayments, deposits and other receivables		**559,229**	130,790
Cash and bank balances		**604,053**	848,460
		1,340,650	1,007,356
Total assets		**13,386,672**	10,353,741
EQUITY			
Capital and reserves			
Share capital		**242,911**	162,911
Reserves		**11,074,157**	9,483,765
Equity attributable to owners of the Company		**11,317,068**	9,646,676
Non-controlling interests		**136,657**	139,674
Total equity		**11,453,725**	9,786,350

	Notes	30 June 2014 (Unaudited) *HK$'000*	31 December 2013 (Audited) *HK$'000*
LIABILITIES			
Current liabilities			
Trade and other payables	*13*	**687,931**	153,197
Tax payable		**4,377**	8,634
Derivative financial liabilities		**22,415**	–
Bank borrowings		**886,440**	320,000
		1,601,163	481,831
Non-current liabilities			
Decommissioning liabilities		**113,666**	–
Deferred tax liabilities		**218,118**	85,560
		331,784	85,560
Total liabilities		**1,932,947**	567,391
Total equity and liabilities		**13,386,672**	10,353,741
Net current (liabilities)/assets		**(260,513)**	525,525
Total assets less current liabilities		**11,785,509**	9,871,910

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 of Hong Kong Limited (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 2013 as contained in the Company's annual report 2013 (the "Annual Report 2013"), which have been prepared in accordance with the Hong Kong Financial Reporting Standards (the "HKFRSs"). Certain comparative figures have been re-classified to conform with the current period presentation.

These unaudited condensed consolidated financial statements are presented in HK dollar ("HK$"), which is the same as the functional currency of the Group. All values are rounded to the nearest thousand, unless otherwise stated. These unaudited condensed consolidated financial statements were approved for issue on 22 August 2014.

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. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The accounting policies adopted in the unaudited condensed consolidated financial statements for the six months ended 30 June 2014 are consistent with those followed in the preparation of the Annual Report 2013 except for the impact of the adoption of the new and revised standards, 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 2014. A summary of the new HKFRSs are set out as below:

HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities
HKAS 32 (Amendments)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
HKAS 39 (Amendments)	Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

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 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 2010-2012 Cycle[2]
Amendments to HKFRSs	Annual Improvements 2011-2013 Cycle[1]
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[6]
HKFRS 9	Financial Instruments[6]
HKFRS 11 (Amendments)	Accounting for Acquisitions of Interest in Joint Operations[3]
HKFRS 14	Regulatory Deferral Accounts[4]
HKFRS 15	Revenue from Contracts with Customers[5]
HKAS 19 (as revised in 2011)	Defined Benefit Plans: Employees Contributions[1]
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants[3]

1 Effective for annual periods beginning on or after 1 July 2014
2 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions
3 Effective for annual periods beginning on or after 1 January 2016
4 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
5 Effective for annual periods beginning on or after 1 January 2017
6 No mandatory effective date yet determined but is available for adoption

3. SEGMENT INFORMATION

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

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

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

Segment revenue and results

	Exploration, exploitation and operation		Supply and procurement		Consolidated	
	For the six months ended 30 June					
	2014	2013	**2014**	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Segment revenue:						
Sales to external customers	**433,142**	–	**8,963,357**	8,042,305	**9,396,499**	8,042,305
Segment results	**136,965**	(1,392)	**32,717**	56,153	**169,682**	54,761
Other revenue					**7,410**	6,205
Other gains and losses					**(15,630)**	–
Unallocated corporate expenses					**(38,157)**	(14,455)
Profit from operating activities					**123,305**	46,511
Finance costs					**(24,902)**	(9,988)
Profit before taxation					**98,403**	36,523
Taxation					**(29,237)**	(12,438)
Profit for the period					**69,166**	24,085

Revenue reported was generated from external customers. There were no inter-segment sales during the six months ended 30 June 2014 and 2013.

