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 2017

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 2017 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 2017*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2017** | 2016 |
| | | **(Unaudited)** | (Unaudited) |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| **Revenue** | *4* | **7,098,717** | 11,000,857 |
| Other revenue | *4* | **7,292** | 3,030 |
| | | **7,106,009** | 11,003,887 |
| **Expenses** | | | |
| Purchases | | **(6,929,068)** | (10,869,551) |
| Royalties | | **(14,381)** | (9,837) |
| Field operation expenses | | **(37,313)** | (32,427) |
| Exploration and evaluation expenses | | **(1,698)** | (1,588) |
| Selling and distribution expenses | | **(2,625)** | (2,124) |
| Administrative expenses | | **(34,833)** | (38,393) |
| Depreciation, depletion and amortisation | | **(75,954)** | (69,853) |
| Other gains and losses | *5* | **578** | (17,402) |
| | | **(7,095,294)** | (11,041,175) |

| | Notes | Six months ended 30 June<br>**2017**<br>**(Unaudited)**<br>***HK$'000*** | <br>2016<br>(Unaudited)<br>*HK$'000* |
|---|---|---|---|
| **Profit/(loss) from operating activities** | *6* | **10,715** | (37,288) |
| Finance costs | *7* | **(26,062)** | (30,412) |
| **Loss before taxation** | | **(15,347)** | (67,700) |
| Taxation | *8* | **(6,608)** | 7,263 |
| **Loss for the period** | | **(21,955)** | (60,437) |
| **Other comprehensive income** | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translating foreign operations | | **67,639** | 97,519 |
| **Other comprehensive income for the period, net of tax** | | **67,639** | 97,519 |
| **Total comprehensive income for the period** | | **45,684** | 37,082 |
| **(Loss)/profit for the period attributable to:** | | | |
| – Owners of the Company | | **(24,852)** | (64,412) |
| – Non-controlling interests | | **2,897** | 3,975 |
| | | **(21,955)** | (60,437) |
| **Total comprehensive income for the period attributable to:** | | | |
| – Owners of the Company | | **38,682** | 34,585 |
| – Non-controlling interests | | **7,002** | 2,497 |
| | | **45,684** | 37,082 |
| **Loss per share attributable to the owners of the Company** | | | |
| – Basic and diluted, HK cents | *10* | **(0.20)** | (0.53) |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30 June 2017*

| | Notes | 30 June 2017 (Unaudited) HK$'000 | 31 December 2016 (Audited) HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **1,808,657** | 1,690,356 |
| Prepaid lease payments | | **16,492** | 16,124 |
| Investment properties | | **29,703** | 28,970 |
| Intangible asset | | **6,982** | 6,731 |
| Exploration and evaluation assets | | **28,679** | 27,566 |
| Deferred tax assets | | **72,472** | 70,625 |
| Goodwill | | **51,418** | 51,418 |
| | | **2,014,403** | 1,891,790 |
| **Current assets** | | | |
| Inventories | | **41,566** | 8,441 |
| Trade receivables | *11* | **28,606** | 24,122 |
| Prepayments, deposits and other receivables | | **371,561** | 107,584 |
| Cash and bank balances | | **326,990** | 610,283 |
| | | **768,723** | 750,430 |
| **Total assets** | | **2,783,126** | 2,642,220 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the owners of the Company** | | | |
| Share capital | | **242,911** | 242,911 |
| Reserves | | **1,217,191** | 1,177,015 |
| Equity attributable to the owners of the Company | | **1,460,102** | 1,419,926 |
| Non-controlling interests | | **111,598** | 104,384 |
| **Total equity** | | **1,571,700** | 1,524,310 |

| | Notes | 30 June 2017 (Unaudited) HK$'000 | 31 December 2016 (Audited) HK$'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | *12* | **457,959** | 364,175 |
| Derivative financial liabilities | | **967** | 967 |
| Tax payables | | **484** | 851 |
| Bank borrowings | | **255,341** | 269,055 |
| | | **714,751** | 635,048 |
| **Non-current liabilities** | | | |
| Convertible bonds | | **372,074** | 366,303 |
| Decommissioning liabilities | | **109,940** | 102,371 |
| Deferred tax liabilities | | **14,661** | 14,188 |
| | | **496,675** | 482,862 |
| **Total liabilities** | | **1,211,426** | 1,117,910 |
| **Total equity and liabilities** | | **2,783,126** | 2,642,220 |
| **Net current assets** | | **53,972** | 115,382 |
| **Total assets less current liabilities** | | **2,068,375** | 2,007,172 |

*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 2016 as contained in the Company's annual report 2016 (the "Annual Report 2016"), 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 31 August 2017.

