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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)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

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 2016 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 2016

		Six months ended 30 June	
		2016	2015
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	*4*	**11,000,857**	10,577,024
Other revenue	*4*	**3,030**	7,679
		11,003,887	10,584,703
Expenses			
Purchases		**(10,869,551)**	(10,259,153)
Royalties		**(9,837)**	(25,963)
Field operation expenses		**(32,427)**	(45,210)
Exploration and evaluation expenses		**(1,588)**	(1,401)
Selling and distribution expenses		**(2,124)**	(21,726)
Administrative expenses		**(38,393)**	(41,769)
Depreciation, depletion and amortisation		**(69,853)**	(152,003)
Other gains and losses	*5*	**(17,402)**	(29,270)
		(11,041,175)	(10,576,495)

		Six months ended 30 June	
		2016	2015
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
(Loss)/profit from operating activities	*6*	**(37,288)**	8,208
Finance costs	*7*	**(30,412)**	(17,579)
Loss before taxation		**(67,700)**	(9,371)
Taxation	*8*	**7,263**	(2,768)
Loss for the period		**(60,437)**	(12,139)
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**97,519**	(113,054)
Other comprehensive income/(loss) for the period, net of tax		**97,519**	(113,054)
Total comprehensive income/(loss) for the period		**37,082**	(125,193)
(Loss)/profit attributable to:			
– Owners of the Company		**(64,412)**	(23,648)
– Non-controlling interests		**3,975**	11,509
		(60,437)	(12,139)
Total comprehensive income/(loss) attributable to:			
– Owners of the Company		**34,585**	(136,816)
– Non-controlling interests		**2,497**	11,623
		37,082	(125,193)
Loss per share attributable to the owners of the Company			
– Basic and diluted, HK cents	*10*	**(0.53)**	(0.19)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2016

	Notes	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**1,911,284**	1,878,740
Prepaid lease payments		**17,082**	17,538
Investment properties		**29,203**	29,458
Intangible assets		**47,242**	47,848
Exploration and evaluation assets	*11*	**30,746**	46,258
Deferred tax assets		**21,537**	–
Goodwill		**51,418**	51,418
		2,108,512	2,071,260
Current assets			
Inventories		**43,112**	29,347
Trade receivables	*12*	**21,748**	236,784
Prepayments, deposits and other receivables		**255,345**	115,412
Tax recoverable		**3,628**	5,681
Cash and bank balances		**516,857**	886,690
		840,690	1,273,914
Total assets		**2,949,202**	3,345,174
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital		**242,911**	242,911
Reserves		**1,427,621**	1,392,055
Equity attributable to the owners of the Company		**1,670,532**	1,634,966
Non-controlling interests		**115,859**	112,941
Total equity		**1,786,391**	1,747,907

	Notes	**30 June 2016 (Unaudited)** *HK$'000*	31 December 2015 (Audited) *HK$'000*
LIABILITIES			
Current liabilities			
Trade and other payables	*13*	**375,775**	467,392
Derivative financial instruments		**18,457**	4,383
Bank borrowings		**287,097**	664,085
		681,329	1,135,860
Non-current liabilities			
Convertible bonds	*14*	**360,614**	353,792
Decommissioning liabilities		**96,221**	91,060
Deferred tax liabilities		**24,647**	16,555
		481,482	461,407
Total liabilities		**1,162,811**	1,597,267
Total equity and liabilities		**2,949,202**	3,345,174
Net current assets		**159,361**	138,054
Total assets less current liabilities		**2,267,873**	2,209,314

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 2015 as contained in the Company's annual report 2015 (the "Annual Report 2015"), which have been prepared in accordance with the Hong Kong Financial Reporting Standards (the "HKFRSs").

These unaudited condensed consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Group. All values are rounded to the nearest thousand (HK$'000), unless otherwise stated. These unaudited condensed consolidated financial statements were approved for issue on 30 August 2016.

2. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments which are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The accounting policies adopted in the unaudited condensed consolidated financial statements for the six months ended 30 June 2016 are consistent with those followed in the preparation of the Annual Report 2015 except for the impact of the adoption of the new and revised standards, amendments and interpretations (the "new and revised HKFRSs").

