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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The board (the "Board") of directors (the "Director(s)") of Yanchang Petroleum International Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017 together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**2017** **HK$'000**	2016 HK$'000
Revenue	4	**16,724,658**	20,568,871
Other revenue	4	**14,487**	12,825
		16,739,145	20,581,696
Expenses			
Purchases		**(16,354,663)**	(20,305,987)
Royalties		**(32,236)**	(19,216)
Field operation expenses		**(80,672)**	(67,169)
Exploration and evaluation expenses		**(4,127)**	(17,581)
Selling and distribution expenses		**(6,759)**	(4,241)
Administrative expenses		**(85,899)**	(85,612)
Depreciation, depletion and amortisation		**(170,626)**	(122,996)
Other gains and losses	5	**(438)**	(233,138)
		(16,735,420)	(20,855,940)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)
For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Profit/(loss) from operating activities	6	**3,725**	(274,244)
Finance costs	7	**(53,376)**	(57,073)
Loss before taxation		**(49,651)**	(331,317)
Taxation	8	**(8,974)**	61,025
Loss for the year		**(58,625)**	(270,292)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong			
– Exchange differences arising during the year		**125,586**	26,166
– Reclassification adjustment relating to foreign subsidiary deregistered during the year		**–**	3,108
Other comprehensive income for the year, net of tax		**125,586**	29,274
Total comprehensive income for the year		**66,961**	(241,018)
(Loss)/profit for the year attributable to:			
Owners of the Company		**(65,289)**	(267,722)
Non-controlling interests		**6,664**	(2,570)
		(58,625)	(270,292)
Total comprehensive income for the year attributable to:			
Owners of the Company		**54,682**	(232,245)
Non-controlling interests		**12,279**	(8,773)
		66,961	(241,018)
Loss per share attributable to the owners of the Company	10		
Basic and diluted, HK cents		**(0.54)**	(2.20)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**1,916,629**	1,690,356
Prepaid lease payments		**16,911**	16,124
Investment properties		**21,760**	28,970
Exploration and evaluation assets		**31,108**	27,566
Goodwill and intangible asset		**58,149**	58,149
Deferred tax assets		**75,623**	70,625
		2,120,180	1,891,790
Current assets			
Inventories		**54,214**	8,441
Trade receivables	*11*	**127,657**	24,122
Prepayments, deposits and other receivables		**353,859**	107,584
Cash and bank balances		**207,998**	610,283
		743,728	750,430
Total assets		**2,863,908**	2,642,220
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital		**242,911**	242,911
Reserves		**1,235,072**	1,177,015
Total equity attributable to the owners of the Company		**1,477,983**	1,419,926
Non-controlling interests		**116,663**	104,384
Total equity		**1,594,646**	1,524,310

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2017

	Notes	**2017** **HK$'000**	2016 *HK$'000*
LIABILITIES			
Current liabilities			
Trade and other payables	*12*	**445,583**	364,175
Convertible bonds		**376,553**	–
Derivative financial instruments		**–**	967
Tax payables		**677**	851
Bank borrowings		**295,527**	269,055
		1,118,340	635,048
Non-current liabilities			
Convertible bonds		**–**	366,303
Decommissioning liabilities		**139,575**	102,371
Deferred tax liabilities		**11,347**	14,188
		150,922	482,862
Total liabilities		**1,269,262**	1,117,910
Total equity and liabilities		**2,863,908**	2,642,220
Net current (liabilities)/assets		**(374,612)**	115,382
Total assets less current liabilities		**1,745,568**	2,007,172

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

1. BASIS OF PREPARATION

The financial information set out in this announcement does not constitute the consolidated financial statements of Yanchang Petroleum International Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 December 2017, but is extracted from those consolidated financial statements.

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which in collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– Investment properties

– Derivative financial instruments

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision effects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

As at 31 December 2017, the Group had net current liabilities of HK$374,612,000 and incurred net loss of HK$58,625,000 during the year ended 31 December 2017. The Group is committed to incur non-operating cash outflows of HK$706,796,000 within one year, being (i) repayment of convertible bonds and payment of related interest totalling HK$397,140,000 in 2018; and (ii) repayment of bank borrowings throughout 2018 and payment of related interest totalling HK$309,656,000. The Group will be unable to repay these borrowings in full when they fall due unless it is able to generate sufficient net cash inflows from its operations and/or other sources, since as at 31 December 2017, the Group only had cash and cash equivalents of HK$207,998,000.