Segment results represent the profit earned/(loss incurred) by each segment without allocation of other revenue, other gains and losses, corporate expenses, finance costs and taxation. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

Segment assets and liabilities

	Exploration, exploitation and operation		Supply and procurement		Consolidated	
	30 June 2014	31 December 2013	**30 June 2014**	31 December 2013	**30 June 2014**	31 December 2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)
Segment assets	**11,687,535**	8,846,414	**1,423,095**	997,577	**13,110,630**	9,843,991
Unallocated corporate assets					**276,042**	509,750
					13,386,672	10,353,741
Segment liabilities	**1,026,182**	9,945	**901,493**	544,207	**1,927,675**	554,152
Unallocated corporate liabilities					**5,272**	13,239
					1,932,947	567,391

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

- all assets are allocated to reportable segments other than corporate financial assets;
- all liabilities are allocated to reportable segments other than 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	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Turnover		
Sales of crude oil and gas	**433,142**	–
Trading and distribution of oil related products	**8,963,357**	8,042,305
	9,396,499	8,042,305

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Other revenue		
Bank interest income	**5,955**	4,917
Rental income	**1,307**	1,236
Others	**148**	52
	7,410	6,205

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Exchange gain, net	**16,129**	–
Realised loss on derivative financial instruments	**(19,693)**	–
Unrealised loss on derivative financial instruments	**(12,066)**	–
	(15,630)	–

6. FINANCE COSTS

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Imputed interest on convertible bond	**5,736**	–
Interest expenses on bank borrowings wholly repayable within five years	**17,631**	9,988
Accretion of decommissioning liabilities	**1,535**	–
	24,902	9,988

7. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**8,914,631**	7,971,586
Depreciation and depletion of property, plant and equipment	**139,207**	2,867
Amortisation of prepaid lease payments	**260**	265
Loss on disposal of property, plant and equipment	**–**	36
Minimum lease payments under operating lease of rented premises	**6,646**	2,697
Staff costs (including Directors' remuneration):		
– Salaries and wages	**27,349**	5,463
– Pension scheme contributions	**66**	60

8. TAXATION

No provision for Hong Kong profits tax has been made as the Group did not have assessable profits in Hong Kong for the six months ended 30 June 2014 (six months ended 30 June 2013: 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	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current taxation		
Charge for the period – the People's Republic of China (the "PRC")	**7,420**	12,438
– Canada	**6,811**	–
Deferred taxation		
Charge for the period	**15,006**	–
	29,237	12,438

9. INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividends in respect of the six months ended 30 June 2014 (six months ended 30 June 2013: Nil).

10. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to owners of the Company for the purposes of basic and diluted earnings per share	**62,866**	13,200

The weighted average number of ordinary shares for the purposes of basic and diluted earnings per share for the six months ended 30 June 2014 was approximately 11,570,987,000 (six months ended 30 June 2013: 8,145,573,000).

Diluted earnings per share for the six months ended 30 June 2014 and 2013 were the same as the basic earnings per share. There was no diluting events existed during the six months ended 30 June 2014. During the six months ended 30 June 2013, the Company's outstanding share options were not included in the calculation of diluted earnings per share because the effect of the Company's outstanding share options was anti-dilutive.

11. EXPLORATION AND EVALUATION ASSETS

	HK$'000
Cost	
At 31 December 2013 and 1 January 2014 (Audited)	12,341,671
Acquisition of a subsidiary *(Note 14)*	65,229
Additions	12,489
Exchange differences	1,757
At 30 June 2014 (Unaudited)	12,421,146
Accumulated impairment	
At 31 December 2013, 1 January 2014 (Audited) and 30 June 2014 (Unaudited)	3,757,059
Carrying amount	
At 30 June 2014 (Unaudited)	**8,664,087**
At 31 December 2013 (Audited)	8,584,612

Notes:

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

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

(c) The Group has adopted HKFRS 6 *Exploration for and Evaluation of Mineral Resources* and HKAS 36 *Impairment of Assets* which require the Group to assess any impairment at each reporting date. The Directors are of the opinion that no further impairment of exploration and evaluation assets was required for the six months ended 30 June 2014.

(d) The Group is required to assess at each reporting date any indicator that a previously recognised impairment loss no longer exists or has decreased. If there is such an indication, management should estimate the recoverable amount and determine whether any impairment reversal is appropriate. The Directors are of the opinion that no such indicator existed and hence no reversal of impairment was required for the six months ended 30 June 2014.

12. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 30–90 days (31 December 2013: 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 based on historical experience such receivables are past due beyond 1 year are generally not recoverable. Trade receivables are non-interest bearing.