In the current period, the Group has applied, for the first time, a number of the new and revised HKFRSs issued by the HKICPA which are effective for the Group's financial period beginning 1 January 2016. A summary of the new and revised HKFRSs are set out as below:

HKFRS 14	Regulatory Deferral Accounts
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

The application of the above new and revised 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 and revised HKFRSs that have been issued but are not yet effective.

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined

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, sale 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					
	2016	2015	**2016**	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Segment revenue:						
Sales to external customers	**96,744**	249,643	**10,904,113**	10,327,381	**11,000,857**	10,577,024
Segment results	**(35,810)**	(41,329)	**16,936**	51,627	**(18,874)**	10,298
Other revenue					**3,030**	7,679
Change in fair value on derivative components of convertible bonds					**(11,728)**	–
Net foreign exchange gain					**11**	196
Unallocated corporate expenses					**(9,727)**	(9,965)
(Loss)/profit from operating activities					**(37,288)**	8,208
Finance costs					**(30,412)**	(17,579)
Loss before taxation					**(67,700)**	(9,371)
Taxation					**7,263**	(2,768)
Loss for the period					**(60,437)**	(12,139)

Revenue reported was generated from external customers. There were no inter-segment sales during the six months ended 30 June 2016 and 2015.

Segment results represent the profit earned/(loss incurred) by each segment without allocation of other revenue, change in fair value on derivative components of convertible bonds, net foreign exchange gain, 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 2016	31 December 2015	**30 June 2016**	31 December 2015	**30 June 2016**	31 December 2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)
Segment assets	**1,810,299**	1,767,708	**919,648**	1,001,359	**2,729,947**	2,769,067
Unallocated assets					**219,255**	576,107
Total assets					**2,949,202**	3,345,174
Segment liabilities	**329,283**	688,116	**455,920**	546,939	**785,203**	1,235,055
Unallocated liabilities					**377,608**	362,212
Total liabilities					**1,162,811**	1,597,267

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 convertible bonds and corporate financial liabilities.

4. REVENUE AND OTHER REVENUE

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

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

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue		
Sales of crude oil and gas	**96,744**	249,643
Trading and distribution of oil related products	**10,904,113**	10,327,381
	11,000,857	10,577,024

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Other revenue		
Bank interest income	**2,174**	6,413
Rental income	**820**	1,222
Others	**36**	44
	3,030	7,679

5. OTHER GAINS AND LOSSES

	Six months ended 30 June 2016 HK$'000 (Unaudited)	2015 HK$'000 (Unaudited)
Net foreign exchange gain	**11**	196
Gain on disposal of property, plant and equipment	**2,079**	–
Written off of expired exploration and evaluation assets	**(4,594)**	(7,575)
Over-provision of decommissioning liabilities	**–**	1,620
Change in fair value on derivative financial instruments	**(5,019)**	(23,511)
Change in fair value on derivative components of convertible bonds	**(11,728)**	–
Others	**1,849**	–
	(17,402)	(29,270)

6. LOSS FROM OPERATING ACTIVITIES

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

	Six months ended 30 June 2016 HK$'000 (Unaudited)	2015 HK$'000 (Unaudited)
Cost of inventories sold	**10,869,551**	10,259,153
Depreciation and depletion of property, plant and equipment	**69,616**	151,742
Amortisation of prepaid lease payments	**237**	261
Minimum lease payments under operating leases of rented premises	**3,848**	5,004
Staff costs (including Directors' remuneration)		
– Salaries and wages	**16,041**	16,803
– Pension scheme contributions	**325**	366

7. FINANCE COSTS

	Six months ended 30 June 2016 HK$'000 (Unaudited)	2015 HK$'000 (Unaudited)
Interest expenses on bank borrowings wholly repayable within five years	**11,352**	15,981
Imputed interest on convertible bonds	**17,578**	–
Accretion of decommissioning liabilities	**1,482**	1,598
	30,412	17,579

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 2016 (six months ended 30 June 2015: Nil).