These facts and circumstances indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The directors are of the opinion that the Group will be able to meet its financial obligations as and when they fall due for the next twelve months from the end of the reporting period assuming the success of the following measures:

(i) the Group expects to generate operating cash inflows for the next twelve months;

(ii) the directors consider that the Group could obtain financing from various sources of funding; and

(iii) the directors consider that the Group could dispose of certain assets to obtain funding.

Accordingly, the consolidated financial statements are prepared on going concern basis. Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in these financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. A summary of the amendments to HKFRSs are set out as below:

Amendments to HKAS 7, *Statement of cash flow: Disclosure initiative*
Amendments to HKAS 12, *Income taxes: Recognition of deferred tax assets for unrealized losses*

The application of the above amendments to HKFRSs had no material effect on the results and financial positions of the Group for the current or prior accounting periods which have been prepared and presented. The Group has not applied any new standards or interpretation that is not yet effective for the current accounting period.

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.

No operating segments have been aggregated to form the above reportable segments.

Segment revenue and results

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

	Exploration, exploitation and operation		**Supply and procurement**		**Consolidated**	
	2017	2016	**2017**	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers	**316,011**	199,683	**16,408,647**	20,369,188	**16,724,658**	20,568,871
Segment profit/(loss)	**8,037**	(54,204)	**17,379**	20,851	**25,416**	(33,353)
Other revenue					**14,487**	12,825
Fair value change on investment properties					**(8,767)**	627
Change in fair value on derivative components of convertible bonds					**967**	(12,992)
Net foreign exchange (loss)/gain					**(630)**	16
Impairment loss of exploration and evaluation assets					**–**	(2,143)
Impairment loss of goodwill and intangible asset					**–**	(38,779)
Reversal/(recognition) of impairment loss of property, plant and equipment					**7,266**	(177,810)
Unallocated corporate expenses					**(35,014)**	(22,635)
Profit/(loss) from operating activities					**3,725**	(274,244)
Finance costs					**(53,376)**	(57,073)
Loss before taxation					**(49,651)**	(331,317)
Taxation					**(8,974)**	61,025
Loss for the year					**(58,625)**	(270,292)

Revenue reported was generated from external customers. There were no inter-segment sales for the year (2016: Nil).

Segment profit/(loss) represents the profit earned/loss incurred by each segment without allocation of other revenue, fair value change on investment properties, change in fair value on derivative components of convertible bonds, net foreign exchange loss/gain, impairment losses, 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	
	2017	2016	**2017**	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**1,822,084**	1,655,166	**901,182**	760,442	**2,723,266**	2,415,608
Unallocated assets					**140,642**	226,612
Total assets					**2,863,908**	2,642,220
Segment liabilities	**432,010**	381,553	**426,429**	336,152	**858,439**	717,705
Unallocated liabilities					**410,823**	400,205
Total liabilities					**1,269,262**	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.

Other segment information

	Exploration, exploitation and operation		Supply and procurement		Unallocated		Consolidated	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other segment information:								
Depreciation of property, plant and equipment	**880**	1,358	**7,453**	7,541	**61**	74	**8,394**	8,973
Depletion of property, plant and equipment	**161,754**	113,572	**–**	–	**–**	–	**161,754**	113,572
Disposals and written off of expired exploration and evaluation assets	**5,457**	6,338	**–**	–	**–**	–	**5,457**	6,338
Amortisation of prepaid lease payments	**–**	–	**478**	451	**–**	–	**478**	451
Impairment loss of exploration and evaluation assets	**–**	2,143	**–**	–	**–**	–	**–**	2,143
Impairment loss of goodwill and intangible asset	**–**	–	**–**	38,779	**–**	–	**–**	38,779
(Reversal)/recognition of impairment loss of property, plant and equipment	**(7,266)**	177,810	**–**	–	**–**	–	**(7,266)**	177,810
Additions to non-current assets*	**270,224**	98,446	**8,786**	14,168	**12**	39	**279,022**	112,653

* The amount represents additions to property, plant and equipment as well as exploration and evaluation assets for the years ended 31 December 2017 and 31 December 2016.

Revenue from major products and services

The Group's revenue from its major products and services were from sale of crude oil and gas as well as trading and distribution of oil related products.

Geographical information

The Group's operations are located in Canada, the PRC, Madagascar and Hong Kong.