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

	30 June 2014	31 December 2013
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 to 30 days	**60,703**	–
31 to 60 days	**833**	–
61 to 90 days	**26**	–
Over 90 days	**535**	–
	62,097	–

The Directors believe that no impairment loss is necessary in respect of these balances as there has not been a significant change in credit quality of these debtors and the balances are still considered fully recoverable. The amount of HK$535,000 are past due at the end of the reporting period but not impaired. The Group does not hold any collaterals or other credit enhancements over these balances.

13. TRADE AND OTHER PAYABLES

	30 June 2014	31 December 2013
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables	**43,542**	23
Deposits received in advance from refined oil customers	**546,499**	125,616
Other payables	**97,890**	27,558
	687,931	153,197

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

	30 June 2014 *HK$'000* **(Unaudited)**	31 December 2013 *HK$'000* (Audited)
0 to 30 days	**34,562**	23
31 to 60 days	**7,661**	–
61 to 90 days	**278**	–
Over 90 days	**1,041**	–
	43,542	23

As at 30 June 2014 and 31 December 2013, the trade payables are non-interest bearing and have an average credit period on purchases of one to three months.

14. ACQUISITION OF A SUBSIDIARY

On 20 January 2014, the Group acquired the entire issued share capital of Novus Energy Inc. ("Novus") at a consideration of CAD$232,450,000 (equivalent to HK$1,643,492,000). Novus is principally engaged in acquiring, exploring for, developing and producing crude oil and natural gas in Western Canada. Novus is primarily engaged in the development of the Viking light oil resource play in the Canadian Province of Saskatchewan.

	Carrying amount *HK$'000*	**Fair value adjustments** *HK$'000*	**Fair value** *HK$'000*
Net assets acquired:			
Property, plant and equipment	1,646,151	798,255	2,444,406
Exploration and evaluation assets *(Note 11)*	65,229	–	65,229
Trade receivables	112,592	–	112,592
Prepayments, deposits and other receivables	4,938	–	4,938
Trade and other payables	(113,956)	–	(113,956)
Bank borrowings	(641,146)	–	(641,146)
Derivative financial instruments	(9,915)	–	(9,915)
Decommissioning liabilities	(103,261)	–	(103,261)
Deferred tax liabilities	91,832	(207,227)	(115,395)
	1,052,464	591,028	1,643,492
Total consideration			1,643,492

	HK$'000
Satisfied by:	
Cash	1,643,492

	HK$'000
Net cash outflow from acquisition:	
Consideration paid in cash and cash equivalents	(1,643,492)

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECT

In-Production Oil and Gas Business

On 20 January 2014, the Company completed the acquisition of Novus and the shares of Novus were delisted from the TSX Venture Exchange, Novus has then become the wholly owned subsidiary of the Company. The financial results of Novus was consolidated into the Group for the six months ended 30 June 2014 upon the completion of acquisition.

The unaudited Proved plus Probable reserves of Novus was 21.39 million barrels of oil equivalent ("BOE") as at 30 June 2014. As a result of the efforts made by the existing management of Novus, the daily average production of Novus increased from merely 300 BOE in 2009 to 4100 BOE in the first half year of 2014. Turnover and net profit of CAD$60.5 million and CAD$10.23 million respectively contributed by Novus were consolidated into the Group.

Novus has revised the original plan to drill 89 wells with capital expenditure of CAD$81.73 million to 108 wells with capital expenditure of CAD$99.50 million in 2014. During the first half year of 2014, 48 wells were drilled. Novus also targets to achieve 20% growth in the daily average production from 4000 BOE in 2013 to 4800 BOE in 2014.

The management team of Novus has extensive knowledge on oil and gas market in Canada, in particular Viking resource play, which will benefit the Company's further acquisition of oil and gas assets. Novus is planned to serve as a platform for the Company to continue to expand Viking oil field through acquisition of land and assets.

Refined Oil Trading Business

As the previous three-year refined oil agreement expired at the end of 2013, the entering of new refined oil agreement was approved at a special general meeting held on 27 February 2014, the annual caps for the supply of refined oil by Yanchang Petroleum Group for the three years ending 31 December 2016 were RMB18 billion, approximately 2 million tonnes per year.