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for the six months ended 30 June 2016 and 2015.

Taxation arising in Canada is calculated at 27% for the six months ended 30 June 2016 and 2015.

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current taxation		
Charge for the period – the PRC	**3,917**	12,669
– Canada	**1,451**	4,042
Deferred taxation		
Credit for the period	**(12,631)**	(13,943)
Net tax (credited)/charged for the period	**(7,263)**	2,768

9. INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividends in respect of the six months ended 30 June 2016 (six months ended 30 June 2015: 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	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss		
Loss attributable to the owners of the Company for the purpose of basic and diluted loss per share	**(64,412)**	(23,648)

The weighted average number of ordinary shares for the purposes of basic and diluted loss per share for the six months ended 30 June 2016 was approximately 12,145,573,000 (six months ended 30 June 2015: 12,145,573,000).

Diluted loss per share for the six months ended 30 June 2016 and 2015 were the same as the basic loss per share. The convertible bonds outstanding as at 30 June 2016 had an anti-dilutive effect on the basic loss per share and were not included in the calculation of diluted loss per share for the six months ended 30 June 2016. There were no dilutive potential ordinary shares in existence during the six months ended 30 June 2015.

11. EXPLORATION AND EVALUATION ASSETS

	HK$'000
Cost	
At 31 December 2015 and 1 January 2016 (Audited)	12,458,558
Disposals and written off	(12,394)
Transfer to property, plant and equipment	(6,560)
Exchange differences	3,442
At 30 June 2016 (Unaudited)	12,443,046
Accumulated impairment	
At 31 December 2015 and 1 January 2016 (Audited) and 30 June 2016 (Unaudited)	12,412,300
Carrying amount	
At 30 June 2016 (Unaudited)	**30,746**
At 31 December 2015 (Audited)	46,258

Notes:

(a) The exploration and evaluation assets represent (i) the oil and gas exploration, exploitation and operation rights and profit sharing rights at the Oilfield Block 2104 and the Oilfield Block 3113 (the "Two Oilfield Blocks") 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 Two Oilfield Blocks in Madagascar; and (iii) the unproved properties and capitalised exploration, 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 2016.

(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.

12. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 30–90 days (31 December 2015: 30–90 days), are recognised and carried at the original invoiced amount less allowance for doubtful debt. 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 2016	31 December 2015
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 to 30 days	**20,202**	234,397
31 to 60 days	**524**	294
61 to 90 days	**287**	68
Over 90 days	**735**	2,025
	21,748	236,784

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$735,000 (31 December 2015: HK$2,025,000) 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 2016	31 December 2015
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables	**21,370**	291,773
Deposit received in advance from customers	**293,678**	110,099
Other payables	**60,727**	65,520
	375,775	467,392

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

	30 June 2016	31 December 2015
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 to 30 days	**20,175**	290,571
31 to 60 days	**141**	370
61 to 90 days	**53**	159
Over 90 days	**1,001**	673
	21,370	291,773

As at 30 June 2016 and 31 December 2015, the trade payables are non-interest bearing and have an average credit period on purchases of one to three months.

14. CONVERTIBLE BONDS

On 23 December 2015, the Company issued convertible bonds in the principal amount of US$46,300,000 ("2015 Convertible Bonds"). The 2015 Convertible Bonds bear annual interest rate of 5% and mature on the date falling on the third anniversary of the date of issuance. The 2015 Convertible Bonds entitles the bondholder to convert to the ordinary shares of the Company at an initial conversion price of HK$0.40 per share.

On 1 April 2016, the Company and the bondholder entered into a supplemental deed whereby the parties agreed to amend certain terms and conditions under the subscription agreement and the instrument executed by the Company on 23 December 2015 constituting the 2015 Convertible Bonds as follows:

Interest: 7% per annum on the outstanding principal amount of the 2015 Convertible Bonds, which shall be payable by the Company to the bondholder in arrears semi-annually from the issue date until the date on which the 2015 Convertible Bonds are redeemed.