Information about the Group's revenue from external customers and information about the Group's non-current assets by geographical location are detailed below:

	Revenue from external customers		Non-current assets	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC	**16,408,647**	20,369,188	**344,474**	337,439
Canada	**316,011**	199,683	**1,699,987**	1,474,303
Hong Kong and others	**–**	–	**96**	9,423
	16,724,658	20,568,871	**2,044,557**	1,821,165

Information about major customers

Included in revenue arising from supply and procurement business segment of HK$16,408,647,000 (2016: HK$20,369,188,000) are revenue of HK$12,648,423,000 (2016: HK$14,700,980,000) which arose from two (2016: four) customers of the Group which contributed 10% or more to the Group's total revenue for the year.

Revenue from major customers of the Group's total revenue, are set out below:

	2017	2016
	HK$'000	*HK$'000*
Customer A	**7,907,507**	5,502,271
Customer B	**4,740,916**	4,593,415
Customer C *(Note)*	**–**	2,475,389
Customer D *(Note)*	**–**	2,129,905

Note:

The corresponding revenues from customer C and D did not contribute over 10% of the total revenue of the Group during the year ended 31 December 2017.

4. REVENUE AND OTHER REVENUE

Revenue represents the net invoiced value of goods sold. All significant intra-group transactions have been eliminated on consolidation.

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

	2017	2016
	HK$'000	*HK$'000*
Revenue		
Sales of crude oil and gas	**316,011**	199,683
Trading and distribution of oil related products	**16,408,647**	20,369,188
	16,724,658	20,568,871
Other revenue		
Bank interest income	**2,649**	4,476
Rental income	**1,644**	1,566
Storage fee income	**10,194**	6,782
Others	**–**	1
	14,487	12,825

5. OTHER GAINS AND LOSSES

	2017	2016
	HK$'000	*HK$'000*
Net foreign exchange (loss)/gain	**(630)**	16
Fair value change on investment properties	**(8,767)**	627
Change in fair value on derivative components of convertible bonds	**967**	(12,992)
Gain on disposal of property, plant and equipment and exploration and evaluation assets	**6,317**	7,362
Disposals and written off of expired exploration and evaluation assets	**(5,457)**	(6,338)
Impairment loss of exploration and evaluation assets	**–**	(2,143)
Impairment loss of goodwill and intangible asset	**–**	(38,779)
Reversal/(recognition) of impairment loss of property, plant and equipment	**7,266**	(177,810)
Fair value change on derivative financial instruments	**(134)**	(3,081)
	(438)	(233,138)

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2017	2016
	HK$'000	*HK$'000*
Auditors' remuneration		
– Audit services	**3,158**	1,900
– Non-audit services	**502**	12
Cost of inventories sold	**16,354,663**	20,305,987
Depreciation and depletion of property, plant and equipment	**170,148**	122,545
Amortisation of prepaid lease payments	**478**	451
Minimum lease payments under operating leases of rented premises	**8,525**	7,819
Staff costs (including Directors' remuneration)		
– Salaries and wages	**54,139**	54,569
– Share-based payment expenses	**3,375**	327
– Pension scheme contributions	**474**	444

7. FINANCE COSTS

	2017	2016
	HK$'000	*HK$'000*
Interest expenses on bank borrowings wholly repayable within five years	**13,918**	18,997
Interest expense on convertible bonds	**36,996**	35,835
Accretion of decommissioning liabilities	**2,462**	2,241
	53,376	57,073

8. TAXATION

Taxation in the consolidated statement of profit or loss represent:

	2017	2016
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	**–**	–
Current tax – Outside Hong Kong		
Provision for the year	**12,437**	11,001
Deferred tax		
Origination and reversal of temporary differences	**(3,463)**	(72,026)
	8,974	(61,025)

The provision for Hong Kong Profits tax for 2017 is calculated at 16.5% (2016: 16.5%) of estimated assessable profits for the year. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rate of taxation ruling in the relevant countries. The Canada blended statutory tax rate and PRC corporate income tax rate applicable to the Group's subsidiaries in Canada and the PRC are 27% (2016: 27%) and 25% (2016: 25%) respectively.

9. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders during the year ended 31 December 2017, nor has any dividend been proposed since the end of the reporting period (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:

	2017	2016
	HK$'000	*HK$'000*
Loss		
Loss for the year attributable to the owners of the Company for the purpose of basic and diluted loss per share	**(65,289)**	(267,722)

	2017	2016
	'000	*'000*
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 years ended 31 December 2017 and 31 December 2016 were the same as the basic loss per share. The computation of diluted loss per share for the years ended 31 December 2017 and 31 December 2016 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.

11. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 90 days (2016: 90 days), are recognised and carried at the original invoiced amount less allowance for doubtful debt. Trade receivables are non-interest bearing.

The following is an aged analysis of trade receivables presented based on the invoice dates at the end of the reporting period:

	2017	2016
	HK$'000	*HK$'000*
0 to 30 days	**124,549**	23,052
31 to 60 days	**458**	506
61 to 90 days	**131**	137
Over 90 days	**2,519**	427
	127,657	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$2,519,000 (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.

12. TRADE AND OTHER PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Trade payables	**53,909**	23,548
Deposits received in advance from customers	**257,128**	216,612
Other payables	**134,546**	124,015
	445,583	364,175

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

	2017	2016
	HK$'000	*HK$'000*
0 to 30 days	**46,787**	21,400
31 to 60 days	**5,999**	1,313
61 to 90 days	**429**	131
Over 90 days	**694**	704
	53,909	23,548

As at 31 December 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.

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT FROM THE DRAFT FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2017

"Without qualifying our opinion, we draw attention to note 3(b) to the consolidated financial statements which describes that the Group is committed to repay convertible bonds, bank borrowings and interest totalling HK$706,796,000 within one year and that the Group's ability to meet these liquidity requirements depends on its ability to generate sufficient net cash inflows from future operations and/or other sources. These facts and circumstances indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

The consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on the Group's ability to generate sufficient net cash inflows from future operations and/or other sources to meet its liquidity commitments. Further details are set out in note 3(b). The consolidated financial statements do not include any adjustments that would result should the Group be unable to continue to operate as a going concern.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance."

BUSINESS REVIEW AND PROSPECTS

With international oil prices rebounding towards the end of the year, the operations and financial performance of the Company continued to improve in 2017. The oil and gas producing business of Novus Energy Inc. ("Novus") successfully managed a turnaround to profit, and the refined oil trading business of Henan Yanchang Petroleum Sales Co., Limited ("Henan Yanchang") generated stable cash flows and profit, resulting in reduction of overall loss of the Group by HK$212 million as compared with that in 2016.

I. Upstream oil and gas producing business in Canada

In 2017, Novus achieved an average daily production of 2,893 barrels of equivalent ("BOE"). As the management team put best effort to implement measures for cost reduction and operational efficiency enhancement and attach great importance to technical studies as the driving force of Novus business, the refrac program for the existing old wells and the exploration of new oil play achieved impressive results, allowing Novus to manage a turnaround to profit.

For operational management, the actual per barrel operating and transportation costs was CAD13 which remained at a lower level than peers in the region. For administration costs, the management exercised due care and strictly controlled targets within budget by a number of measures, such as key performance objective program, headcounts reduction and restructuring job positions, giving rise to a decrease in administrative expenses of CAD1.26 million in total in 2017, representing a 24% reduction versus the budget.

In 2017, drilling of 31 new wells and refrac of 10 existing old wells were completed. The production volume increased by 19% as compared with that in 2016 even though the capital expenditure reduced by CAD8.8 million versus the budget. Novus has attached utmost weight to optimization of development solution as well as technological know-how for production enhancement of new wells. The management team deployed its skills and advanced technical capabilities for the effective development of the oilfields. According to the two assessments on producing wells within the Viking oil play done by the National Bank of Canada in April to June and in August to October 2017, respectively, the independent assessment report on the industry indicated that Novus accounted for 3 of the 15 top producing wells in the Viking oil play.

Based on the foundation of the existing one exploration well, in May 2017, Novus has achieved a significant breakthrough having newly drills of two horizontal wells in the Success oil play in Saskatchewan in Canada. Initial daily production volume of one of the wells was in excess of 200 barrels with 12,000 barrels in total for the year, becoming the top producing well of the Success oil play. Such breakthrough makes significant contribution to technological development of the Success oil play, and yet also provides solid support for future expansion of production and reserve for Novus. Novus estimates that this will expand the daily production volume of Novus to over 4,000 barrels in the coming five years.

II. Downstream refined oil trading business in the PRC

In 2017, Henan Yanchang achieved sales of 2.78 million tonnes of refined oil, with revenue of RMB13.8 billion and profit of RMB19.79 million. 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.