With secured and sufficient supply, Henan Yanchang Petroleum Sales Co., Limited ("Henan Yanchang") will continue to conduct its refined oil business in the PRC on a scale not less than that in 2013. During the six months ended 30 June 2014, Henan Yanchang achieved sales volume of 1.06 million tonnes with sales revenue of RMB7.21 billion and net profit of RMB16.51 million.

Regarding the refined oil business, the management of Henan Yanchang continues to closely monitor the international crude oil prices and the market conditions in the PRC refined oil industry; gather accurate market information for setting up appropriate sales strategies; and strive to achieve 2014 operating targets.

As for the pipeline project, the construction of Xingang sub-pipeline has been steadily progressed and the investment of Henan pipeline construction is budgeted at RMB108 million. The construction works for 6KV transformer room, control rooms both at the departure and terminal stations, major pipeline installation, power distribution house, two valve chambers and installation of the liquid level apparatus at the terminal station have been launched. Institutional pipeline rerouting works are underway. Henan Yanchang will further enhance its negotiation and communication with the relevant local government authorities to finalise the relevant approval procedures. Construction of control rooms and the 6KV transformer room and the pipeline rerouting will be speeded up with top concerns on safety, quality and progress, so as to complete the project as soon as possible. Meanwhile, Henan Yanchang is actively identifying customers for its pipeline business and strives to put the project into operation in 2014, thereby increasing operational efficiency of Henan Yanchang refined oil trading business.

Exploration Works

In the first half year of 2014, the Company mainly focused on the preparation work of 2D seismic exploration for the two Oilfield Blocks 2104 and 3113 in Madagascar. The 2D seismic exploration project covered 197 kilometers on the Oilfield Block 2104 has commenced and is expected to be completed in October 2014, while data processing and findings will be done by December 2014. Besides, in July 2014 the Oilfield Block 3113 Management Committee has appointed 延長石油國際勘探開發工程有限公司 to commence the 2D seismic data collection covered 470 kilometers in the Oilfield Block 3113. The estimated cost for these two 2D seismic exploration projects is around US$10 million in total.

FINANCIAL REVIEW

Turnover and Segment Results

For the period under review, the Group's operating segment comprised of (i) exploration, exploitation and operation business, and (ii) supply and procurement business. During the six months ended 30 June 2014, the Group's turnover was derived from the production of crude oil and gas in Canada and trading of refined oil in the PRC.

During the period under review, the acquisition of Novus was completed on 20 January 2014. Novus is engaged in acquisition, exploration, development and production of petroleum and natural gas reserves in Canada. During the six months ended 30 June 2014, Novus achieved production of crude oil and gas over 740,000 BOE and HK$433,142,000 was consolidated from the sales of crude oil and gas business in Canada. The segment profit of exploration, exploitation and operation business for the period under review was HK$136,965,000.

During the six months ended 30 June 2014, the revenue of trading of refined oil business increased by 11% from the last period of HK$8,042,305,000 to HK$8,963,357,000. Henan Yanchang achieved sales of refined oil over 1,060,000 tonnes for the first half year of 2014. The segment profit from supply and procurement business decreased by HK$23,436,000 to HK$32,717,000 due to increase in purchase costs during the period under review.

Other Revenue

Apart from the segment profits, other revenue of HK$7,410,000 for the period under review has been increased by HK$1,205,000 from HK$6,205,000 of the last period, which mainly represented interest income from bank deposits.

Purchases

Purchases, increased from the last period of HK$7,971,586,000 to HK$8,914,631,000, were wholly derived from the trading of refined oil business of Henan Yanchang.

Royalties

Royalties, which include crown, freehold and overriding royalties incurred by the newly acquired subsidiary Novus for oil and gas production in Canada, amounted to HK$46,838,000 during the six months ended 30 June 2014.

Field Operation

The amount of HK$58,356,000, included labour costs, repairs and maintenance, processing costs, fluid hauling, lease rentals and workovers, incurred by Novus on producing oil and gas in Canada.

Exploration and Evaluation Expenses

The amount of HK$1,977,000 represented the holding costs, mainly lease rentals, on the interests of non-producing lands incurred by Novus.

Selling and Distribution Expenses

Selling and distribution expenses increased from the last period of HK$1,286,000 to the current period of HK$24,937,000 mainly attributable to the transportation costs of HK$23,693,000 incurred by Novus.