Redemption upon maturity: The Company will redeem on the maturity date the 2015 Convertible Bonds in an amount equal to the sum of the aggregate principal amount of the 2015 Convertible Bonds then outstanding plus a premium representing an interest rate of 3% per annum on the principal amount of the 2015 Convertible Bonds together with all accrued and outstanding interest.

Early redemption at the option of the bondholder: Unless previously redeemed, converted or cancelled, the bondholder may, at its option and within a month after the second anniversary of the issue date ("Early Redemption Date"), notify the Company in writing to request the Company to redeem the 2015 Convertible Bonds in whole or in part in an amount equal to the sum of the outstanding principal amount of the 2015 Convertible Bonds to be redeemed, plus a premium representing an annual interest rate of 3% on the relevant principal amount together with all accrued and outstanding interest calculated from the issue date to the Early Redemption Date.

Specific covenants: The Company undertakes to comply with the following specific covenants as amended at all times until the date when all the 2015 Convertible Bonds have been converted into conversion share(s) or the Company has redeemed all the 2015 Convertible Bonds (whichever is earlier):

(1) maintaining the net assets value of the Company at no less than HK$1.2 billion;

(2) maintaining the ratio of total assets value to net assets value of the Company at no more than 2.5 times;

(3) maintaining the ratio of net interest-bearing debt to net assets value of the Company at no more than 100%.

For the avoidance of doubt, the other specific covenants remain unchanged.

The 2015 Convertible Bonds contains two components, liability component and derivative financial liabilities component as follows:

Liability component:

	HK$'000
Liability component at 31 December 2015 and 1 January 2016 (Audited)	353,792
Imputed interest charged	17,578
Interest payable	(10,756)
Liability component at 30 June 2016 (Unaudited)	**360,614**

Derivative financial liabilities component:

	Redemption options held by bondholder *HK$'000*	Change in conversion price of convertible bonds *HK$'000*	Total *HK$'000*
Derivative financial liabilities component at 31 December 2015 and 1 January 2016 (Audited)	2,710	1,638	4,348
Fair value change	(1,183)	12,911	11,728
Derivative financial liabilities component at 30 June 2016 (Unaudited)	**1,527**	**14,549**	**16,076**

15. COMPARATIVE FINANCIAL INFORMATION

Certain comparative figures have been restated to conform with current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

In the first half of 2016, the Company strived to overcome the challenges of depressed oil prices and economic downturn. The Company has effectively cut down Novus Energy Inc.'s ("Novus") operational and management costs for its in-production oil and gas business in Canada; and achieved in excess of the business targets for Henan Yanchang Petroleum Sales Co., Limited's ("Henan Yanchang") refined oil trading business in the PRC. In addition, the Company introduced through placement of shares to Copower Enterprise Group Limited ("Copower Enterprise") and upon completion of the transaction, Copower Enterprise will become the second-largest shareholder of the Company and which will also strengthen the Company's shareholder base.

In-production oil and gas upstream business

In the first half of 2016, Novus's management enhanced operational efficiency and reduced costs in order to meet its average daily production target under difficult low oil prices environment. For capital expenditures, through flexible drilling plan and disposal of non-core assets, Novus optimised and concentrated its resources to develop core areas. For operational costs, the actual operational and transportation costs per barrel kept below budget as a result of improving operational efficiency. For management costs, job specialisation and reorganisation as well as austerity measures on office expenses and professional fees implemented.

Besides, Novus's exploration and operation department has been conducting refrac program for the existing old wells. Initial performance has been satisfactory with refrac of three old wells completed, two in Saskatchewan and one in Alberta. The refrac is principally due to poor production performance of the existing old wells but good performance in surrounding area, and those wells are anticipated to have better performance. It is expected that the production volume of the three wells upon refrac will increase to 100 barrels and a reserve of 80,000 barrels. The refrac is planned to extend to other existing old wells and 13 potential target wells are currently identified.

In the second half of 2016, in addition to further strengthening of operational efficiency and costs control, Novus will put emphasis on refrac of its existing old wells so as to increase production volume and reserve. While firmly adhering to its annual budget, Novus will also flexibly adjust its drilling plan of new wells subject to oil prices.