## 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 2017 are consistent with those followed in the preparation of the Annual Report 2016 except for the impact of the adoption of the new and revised standards, amendments and interpretations (the "new and amendments to HKFRSs").

In the current period, the Group has applied, for the first time, a number of the new and amendments to HKFRSs issued by the HKICPA which are effective for the Group's financial period beginning 1 January 2017. A summary of the new and amendments to HKFRSs are set out as below:

| | |
|---|---|
| Amendments to HKAS 7 | Disclosure Initiative |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrecognised Losses |

The application of the above new and amendments to 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 amendments to 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 2 | Classification and Measurement of Share-based Payment Transactions[1] |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1] |
| Amendments to HKFRS 15 | Clarification of HKFRS 15 Revenue from Contracts with Customers[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2014-2016 Cycle[1] |

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 | | | | | |
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| **Segment revenue:** | | | | | | |
| Sales to external customers | **146,500** | 96,744 | **6,952,217** | 10,904,113 | **7,098,717** | 11,000,857 |
| Segment profit/(loss) | **11,034** | (35,810) | **7,271** | 16,936 | **18,305** | (18,874) |
| Other revenue | | | | | **7,292** | 3,030 |
| Change in fair value on derivative components of convertible bonds | | | | | **–** | (11,728) |
| Net foreign exchange gain | | | | | **105** | 11 |
| Unallocated corporate expenses | | | | | **(14,987)** | (9,727) |
| Profit/(loss) from operating activities | | | | | **10,715** | (37,288) |
| Finance costs | | | | | **(26,062)** | (30,412) |
| Loss before taxation | | | | | **(15,347)** | (67,700) |
| Taxation | | | | | **(6,608)** | 7,263 |
| Loss for the period | | | | | **(21,955)** | (60,437) |

Revenue reported was generated from external customers. There were no inter-segment sales during the six months ended 30 June 2017 and 2016.

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, unallocated 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**

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

| | **Exploration, exploitation and operation** | | **Supply and procurement** | | **Consolidated** | |
|---|---|---|---|---|---|---|
| | **30 June 2017** | 31 December 2016 | **30 June 2017** | 31 December 2016 | **30 June 2017** | 31 December 2016 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) | **(Unaudited)** | (Audited) | **(Unaudited)** | (Audited) |
| **Segment assets** | **1,742,171** | 1,655,166 | **841,369** | 760,442 | **2,583,540** | 2,415,608 |
| Unallocated assets | | | | | **199,586** | 226,612 |
| Total assets | | | | | **2,783,126** | 2,642,220 |
| **Segment liabilities** | **414,651** | 381,553 | **392,128** | 336,152 | **806,779** | 717,705 |
| Unallocated liabilities | | | | | **404,647** | 400,205 |
| Total liabilities | | | | | **1,211,426** | 1,117,910 |

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

- all assets are allocated to reportable segments other than unallocated corporate financial assets;
- all liabilities are allocated to reportable segments other than unallocated 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 intra-group transactions have been eliminated on consolidation.