As affected by the economic slowdown, market prices of refined oil and the demand for refined oil in the PRC remained sluggish. The management of Henan Yanchang has cautiously coped with challenges by duly performing all operational targets and missions for the year. The major measures and achievements adopted by Henan Yanchang are as follows:

1. *Sales Strategies*

   Firstly, Henan Yanchang has vigorously taken targeted approach to sales, achieving positive performance in sales of refined oil at highway sales. In 2016, there was only one highway sales spot set up in Lintong with an annual sales volume of 4,000 tonnes. Three highway sales spots were erected in Yanlian, Jingbian and Yongping in 2017. In 2017, the sales volume was 60,000 tonnes, representing an increase of nearly 15 times compared with that in 2016. Secondly, Henan Yanchang has conducted closer cooperation with strategic customers to achieve win-win outcome. In 2017, Henan Yanchang secured a long-term strategic cooperation with SINOPEC Henan Oilfield Branch Company and Yanchang Shell (Henan) Petroleum Co. Thirdly, Henan Yanchang has strengthened its market research to effectively expand customer base. Henan Yanchang has strengthened the market research by dividing a region into areas and subdividing customer categories and structures, in order to conduct on-site research and study on target markets. As at the end of December 2017, there were 216 newly developed customers.

2. *Corporate Reforms*

   Firstly, Henan Yanchang has launched a remuneration enhancement to effectively motivate staff for better results and staff remuneration is completely pegged to their performance in order to drive higher team sales performance. Secondly, Henan Yanchang has intensified reforms on sales model by launching management of customers in categories and adopting a number of measures to digest inventory. Thirdly, Henan Yanchang has sub-contracted out certain business and operation with significant effectiveness.

III. Outlook

At the outset of the "Belt and Road" Initiative, there are strategic opportunities for the Company to grasp. Alongside the gradual recovery of the oil and gas industry, the Company is seeking for merger and acquisition opportunities and focusing on the oil and gas producing projects with large potentials for development and enhancement. By virtue of expertise and global vision in oil and gas industry the Company has, together with the financial and technical supports from the major shareholder Shaanxi Yanchang Petroleum (Group) Co., Limited ("Yanchang Petroleum Group"), the Board is confident that the Company will be able to create valuable returns to its shareholders.

FINANCIAL REVIEW

Highlights on financial results

	2017	2016	Change in
	HK$'000	*HK$'000*	%
Revenue	**16,724,658**	20,568,871	(19%)
Other revenue	**14,487**	12,825	13%
Purchases	**(16,354,663)**	(20,305,987)	(19%)
Royalties	**(32,236)**	(19,216)	68%
Field operation expenses	**(80,672)**	(67,169)	20%
Exploration and evaluation expenses	**(4,127)**	(17,581)	(77%)
Selling and distribution expenses	**(6,759)**	(4,241)	59%
Administrative expenses	**(85,899)**	(85,612)	–
Depreciation, depletion and amortisation	**(170,626)**	(122,996)	39%
Other gains and losses	**(438)**	(233,138)	(100%)
Finance costs	**(53,376)**	(57,073)	(6%)
Taxation	**(8,974)**	61,025	N/A
Loss for the year	**(58,625)**	(270,292)	(78%)
Basic and diluted loss per share, HK cents	**(0.54)**	(2.20)	(75%)

Segment revenue and segment results

For the year under review, the Group's operating segments were comprised of (i) exploration, exploitation and operation business, and (ii) supply and procurement business. During the year ended 31 December 2017, the Group's turnover was derived from production of oil and natural gas in Canada as well as the trading of the refined oil in the PRC.

Novus is engaged in the business of exploration, exploitation and production of oil and natural gas in Western Canada. Novus achieved production of oil and gas of 1,055,000 BOE and contributed production income of HK$316,011,000 during the year under review compared to production of 880,000 BOE and production income of HK$199,683,000 of the previous year. Despite the low international oil prices environment in 2017, Novus successfully managed a turnaround through remarkable operational efficiency enhancement as well as various cost reduction initiatives. A segment operating profit of HK$10,164,000 this year, in contrast of a loss of HK$37,966,000 in the previous year.

Due to a decrease in sales volume from the previous year of 4.20 million tonnes to 2.78 million tonnes of the current year, the revenue of refined oil trading business of Henan Yanchang decreased by 19% from the previous year of HK$20,369,188,000 to HK$16,408,647,000 this year and contributed a segment operating profit of HK$17,379,000 as compared to a profit of HK$20,851,000 in the previous year.