Administrative Expenses

Administrative expenses included Directors' remuneration, staff costs, office rentals, professional fees, listing fee and etc. The increase in administrative expenses was mainly attributable to the legal and professional fees incurred for the acquisition of Novus as well as inclusion of the administrative expenses incurred by Novus, together amounted to HK$50,664,000 during the period under review.

Depreciation, Depletion and Amortisation

Depreciation, depletion and amortisation expenses increased from the last period of HK$3,132,000 to the current period of HK$139,467,000 which was mainly attributable to the inclusion of depreciation and depletion of oil and gas properties incurred by Novus during the period under review.

Other Gains and Losses

The amount represented the loss on hedging of oil and gas commodity contracts signed between Novus and a bank in Canada of HK$31,759,000 offsetting the net exchange gain of HK$16,129,000.

Finance Costs

Finance costs amounted to HK$24,902,000 comprised of (i) the borrowing costs of HK$17,631,000 included interest, commitment fees, standby charges, and other expenses related to the businesses of Novus and Henan Yanchang, (ii) accretion of HK$1,535,000 related to the provision of the decommissioning liabilities incurred by Novus, and (iii) non-cash imputed interest on convertible bond of HK$5,736,000 arose from the issuance of a 3-year HK$1.6 billion non-interest bearing convertible bond used to finance for the acquisition of Novus which was then fully converted into shares of the Company during the period under review.

Taxation

Tax expenses included (i) provision for Saskatchewan resource surcharge on Novus's Saskatchewan production revenue of oil and gas amounted to HK$6,811,000, (ii) provision for the PRC enterprise income tax on the profit earned from refined oil business of Henan Yanchang amounted to HK$7,420,000, and (iii) deferred tax amounted to HK$15,006,000.

Profit for the Period

The profit for the period increased from HK$24,085,000 of last period to HK$69,166,000 of this period. The significant increase was mainly attributable to the consolidation of the financial results of the newly acquired Novus.

LIQUIDITY AND FINANCIAL RESOURCES

The Group funded its operation mainly by its internal resources together with bank borrowings for the six months ended 30 June 2014.

The Group had outstanding bank borrowings amounted to HK$886,440,000 (31 December 2013: HK$320,000,000) comprised of (i) RMB210 million (equivalent to HK$262,080,000) under Henan Yanchang and (ii) CAD$86 million (equivalent to HK$624,360,000) under Novus as at 30 June 2014. The Group has obtained bank facilities of RMB1,610 million (equivalent to HK$2,009,280,000) from banks in the PRC and of CAD$115 million (equivalent to HK$834,900,000) from a bank in Canada. As at 30 June 2014, the Group has cash and bank balances of HK$604,053,000 (31 December 2013: HK$848,460,000). In view of ample cash on hand together with the available bank facilities, the Group has sufficient working capital to finance its business operation.

As at 30 June 2014, the gearing ratio of the Group, measured on the basis of total liabilities as a percentage of total equity, remained in a healthy ratio of 16.9% (31 December 2013: 5.8%). The current ratio of the Group, measured on the basis of current assets as a percentage of current liabilities was 84% as at 30 June 2014 (31 December 2013: 209%).

COMMODITY PRICE MANAGEMENT

Novus is engaged in crude oil and gas development, production and selling activities. Prices of crude oil and gas are affected by both domestic and global factors which are beyond the control of Novus. The fluctuations in such prices may have favourable or unfavourable impacts to the Group. Therefore the Group was exposed to general price fluctuations of crude oil and gas. As at 30 June 2014, Novus has entered three commodity contracts for crude oil and gas business to manage its price risk.

TREASURY MANAGEMENT AND POLICIES

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

Cash has been generally placed in short-term deposits denominated in Hong Kong dollar, US dollar, Canadian dollar and Renminbi. The Group has obtained bank facilities and borrowings with stable interest rates. The Group does not foresee any significant interest rate risks. Since the Group's transactions and investment are mostly denominated in Hong Kong dollar, US dollar, Canadian 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 ACQUISITION AND DISPOSAL

On 3 September 2013, the Group entered into an arrangement agreement with Novus to acquire all the issued shares of Novus pursuant to a plan of arrangement under the Business Corporations Act (Alberta) of Canada. The aggregate consideration of the acquisition was CAD$232,450,000 (equivalent to HK$1,643,492,000), which would be fully satisfied by cash. In order to finance the acquisition, the Group entered into a subscription agreement with Yanchang Petroleum Group (Hong Kong) Limited ("Yanchang Petroleum HK"), a wholly owned subsidiary of Yanchang Petroleum Group, on 28 August 2013 to issue the convertible bond in the principal amount of HK$1.6 billion payable in cash at a conversion price of HK$0.4 per conversion share.