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

| | **Six months ended 30 June** | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| **Revenue** | | |
| Sales of crude oil and gas | **146,500** | 96,744 |
| Trading and distribution of oil related products | **6,952,217** | 10,904,113 |
| | **7,098,717** | 11,000,857 |
| **Other revenue** | | |
| Bank interest income | **1,475** | 2,174 |
| Rental income | **772** | 820 |
| Storage service income | **5,016** | – |
| Others | **29** | 36 |
| | **7,292** | 3,030 |

## 5. OTHER GAINS AND LOSSES

| | **Six months ended 30 June** | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Net foreign exchange gain | **105** | 11 |
| Gain on disposal of property, plant and equipment | **3,411** | 2,079 |
| Written off of expired exploration and evaluation assets | **(2,809)** | (4,594) |
| Change in fair value on derivative financial instruments | **(129)** | (5,019) |
| Change in fair value on derivative components of convertible bonds | **–** | (11,728) |
| Others | **–** | 1,849 |
| | **578** | (17,402) |

## 6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging:

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Cost of inventories sold | **6,929,068** | 10,869,551 |
| Depreciation and depletion of property, plant and equipment | **75,723** | 69,616 |
| Amortisation of prepaid lease payments | **231** | 237 |
| Minimum lease payments under operating leases of rented premises | **4,114** | 3,848 |
| Staff costs (including Directors' remuneration): | | |
| – Salaries and wages | **28,815** | 27,237 |
| – Share-based payment expenses | **1,002** | – |
| – Pension scheme contributions | **331** | 325 |

## 7. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Interest expenses on bank borrowings wholly repayable within five years | **6,694** | 11,352 |
| Imputed interest on convertible bonds | **18,226** | 17,578 |
| Accretion of decommissioning liabilities | **1,142** | 1,482 |
| | **26,062** | 30,412 |

## 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 2017 and 2016.

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 2017 and 2016.

Taxation arising in Canada is calculated at 27% for the six months ended 30 June 2017 and 2016.

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| **Current taxation** | | |
| Charge for the period – the PRC | **3,275** | 3,917 |
| – Canada | **2,269** | 1,451 |
| **Deferred taxation** | | |
| Charge/(credit) for the period | **1,064** | (12,631) |
| Net tax charge/(credit) for the period | **6,608** | (7,263) |

## 9. INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividends in respect of the six months ended 30 June 2017 (six months ended 30 June 2016: 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 | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| **Loss** | | |
| Loss for the period attributable to the owners of the Company for the purpose of basic and diluted loss per share | **(24,852)** | (64,412) |

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | ***'000*** | *'000* |
| | **(Unaudited)** | (Unaudited) |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic and diluted loss per share | **12,145,573** | 12,145,573 |

Diluted loss per share for the six months ended 30 June 2017 and 2016 were the same as the basic loss per share. The computation of diluted loss per share for the six months ended 30 June 2017 does not assume the Company's outstanding convertible bonds and the outstanding share options since the assumed conversion of convertible bonds and the assumed exercise of share options would result in a decrease in loss per share. The computation of diluted loss per share for the six months ended 30 June 2016 does not assume the Company's outstanding convertible bonds since the assumed conversion would result in a decrease in loss per share.

## 11. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 90 days (31 December 2016: 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 presented based on the invoice date at the end of the reporting period as follows:

| | **30 June 2017** | 31 December 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| 0 to 30 days | **26,982** | 23,052 |
| 31 to 60 days | **242** | 506 |
| 61 to 90 days | **199** | 137 |
| Over 90 days | **1,183** | 427 |
| | **28,606** | 24,122 |

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$1,183,000 (31 December 2016: HK$427,000) were past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collaterals or other credit enhancements over these balances.

Aging of trade receivables which are past due but not impaired is as follows:

| | **30 June 2017** | 31 December 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Over 90 days | **1,183** | 427 |

## 12. TRADE AND OTHER PAYABLES

| | **30 June 2017** | 31 December 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Trade payables | **23,679** | 23,548 |
| Deposit received in advance from customers | **304,002** | 216,612 |
| Other payables | **130,278** | 124,015 |
| | **457,959** | 364,175 |

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

| | **30 June 2017** | 31 December 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| 0 to 30 days | **21,142** | 21,400 |
| 31 to 60 days | **1,785** | 1,313 |
| 61 to 90 days | **46** | 131 |
| Over 90 days | **706** | 704 |
| | **23,679** | 23,548 |

As at 30 June 2017 and 31 December 2016, the trade payables are non-interest bearing and have an average credit period on purchases of one to three months.