Other revenue

Apart from the aforesaid segment results, other revenue of HK$14,487,000 which mainly represented interest income from bank deposits and rental income from the PRC investment properties was recorded for the year under review, similar to that of the previous year.

Purchases

Purchases were wholly derived from the refined oil trading business of Henan Yanchang in the PRC, which decreased from the previous year of HK$20,305,987,000 to this year of HK$16,354,663,000. The decrease of purchases was consistent with the drop in sales of the refined oil trading business.

Royalties

Royalties, including crown, freehold and overriding royalties incurred by Novus for oil and natural gas production in Canada, increased from the previous year of HK$19,216,000 to the current year of HK$32,236,000 was due to the increase in sales price and volume.

Field operation expenses

Due to increase in production volume, field operation expenses increased to HK$80,672,000 this year from the previous year of HK$67,169,000. The expenses were incurred by Novus in the production of oil and natural gas in Canada, which included labour costs, repairs and maintenance, processing costs, fluid hauling, lease rentals and workovers etc.

Exploration and evaluation expenses

The exploration and evaluation expenses amounted to HK$4,127,000 which represented the holding costs, mainly lease rentals, on the interests of non-producing lands held by Novus. Compared to the previous year of HK$17,581,000, the significant decrease in such expenses was due to no exploration expenses incurred for the Madagascar project during the year.

Selling and distribution expenses

Selling and distribution expenses increased from the previous year of HK$4,241,000 to the current year of HK$6,759,000. The increase in the expenses was mainly incurred by Novus due to the escalated use of truck services to make up pipeline downtime in the oilfields caused by the extreme cold weather in Canada during fourth quarter of the year.

Administrative expenses

Administrative expenses including directors' remuneration, staff costs, office rentals, professional fees and listing fee etc, amounted to HK$85,899,000 this year, similar to that of the previous year.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation increased from the previous year of HK$122,996,000 to the current year of HK$170,626,000. This was mainly due to increase in depletion of petroleum and natural gas properties incurred by Novus as a result of increase in production during the year under review.

Other gains and losses

Other gains and losses significantly reduced to this year of HK$438,000 from the previous year of HK$233,138,000 which was mainly attributable to the impairment of the oil and gas assets.

Finance costs

Finance costs amounted to HK$53,376,000 comprising of (i) bank borrowing costs of HK$13,918,000 related to the businesses of Novus and Henan Yanchang, (ii) accretion of HK$2,462,000 related to the provision of the decommissioning liabilities incurred by Novus, and (iii) imputed interest on convertible bonds of HK$36,996,000 arisen from the issue of 3-year convertible bonds with principal amount of US$46,300,000.

Taxation

Taxation of HK$8,974,000 comprising of (i) provision for Canada resources surcharge on Novus' income of oil and gas amounted to HK$4,978,000; (ii) provision for the PRC enterprise income tax on the profit earned from refined oil trading business of Henan Yanchang amounted to HK$7,459,000; and (iii) deferred tax credit amounted to HK$3,463,000.

Loss for the year

Under the circumstance of international oil prices rebounding towards the end of 2017, the oil and gas producing business in Canada as well as the refined oil trading business in the PRC performed well and contributed to reduce the loss of the Group. The Group recorded a significantly reduced overall loss of HK$58,625,000 for the year under review, as compared to a loss of HK$270,292,000 incurred in the previous year.

Highlights on financial position

	2017	2016	Change in
	HK$'000	*HK$'000*	%
Property, plant and equipment	**1,916,629**	1,690,356	13%
Prepaid lease payments	**16,911**	16,124	5%
Investment properties	**21,760**	28,970	(25%)
Exploration and evaluation assets	**31,108**	27,566	13%
Goodwill and intangible asset	**58,149**	58,149	–
Inventories	**54,214**	8,441	542%
Trade receivables	**127,657**	24,122	429%
Prepayments, deposits and other receivables	**353,859**	107,584	229%
Cash and bank balances	**207,998**	610,283	(66%)
Derivative financial instruments	**–**	(967)	(100%)
Trade and other payables	**(445,583)**	(364,175)	22%
Bank borrowings	**(295,527)**	(269,055)	10%
Convertible bonds	**(376,553)**	(366,303)	3%
Decommissioning liabilities	**(139,575)**	(102,371)	36%

Property, plant and equipment

Property, plant and equipment consisted of buildings, furniture, fixtures and equipment, plant and machineries, motor vehicles, petroleum and natural gas properties and construction-in-progress. The increase in assets for the year was mainly attributable to the capital expenditure incurred for new drills and refracs by Novus.