The subscription of convertible bond was completed on 7 January 2014 and the proceeds from the issuance of convertible bond had been used to finance substantial part of the consideration for the acquisition. The acquisition of Novus was successfully completed on 20 January 2014 (local time in Calgary, Canada), and Novus was delisted thereafter from TSX Venture Exchange in Canada and has then become a wholly owned subsidiary of the Company.

Subsequent to the acquisition of Novus, on 27 January 2014, the whole principal amount of HK$1.6 billion were fully converted by Yanchang Petroleum HK into 4,000,000,000 shares of the Company at the conversion price of HK$0.4 each.

Save as aforesaid, the Group had no other material acquisition and disposal for the six months ended 30 June 2014.

SIGNIFICANT INVESTMENT

Save as holding 21% equity interests in Gold Grand Investment Limited, the Group did not hold any significant investments during the six months ended 30 June 2014.

CAPITAL COMMITMENT

As at 30 June 2014, the Group had committed to pay the balances of pipeline construction costs amounted to HK$64,282,000 (31 December 2013: HK$79,344,000) and exploration and evaluation cost amounted to HK$19,119,000 (31 December 2013: Nil).

Save as the aforesaid, the Group did not have any other material commitments as at 30 June 2014.

PLEDGE OF ASSETS

The Group's CAD$115 million revolving operating demand loan, available to Novus by way of prime rate based loans, bankers' acceptances and letters of credit/guarantee, is secured by a general assignment of book debts and a CAD$200 million debenture with a floating charge over all assets of Novus, with a negative pledge and undertaking to provide fixed charges upon request.

Save as aforesaid, none of the Group's assets had been pledged for granting the bank borrowings (31 December 2013: Nil).

CONTINGENT LIABILITIES

As at 30 June 2014, the Group did not have any significant contingent liabilities (31 December 2013: Nil).

LITIGATION

As at 30 June 2014, the Group had no litigation (31 December 2013: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2014, the Group's total number of staff was 121 (31 December 2013: 90). Salaries of employees are maintained at a competitive level with total staff costs for the six months ended 30 June 2014 amounted to HK$27,415,000 (six months ended 30 June 2013: HK$5,523,000). 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 employees. No share options were granted to the eligible participants under the Company's share option scheme during the period under review (six months ended 30 June 2013: Nil).

INTERIM DIVIDEND

The Board resolved not to declare the payment of interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2014, 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 practices and procedures with a view to enhance the management of the Company as well as to safeguard the interests of the shareholders as a whole in terms of transparency, independence, accountability, responsibilities and fairness. The Board will review and improve the corporate governance practices from time to time to ensure that the Group is under the leadership of an effective Board to optimize return for the shareholders.

In the opinion of the Board, the Company had complied with the code provisions set out in the Corporate Governance Code (the "CG Code") in Appendix 14 of the Listing Rules during the six months period ended 30 June 2014, except for the following deviations:

1. code provision A.4.1 of the CG Code provides that the non-executive directors should be appointed for a specific term. Before the revision of the terms of the service contract as an independent non-executive Director for Mr. Ng Wing Ka ("Mr. Ng") on 1 April 2014, Mr. Ng 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. Pursuant to the revised terms of the said service contract, Mr. Ng was appointed as an independent non-executive Director for a term of two years commencing from 1 April 2014 but he is still subject to retirement by rotation at least once every three years in accordance with the Bye-laws of the Company. The said code provision A.4.1 has been complied with since then.

2. code provision A.4.2 of the 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.

3. code provision A.6.7 of the 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. Sun Liming was unable to attend the AGM of the Company held on 22 May 2014 due to other ad hoc 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 2014.

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 2014.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement for the six months ended 30 June 2014 is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.yanchangpetroleum.com). The Company's interim report for 2014 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, 22 August 2014

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