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW AND PROSPECTS

During the first half of 2017, the Company's management facing the challenges in the market, overcame the adverse impact of subdued oil prices and managed a turnaround to profit in the upstream business of Novus in Canada with both production and sales exceeding the targets. The Company also successfully implemented the interim plan for the downstream refined oil trading business of Henan Yanchang.

### I. Upstream oil and gas producing business in Canada

For the first half of 2017, Novus achieved average daily production of 2,834 barrels, exceeding its targeted production volume by 596 barrels. Novus has also optimised its drilling and fracturing processes through efficiency enhancement measures adopted during the period, resulting in higher-than-expected production volume at both old and new wells and hence lowered per barrel operating and transportation costs. The management sought cost savings by cutting expenses through various means, such as lowering office expenses and professional fees by reducing headcounts and restructuring job positions. As a result, Novus achieved savings of CAD1 million in administrative expenses for the first half of 2017, representing a 40% reduction versus the budget. Under the efficiency enhancement measures and cost saving initiatives, Novus achieved actual sales of CAD25 million versus the target of CAD20 million, actual per barrel operating and transportation costs of CAD12.5 versus budget per barrel operating and transportation costs of CAD14, and actual netback per barrel of CAD31.4 versus budget netback per barrel of CAD30.1, which was better than the peer average. The financial performance was better than expected and Novus achieved a turnaround to a net profit of CAD280,000. This is the first time that Canada operation reported a profit since 2014 under the prolonged slump oil price environment.

In the meantime, following massive efforts in research and preparation, Novus reported excellent performance of its drilling well in the core area of Flaxcombe. Novus' 7-32 well reported cumulative production of 4,300 barrels (or a daily average of 152 barrels) for February 2017, ranking first among all producing wells within Viking play. From April to June 2017, Novus accounted for 3 of the 15 top producing wells in Viking play. Novus' 14-26 well in Flaxcombe producing a daily average of 104 barrels (consisting of 87% oil) for 82 consecutive days, ranking third in oil and gas production together and first in oil production only in Viking play, respectively.

Based on its successful experience in optimising the drilling and fracturing processes and developing the area of Flaxcombe during the first six months, Novus will apply the same to its drilling operations in the second half of the year, so as to increase production and reserve as well as enhance the company's value.

## II. Downstream refined oil trading business of Henan Yanchang

During the first half of 2017, Henan Yanchang achieved sales of 1.22 million tonnes of refined oil, with revenue amounted to RMB6.06 billion and realised profit of RMB8.38 million. As sales policy of "cash before delivery" was strictly implemented, recovery of receivables was 100%. Integrated controls on production and financial operations have been conducted in a safe and efficient manner with no accidents reported.

For the second half of 2017, the price of refined oil in the PRC is expected to remain soft given oversupply of crude oil in the international market. While prudently carrying out its annual plan, Henan Yanchang will also actively explore opportunities for business growth. In addition to expanding and developing the gas station business, Henan Yanchang is looking at the following major directions for business development in the long run:

1. To enhance efforts of exploring strategic co-operation with domestic oil and gas companies. While striving for revenue growth in storage business, Henan Yanchang will continue to strengthen its co-operation with domestic oil and gas companies in order to upgrade the refined oil supply business.

2. To strengthen depot sales and enhance customer development. Vigorous sales and marketing efforts will be made to the targeted customers for wholesale refined oil products, such as logistics companies, industrial and mining companies, large construction sites, private-owned gas stations and mixing stations. Meanwhile, internal reform and business development in respect of depot gas station will also be enhanced.

3. To improve abilities in market judgement and business expansion. In-depth and detailed research on the business development in the western Henan market will be conducted, complemented by active liaison to commence sales of ethanol gasoline, in order to cope with the 13th five year plan in the Henan region.

## III. Outlook

The Company will continue to prudently run the business on the back of efficiency enhancement measures and cost reduction initiatives, while exploring different options for financing and restructuring. The Company will seek protection of its interests on the overseas assets amidst weakened oil prices; actively explore opportunities for business expansion; and leverage on financing options available to a listed company so as to fulfill the Company's development plan. Through asset acquisition and organic growth of the upstream business, the Company aims to become a medium-scale international oil and gas enterprise with a daily average production of 70,000 BOE in the coming five years' time.