Prepaid lease payments

Prepaid lease payments represented the leasehold lands in the PRC owned by the Henan Yanchang. The slight increase in the amount represented mainly the fluctuation in exchange rate during the year.

Investment properties

Investment properties comprised gas stations and properties in the PRC owned by Henan Yanchang leased out in return of receiving rental income.

Exploration and evaluation assets

Exploration and evaluation assets represented mainly the undeveloped land owned by Novus as at 31 December 2017.

Goodwill and intangible asset

Goodwill and intangible asset was arisen on the acquisition of 70% interest in Henan Yanchang by the Group in 2011. The goodwill and intangible asset represented the purchase premium and the valuation and recognition of the refined oil supply agreement signed between Henan Yanchang and Yanchang Petroleum Group. No impairment had been made for such asset during the year, hence the amount remained the same as the previous year.

Inventories

Inventories represented the refined oil held in oil storage tanks of Henan Yanchang in the PRC as at 31 December 2017.

Trade receivables

Trade receivables represented account receivables from both customers of Novus in Canada and Henan Yanchang in the PRC as at 31 December 2017. The increase of HK$103,535,000 of the trade receivables was mainly arising from the account receivables of Henan Yanchang recorded at the year end, such amounts had been fully recovered in January 2018.

Prepayments, deposits and other receivables

Prepayments, deposits and other receivables significantly increased to HK$353,859,000 this year. Such increase was mainly due to increase in prepayments made for the purchase of refined oil by Henan Yanchang for its refined oil trading business.

Cash and bank balances

As at 31 December 2017, cash and bank balances decreased to HK$207,998,000 from the previous year of HK$610,283,000. This was mainly due to increase in prepayments to the refined oil suppliers, trade receivables and inventories incurred by Henan Yanchang during the year.

Trade and other payables

Trade and other payables mainly represented prepayments received in advance from customers of Henan Yanchang as at 31 December 2017.

Bank borrowings

The amount represented loans from banks of the PRC to finance refined oil trading business of Henan Yanchang and a revolving loan from a bank in Canada to finance oil and gas producing business of Novus.

Convertible bonds

The amount represented the 3-year convertible bonds with coupon interest rate of 7% issued in December 2015.

Decommissioning liabilities

The amount represented the expected future costs associated with the plugging and abandonment of wells, facilities dismantlement and site reclamation in Canada incurred by Novus. The increase in the amount was in line with the increase in well count of Novus.

LIQUIDITY AND FINANCIAL RESOURCES

The Group funded its operation mainly by its internal resources together with bank borrowings for the year ended 31 December 2017.

	2017	2016
	HK$'000	*HK$'000*
Current assets	**743,728**	750,430
Total assets	**2,863,908**	2,642,220
Current liabilities	**1,118,340**	635,048
Total liabilities	**1,269,262**	1,117,910
Total equity	**1,594,646**	1,524,310
Gearing ratio	**79.6%**	73.3%
Current ratio	**66.5%**	118.2%

The Group had outstanding variable interest rates bank borrowings amounted to HK$295,527,000 as at 31 December 2017 (31 December 2016: HK$269,055,000) which comprised (i) HK$59,945,000 (equivalent to RMB50,000,000) under Henan Yanchang and (ii) HK$235,582,000 (equivalent to CAD37,875,000) under Novus. The Group has obtained bank facilities of HK$599,450,000 (equivalent to RMB500,000,000) from banks in the PRC and of HK$261,240,000 (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 principal of convertible bonds was still outstanding as at 31 December 2017.

As at 31 December 2017, the Group has cash and bank balances of HK$207,998,000 (31 December 2016: HK$610,283,000). In view of the cash on hand together with the available bank facilities, the Group has enough working capital to finance its business operation.

As at 31 December 2017, the gearing ratio of the Group, measured on the basis of total liabilities as a percentage of total equity, was 79.6% as compared to 73.3% of the previous year. The current ratio of the Group, measured on the basis of current assets as a percentage of current liabilities stood at 66.5%, as at 31 December 2017 (31 December 2016: 118.2%).

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. During the year ended 31 December 2017, Novus had entered four commodity contracts 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 the fluctuations in foreign currency exchange rates and interest rates.