Refined oil trading downstream business

In the first half of 2016, sales volume of refined oil in Henan Yanchang was 2.2 million tonnes with revenue of RMB9.3 billion. As sales policy of "cash before delivery" was strictly implemented, recovery of receivables was 100%. Henan Yanchang maintained a safe, highly-effective and steady operation in terms of production, capital and debt as well as integrated management and control without occurrence of adverse incidents.

Having been affected by the slump in international crude oil prices, refined oil prices and demand for refined oil in the PRC remained at a low level. With a comprehensive study, Henan Yanchang plans to achieve profit maximisation by fully utilising its storage capacity and expanding its oil sources and customer base. Principal initiatives are as follows: (i) liquidising oil storage assets and building up closer cooperation with strategic partners, entering into strategic cooperation agreement in relation to purchase and sales business, storage business and outsourcing of oil refinery, with an aim to reduce operational costs by multiple rail transportation of oil and enhance operational efficiency of oil storage, resulting in increase in oil storage turnover rate and liquidisation of oil storage in general; (ii) optimising and adjusting market structure, broadening end customer base as core revenue stream complemented by corporate customers, seeking to acquire customers of privately operated gas stations, adopting differentiated marketing strategies such as bargain per order, quantity based pricing and tax payment after goods sold; and (iii) striving for exploring high-value regions such as Yunnan, Guizhou and Sichuan, 4 customers in Sichuan, 2 customers in Chongqing and 1 customer in Yunnan have been obtained so far which laid a foundation for opening new markets in the future.

In the second half of 2016, Henan Yanchang, in addition to pursuing its annual business targets, will foster long-term development and accelerate its gas stations business. In order to put Lanzhou-Zhengzhou-Changsha oil pipeline project into smooth operation, Henan Yanchang is well-prepared for trial run of the project, with an aim to reduce transportation costs and promote the project as a new profit driver.

Financing activities

On 14 June 2016, the Company introduced Copower Enterprise as a strategic cooperation partner at business level by placing of 1.21 billion new shares to Copower Enterprise. The placement represents the support to the Company from the parent Yanchang Petroleum Group and the potential cooperation with Copower Enterprise, which in turn, has enhanced investors' confidence in the Company, will further expand financing channel and attract more strategic cooperation partners at business and financial levels.

Outlook

Given market remained pessimistic over the rebound of oil prices in the second half of 2016, and also under the principles of maintaining production volume, balancing cash flow and reducing loss, the Group will continue to adopt measures, including controls over costs and capital expenditures, in order to mitigate operational pressure, elevate profitability and balance cash flow. Besides, the Company will continue to explore and line up with more equity investors for further improving the Company's shareholding structure. While under the circumstance of low oil prices, the Company will keep on studying the feasibility of re-structuring and acquisition of upstream assets in Canada, safeguarding its interests of assets abroad and actively exploring business opportunities.

FINANCIAL REVIEW

Revenue and segment results

For the period under review, the Group's operating segments comprised of (i) exploration, exploitation and operation business, and (ii) supply and procurement business. For the six months ended 30 June 2016, the Group's turnover was derived from production of crude oil and natural gas in Canada as well as trading of refined oil in the PRC.

Novus is engaged in the business of exploration, exploitation and production of crude oil and natural gas in Western Canada. Novus achieved production of oil and gas of 470,975 BOE and contributed production income of HK$96,744,000 during the period under review compared to production of 778,592 BOE and production income of HK$249,643,000 for the last period. Though the sales dropped sharply as a result of persistent low oil prices and decrease in production, with more stringent management and cost controls, operating loss reduced from the last period of HK$41,329,000 compared to this period of HK$35,810,000.

During the six months ended 30 June 2016, the revenue of refined oil trading business increased by 6% from the last period of HK$10,327,381,000 to HK$10,904,113,000. Henan Yanchang's sales of refined oil increased from last period of 1.6 million tonnes to 2.2 million tonnes this period and contributed operating profit of HK$16,936,000 to the supply and procurement business, a decrease of 67% as compared to the last corresponding period mainly due to the decrease in economic performance of refined oil trading business as the international crude oil price remains low in the first half of 2016.