## FINANCIAL REVIEW

### Revenue and segment results

For the period under review, the Group's operating segments comprised (i) exploration, exploitation and operation business, and (ii) supply and procurement business. For the six months ended 30 June 2017, the Group's turnover was mainly derived from the 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 512,800 BOE and contributed production income of HK$146,500,000 during the period under review compared to production of 470,975 BOE and production income of HK$96,744,000 of the previous period. As a result of increase in sales volume and profit margin brought along by efficiency enhancement and cost reduction measures, Novus managed to turnaround into an operating profit of HK$11,034,000 for the six months ended 30 June 2017, as compared to an operating loss of HK$35,810,000 for the previous period.

During the six months ended 30 June 2017, the revenue of refined oil trading business of Henan Yanchang decreased by 36% from the previous period of HK$10,904,113,000 to the current period of HK$6,952,217,000, resulting from the drop in sales volume from the previous period of 2.2 million tonnes to the current period of 1.2 million tonnes and contributed operating profit of HK$7,271,000 to the supply and procurement business.

### Other revenue

Apart from the aforesaid segment results, other revenue of HK$7,292,000 which mainly represented interest income from bank deposits, rental income and storage service income recorded from the PRC for the period under review, increased by HK$4,262,000 from HK$3,030,000 of the previous period.

### Purchases

Purchases, decreased from the previous period of HK$10,869,551,000 to this period of HK$6,929,068,000, were wholly derived from the refined oil trading business of Henan Yanchang. The decrease of purchases was consistent with the drop in sales of refined oil trading business in the PRC.

### Royalties

Royalties, including crown, freehold and overriding royalties incurred by Novus for crude oil and natural gas production in Canada, increased from the previous period of HK$9,837,000 to the current period of HK$14,381,000 due to increase in sales.

**Field operation expenses**

In line with the increase in sales volume, field operation expenses increased to HK$37,313,000 this period from the previous period of HK$32,427,000; 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$1,698,000 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, slightly increased from the previous period of HK$2,124,000 to the current period of HK$2,625,000, were mainly incurred by Novus for crude oil and natural gas production in Canada.

**Administrative expenses**

Administrative expenses including Directors' remuneration, staff costs, office rentals, professional fees and listing fee etc, as a result of cost saving initiatives decreased by HK$3,560,000 to HK$34,833,000 for the period under review.

**Depreciation, depletion and amortisation**

Depreciation, depletion and amortisation expenses increased from the previous period of HK$69,853,000 to the current period of HK$75,954,000 which was mainly due to the increase in depletion of petroleum and natural gas properties incurred by Novus as a result of increase in production during the period under review.

**Other gains and losses**

The amount of HK$578,000 represented the aggregate of (i) gain on disposal of properties, plant and equipment of HK$3,411,000; and (ii) other gains of HK$105,000 which offsetting (iii) written off of expired exploration and evaluation assets of HK$2,809,000; and (iv) loss on hedging of oil and gas commodity contracts of HK$129,000.

**Finance costs**

Finance costs amounted to HK$26,062,000 comprised (i) bank borrowing costs of HK$6,694,000 included interests, commitment fees, standby charges, and other expenses related to the businesses of Novus and Henan Yanchang; (ii) accretion of HK$1,142,000 related to the provision of the decommissioning liabilities incurred by Novus; and (iii) imputed interest on convertible bonds of HK$18,226,000 arisen from the issue of 3-year convertible bonds with a principal amount of US$46,300,000.

### Taxation

Net tax expense of HK$6,608,000 represented the aggregate of (i) provision for Canada resource surcharge on Novus' production revenue of oil and natural gas amounted to HK$2,269,000; (ii) provision for the PRC enterprise income tax on the profit earned from refined oil trading business of Henan Yanchang amounted to HK$3,275,000; and (iii) net deferred tax expense amounted to HK$1,064,000.