Cash has been generally placed in short-term deposits denominated in Hong Kong dollar, US dollar, 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 year under review, no hedging transactions related to foreign exchange had been made, proper steps will be taken when the management considers appropriate.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no material acquisitions and disposals for the year ended 31 December 2017.

SIGNIFICANT INVESTMENTS

The Group did not hold any significant investments as at 31 December 2017.

CAPITAL COMMITMENTS

As at 31 December 2017, the Group had commitments related to property, plant and equipment amounted to HK$29,161,000 (31 December 2016: HK$18,814,000).

Save as the aforesaid, the Group did not have any other material commitments as at 31 December 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 CAD200,000,000 debenture with a floating charge over all assets of Novus, with a negative pledge and undertaking to provide fixed charges upon request.

Save as the aforesaid, none of the Group's other assets had been pledged for granting the bank borrowings (31 December 2016: Nil).

CONTINGENT LIABILITIES

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

LITIGATION

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

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, the Group's total number of staff was 142 (2016: 130). Salaries of employees are maintained at a competitive level with total staff costs for the year ended 31 December 2017 amounted to HK$57,988,000 (2016: HK$55,340,000). 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 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 year ended 31 December 2017 (31 December 2016: 12,000,000 share options).

DIVIDENDS

The board of directors does not recommend the payment of any dividends for the year ended 31 December 2017 (31 December 2016: Nil).

HEALTH, SAFETY AND ENVIRONMENT POLICIES

The Group is committed to ensuring a safe and healthful workplace and the protection of the environment. The Company believes that safety and protecting the environment is important to good business and that all work-related injuries, illnesses, property losses and adverse environmental impacts are preventable. There are no loss time accidents occurred in 2017 and 2016.

The Group's health, safety and environment polices include:

– Make health, safety and environmental considerations a top priority.

– Work actively to continuously improve safety and environmental performance.

– Identify potential risks and hazards before work begins.

– Encourage personnel to be individually responsible for identifying and eliminating hazards.

– Ensure personnel have sufficient training, resources and systems.

– Provide and maintain properly engineered facilities, plants and equipment.

– Actively monitor, audit and review to improve systems, processes, environmental and safety performance.

– As a minimum, ensure regulatory compliance at all times.

No environmental claims, lawsuits, penalties or administrative sanctions were reported to the Company's management. The Company is of the view that the Group were in compliance with all relevant laws and regulations in Hong Kong, Canada, the PRC and Madagascar, regarding environmental protection in all material respects during the year under review and as at the date of the 2017 Annual Report. The Group has also adopted and implemented the environmental policies on a standard which is not less stringent than the prevailing environmental laws and regulations of Hong Kong, Canada, the PRC and Madagascar.

RELATIONSHIP WITH SUPPLIERS, CUSTOMERS AND OTHERS

The Group understands the importance of maintaining a good relationship with its suppliers and customers to meet its immediate and long-term goals. The Group has built up long-term relationship with suppliers and customers. During the year under review, there were no material and significant dispute between the Group and its suppliers and/or customers.

CORPORATE GOVERNANCE PRACTICE

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 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 (the "CG Code") in Appendix 14 of the Listing Rules during the year ended 31 December 2017, except for the following deviations:

> 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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules the "Model Code".

Having made specific enquiry of all Directors, they confirmed that they have complied with the required standards set out in the Model Code as their code of conduct regarding Directors' securities transactions with the Company throughout the year ended 31 December 2017.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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 year ended 31 December 2017.

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, to the amounts set out in the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement for the year ended 31 December 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 annual report for 2017 will be despatched to the shareholders of the Company and available on the above websites in due course.

ANNUAL GENERAL MEETING

The 2018 AGM of the Company will be held on 25 May 2018 and the notice of the 2018 AGM of the Company will be published and despatched to the shareholders of the Company in the manner as required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 21 May 2018 to 25 May 2018 (both days inclusive), during which period, no transfer of share(s) will be registered. In order to qualify for attending the AGM of the Company to be held on 25 May 2018, all share transfers, accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited located at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration, not later than 4:30 p.m. on 18 May 2018.

By Order of the Board
Yanchang Petroleum International Limited
Li Yi
Chairman

Hong Kong, 28 March 2018

Executive Directors:

Mr. Li Yi *(Chairman)*
Mr. Bruno Deruyck *(Chief Executive Officer)*
Ms. Sha Chunzhi
Mr. Gao Hairen
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