Other revenue

Apart from the aforesaid segment results, other revenue of HK$3,030,000 which mainly represented interest income from bank deposits and rental income from the PRC properties recorded for the period under review, decreased by HK$4,649,000 from HK$7,679,000 of the last period.

Purchases

Purchases, increased from last period of HK$10,259,153,000 to this period of HK$10,869,551,000, were wholly derived from the refined oil trading business of Henan Yanchang. The increase of purchases was consistent with the growth in sales of refined oil trading business.

Royalties

Royalties, including crown, freehold and overriding royalties incurred by Novus for crude oil and natural gas production in Canada, decreased from the last period of HK$25,963,000 to the current period of HK$9,837,000 due to drop in sales price and volume.

Field operation expenses

Due to decrease in sales volume and more stringent cost control in place, field operation expenses reduced to HK$32,427,000 this period from the last period of HK$45,210,000; which including labour costs, repairs and maintenance, processing costs, fluid hauling, lease rentals and workovers etc were incurred by Novus in the production of crude oil and natural gas in Canada.

Exploration and evaluation expenses

The exploration and evaluation expenses amounted to HK$1,588,000 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, dropped from the last period of HK$21,726,000 to the current period of HK$2,124,000, were mainly incurred by Novus. The substantial drop on the expenses was due to the truck cost savings as a result of completion on pipeline network in the oilfields last year.

Administrative expenses

Administrative expenses including Directors' remuneration, staff costs, office rentals, professional fees and listing fee etc, decreased by HK$3,376,000 and amounted to HK$38,393,000 for the period under review.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation expenses decreased from the last period of HK$152,003,000 to the current period of HK$69,853,000 which was mainly due to the decrease in depletion of petroleum and natural gas properties incurred by Novus as a result of decrease in production during the period under review.

Other gains and losses

The amount of HK$17,402,000 represented: (i) written off of expired exploration and evaluation assets of HK$4,594,000; (ii) loss on hedging of oil and gas commodity contracts of HK$5,019,000; (iii) non-cash fair value loss on derivative components of convertible bonds of HK$11,728,000 and after offsetting (iv) gain on disposal of properties, plant and equipment of HK$2,079,000 and (v) other gains of HK$1,860,000.

Finance costs

Finance costs amounted to HK$30,412,000 comprised of: (i) bank borrowing costs of HK$11,352,000 included interests, commitment fees, standby charges, and other expenses related to the businesses of Novus and Henan Yanchang, (ii) accretion of HK$1,482,000 related to the provision of the decommissioning liabilities incurred by Novus; and (iii) imputed interest on convertible bonds of HK$17,578,000 arisen from the issue of 3-year convertible bonds with a principal amount of US$46,300,000 carries at 7% coupon interest.

Taxation

Net tax income of HK$7,263,000 represented: the aggregate of (i) provision for Canada resource surcharge on Novus' production revenue of oil and gas amounted to HK$1,451,000; (ii) provision for the PRC enterprise income tax on the profit earned from refined oil trading business of Henan Yanchang amounted to HK$3,917,000; and after offsetting (iii) net deferred tax income amounted to HK$12,631,000.

Loss for the period

Compared to a loss for the last period of HK$12,139,000, a loss of HK$60,437,000 was recorded for the period under review, the increase in loss was mainly attributable to the decrease in profit of the refined oil trading business in the PRC together with the interest and the non-cash fair value loss arisen from the issue of convertible bonds raised last year for supporting the Group's business.

LIQUIDITY AND FINANCIAL RESOURCES

The Group funded its operation mainly from its internal resources together with bank borrowings and convertible bonds for the six months ended 30 June 2016.