### Loss for the period

Despite the low international crude oil prices challenge, the Group has managed to turnaround for its oil and gas producing business in Canada through remarkable operational efficiency enhancement as well as various cost reduction measures. In addition, the refined oil trading business in the PRC has remained profitable and also contributed to the significant decrease in loss of the Group for the six months ended 30 June 2017 to HK$21,955,000, from the previous period loss of HK$60,437,000.

## 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 2017.

The Group had outstanding variable interest rates bank borrowings amounted to HK$255,341,000 as at 30 June 2017 (31 December 2016: HK$269,055,000) comprised (i) HK$23,054,000 (equivalent to RMB20,000,000) under Henan Yanchang and (ii) HK$232,287,000 (equivalent to CAD38,650,000) under Novus. The Group has obtained bank facilities of HK$576,350,000 (equivalent to RMB500,000,000) from banks in the PRC and of HK$252,420,000 (equivalent to CAD42,000,000) from a bank in Canada.

On 23 December 2015, the Company raised fund from the issue of convertible bonds to China Construction Bank Corporation 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. The fund raised had been used for the Group's general working capital. The whole principal amount of convertible bonds was still outstanding as at 30 June 2017.

As at 30 June 2017, the Group had cash and bank balances of HK$326,990,000 (31 December 2016: HK$610,283,000). In view of sufficient cash on hand together with the available bank facilities, the Group has enough working capital to finance its business operation.

At the period end, the gearing ratio of the Group, measured on the basis of total liabilities as a percentage of total equity, was 77.1% (31 December 2016: 73.3%). The current ratio of the Group, measured on the basis of current assets as a percentage of current liabilities stood at 107.6% as at 30 June 2017 (31 December 2016: 118.2%).

## 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 is exposed to general price fluctuations of crude oil and gas. During the six months ended 30 June 2017, Novus has entered one commodity contract for crude oil and gas business to manage 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 2017.

## SIGNIFICANT INVESTMENT

The Group did not hold any significant investments as at 30 June 2017.

## CAPITAL COMMITMENT

As at 30 June 2017, the Group had committed to property, plant and equipment amounted to HK$19,126,000 (31 December 2016: HK$18,814,000).

Save as aforesaid, the Group did not have any other material commitments as at 30 June 2017.

## PLEDGE OF ASSETS

The Group's CAD42,000,000 (31 December 2016: CAD42,000,000) 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 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.

## CONTINGENT LIABILITY

As at 30 June 2017, the Group did not have any significant contingent liabilities (31 December 2016: Nil).

## LITIGATION

As at 30 June 2017, the Group had no material litigations (31 December 2016: Nil).

## EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2017, the Group's total number of staff was 142 (31 December 2016: 130). Salaries of employees are maintained at a competitive level with total staff costs for the six months ended 30 June 2017 amounted to HK$30,148,000 (six months ended 30 June 2016: HK$27,562,000). 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 etc. There is also a share option scheme offered to employees and eligible participants. 63,000,000 share options were granted to a Director under the Company's share option scheme during the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

## INTERIM DIVIDEND

The Board does not recommend the payment of any dividends for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## CORPORATE GOVERNANCE PRACTICE

The Board is committed to achieving 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 optimise 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 in Appendix 14 of the Listing Rules during the six months ended 30 June 2017.

## 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 risk management, internal control systems and financial reporting matters. The Audit Committee has reviewed the results of the Group for the six months ended 30 June 2017.

## MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code regarding securities transactions of the Directors. Having made specific enquiry of all Directors of the Company, they confirmed that they have complied with the required standards as set out in the Model Code as their code of conduct regarding Directors' securities transactions with the Company for the six months ended 30 June 2017.

## PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement for the six months ended 30 June 2017 is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.yanchanginternational.com). The Company's interim report for 2017 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, 31 August 2017

***Executive Directors:***
Mr. Li Yi *(Chairman)*
Mr. Bruno Deruyck *(Chief Executive Officer)*
Mr. Shen Hao
Ms. Sha Chunzhi
Mr. Li Jun
Mr. Tan Meng Seng

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