The Group had outstanding variable rates bank borrowings amounted to HK$287,097,000 (31 December 2015: HK$664,085,000) comprised of: (i) RMB80,000,000 (equivalent to HK$92,896,000) under Henan Yanchang and (ii) CAD32,475,000 (equivalent to HK$194,201,000) under Novus as at 30 June 2016. The Group has obtained bank facilities of RMB500,000,000 (equivalent to HK$580,600,000) from banks in the PRC and CAD75,000,000 (equivalent to HK$448,500,000) from a bank in Canada.

Convertible bonds in the principal amount of US$46,300,000 (equivalent to HK$358,825,000) which carries coupon interest with 7% and matures on the third anniversary date from the date of issue was still outstanding as at 30 June 2016. The fund raised has been used as intended for the general working capital of the Group.

On 14 June 2016, the Company entered into a subscription agreement with Copower Enterprise, pursuant to which Copower Enterprise has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue, an aggregate of 1,210,000,000 shares at the subscription price of HK$0.24 per subscription share. Upon completion of the transaction, the net proceeds from the subscription of approximately HK$290,400,000 will be raised and are intended to be used for general working capital of the Group.

As at 30 June 2016, the Group has cash and bank balances of HK$516,857,000 (31 December 2015: HK$886,690,000). 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 2016, the gearing ratio of the Group, measured on the basis of total liabilities as a percentage of total equity, improved to 65.1% (31 December 2015: 91.4%). The current ratio of the Group, measured on the basis of current assets as a percentage of current liabilities, stood healthy at 123.4% as at 30 June 2016 (31 December 2015: 112.2%).

COMMODITY PRICE MANAGEMENT

Novus is engaged in crude oil and gas development, production and selling activities in Canada. 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. During the six months ended 30 June 2016, Novus has entered 12 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. The Group's transactions and investment are mostly denominated in Hong Kong dollar, US dollar, Canadian dollar and Renminbi. As the Group's policy is to have its operating entities to operate in their corresponding local currencies to minimise currency risks, therefore the Group does not anticipate any material foreign exchange exposures and risks.

During the 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

The Group had no material acquisitions and disposals for the six months ended 30 June 2016.

SIGNIFICANT INVESTMENT

21% equity interests in Gold Grand Investment Limited has been disposed of during the six months ended 30 June 2016, and thereafter the Group did not hold any significant investments as at 30 June 2016.

CAPITAL COMMITMENT

As at 30 June 2016, the Group had committed to property, plant and equipment amounted to HK$987,000 (31 December 2015: HK$19,331,000).

Save as aforesaid, the Group did not have any other material commitments as at 30 June 2016.

PLEDGE OF ASSETS

The Group's CAD75 million (31 December 2015: CAD125 million) banking facilities, granted by a bank in Canada to Novus by way of prime rate based loans, bankers' acceptances and letters of credit/guarantee, is secured in favour of the bank by a general assignment of book debts and a CAD200 million (31 December 2015: CAD200 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 other assets had been pledged for granting the bank borrowings (31 December 2015: Nil).

CONTINGENT LIABILITY

As at 30 June 2016, the Group did not have any significant contingent liabilities (31 December 2015: Nil).

LITIGATION

As at 30 June 2016, the Group had no material litigations (31 December 2015: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2016, the Group's total number of staff was 123 (31 December 2015: 132). 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 2016 amounted to HK$16,366,000 (six months ended 30 June 2015: HK$17,169,000). Remuneration policy is based on principles 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. During the period under review, no share options were granted to the eligible participants under the Company's share option scheme.

INTERIM DIVIDEND

The Board resolved not to declare the payment of interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2016, 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 2016, except for the following deviations:

1. 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.

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 2016.

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 on the matters relating to the financial reporting, risk management and internal control systems. The Audit Committee has reviewed the unaudited interim financial statements of the Group for the six months ended 30 June 2016.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement for the six months ended 30 June 2016 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 2016 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
Li Yi
Chairman

Hong Kong, 30 August 2016

Executive Directors:
Mr. Li Yi *(Chairman)*
Mr. Hui Bo *(Vice President)*
Mr. Shen Hao
Mr. Feng Dawei
Mr. Li Jun
Mr. Andres Pena Salceda

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