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 2018

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 2018 together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	**2018**	2017
		HK$'000	*HK$'000*
			(Restated)
Revenue	4	**5,933,388**	4,092,177
Other revenue	4	**19,019**	14,487
		5,952,407	4,106,664
Expenses			
Purchases		**(5,602,190)**	(3,722,182)
Royalties		**(33,329)**	(32,236)
Field operation expenses		**(74,719)**	(80,672)
Exploration and evaluation expenses		**(3,007)**	(4,127)
Selling and distribution expenses		**(9,526)**	(6,759)
Administrative expenses		**(91,267)**	(85,899)
Depreciation, depletion and amortisation		**(138,436)**	(170,626)
Other gains and losses	5	**99,743**	(438)
		(5,852,731)	(4,102,939)

	Notes	2018 HK$'000	2017 HK$'000 (Restated)
Profit from operating activities	6	**99,676**	3,725
Finance costs	7	**(59,197)**	(53,376)
Profit/(loss) before taxation		**40,479**	(49,651)
Taxation	8	**(34,211)**	(8,974)
Profit/(loss) for the year		**6,268**	(58,625)
Other comprehensive income			
Item 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		**(127,868)**	125,586
Other comprehensive income for the year, with nil tax effect		**(127,868)**	125,586
Total comprehensive income for the year		**(121,600)**	66,961
Profit/(loss) for the year attributable to:			
Owners of the Company		**(741)**	(65,289)
Non-controlling interests		**7,009**	6,664
		6,268	(58,625)
Total comprehensive income for the year attributable to:			
Owners of the Company		**(122,728)**	54,682
Non-controlling interests		**1,128**	12,279
		(121,600)	66,961
Loss per share attributable to the owners of the Company	10		
Basic and diluted, HK cents		**(0.01)**	(0.54)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**1,909,854**	1,916,629
Prepaid lease payments		**15,602**	16,911
Investment properties		**16,794**	21,760
Exploration and evaluation assets		**19,319**	31,108
Goodwill and intangible assets		**58,149**	58,149
Deferred tax assets		**47,017**	75,623
Other non-current assets		**29,695**	–
		2,096,430	2,120,180
Current assets			
Inventories		**67,278**	54,214
Trade receivables	11	**239,188**	127,657
Prepayments, deposits and other receivables		**261,299**	353,859
Derivative financial instruments		**8,719**	–
Cash and bank balances		**316,768**	207,998
		893,252	743,728
Total assets		**2,989,682**	2,863,908
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital		**242,911**	242,911
Reserves		**1,121,129**	1,235,072
Total equity attributable to the owners of the Company		**1,364,040**	1,477,983
Non-controlling interests		**106,897**	116,663
Total equity		**1,470,937**	1,594,646

	Notes	**2018** HK$'000	2017 HK$'000
LIABILITIES			
Current liabilities			
Trade and other payables	12	**489,154**	445,583
Convertible bonds		**–**	376,553
Tax payables		**36**	677
Bank borrowings		**425,659**	295,527
		914,849	1,118,340
Non-current liabilities			
Convertible bonds		**464,327**	–
Decommissioning liabilities		**128,094**	139,575
Deferred tax liabilities		**11,475**	11,347
		603,896	150,922
Total liabilities		**1,518,745**	1,269,262
Total equity and liabilities		**2,989,682**	2,863,908
Net current liabilities		**(21,597)**	(374,612)
Total assets less current liabilities		**2,074,833**	1,745,568

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 2018, 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 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 2018 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 2018, the Group had net current liabilities of HK$21,597,000. The Group is committed to incur non-operating cash outflows of HK$475,421,000 within one year, being (i) payment of related interest of convertible bonds totalling HK$30,892,000 in 2019; and (ii) repayment of bank borrowings throughout 2019 and payment of related interest totalling HK$444,529,000. 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 2018, the Group only had cash and cash equivalents of HK$316,768,000.

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 AMENDMENTS TO 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:

HKFRS 9, *Financial instruments*
HKFRS 15, *Revenue from contracts with customers*
HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

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, except for HKFRS 15, *Revenue from contracts with customers*. The Group has not applied any new standards or interpretation that is not yet effective for the current accounting period.

The Group has elected to use retrospective restatement method and comparative information has been restated in accordance with HKFRS 15.

Further details of nature and effect of changes on previous accounting policies are set out below:

Principal versus agent considerations in revenue recognition

Determining whether the Group is acting as an agent or a principal under HKFRS 15 differs from HKAS 18 as a result of the shift from the risk-and-reward approach to transfer-of-control approach. Under the HKAS 18, the Group is a principal in the transaction when it has exposure to the significant risks, including credit risk, and rewards associated with the sales of goods. The Group considers several indicators under the transfer-of-control approach under HKFRS 15 and determines that the Group is acting as an agent in certain sales transactions of oil related products, although the Group still exposes to credit risk in these sales transactions. As a result of this change in presentation, the Group has restated comparatives by decreasing both revenue and purchases to HK$3,776,166,000 and HK$3,722,182,000 respectively for the supply and procurement business segment for the year ended 31 December 2017.

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**	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
				(Restated)		(Restated)
Segment revenue:						
Sales to external customers	**272,895**	316,011	**5,660,493**	3,776,166	**5,933,388**	4,092,177
Segment (loss)/profit	**(605)**	8,037	**20,237**	17,379	**19,632**	25,416
Other revenue					**19,019**	14,487
Fair value change on investment properties					**738**	(8,767)
Change in fair value on derivative components of convertible bonds					**–**	967
Net foreign exchange loss					**(4,404)**	(630)
Reversal of impairment loss of property, plant and equipment					**104,490**	7,266
Unallocated corporate expenses					**(39,799)**	(35,014)
Profit from operating activities					**99,676**	3,725
Finance costs					**(59,197)**	(53,376)
Profit/(loss) before taxation					**40,479**	(49,651)
Taxation					**(34,211)**	(8,974)
Profit/(loss) for the year					**6,268**	(58,625)

Revenue reported was generated from external customers. There were no inter-segment sales for the year (2017: 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, impairment loss, reversal of impairment loss, 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	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**1,771,423**	1,822,084	**1,028,059**	901,182	**2,799,482**	2,723,266
Unallocated assets					**190,200**	140,642
Total assets					**2,989,682**	2,863,908
Segment liabilities	**423,764**	432,010	**591,468**	426,429	**1,015,232**	858,439
Unallocated liabilities					**503,513**	410,823
Total liabilities					**1,518,745**	1,269,262

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	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	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	**350**	880	**7,509**	7,453	**34**	61	**7,893**	8,394
Depletion of property, plant and equipment	**130,086**	161,754	**–**	–	**–**	–	**130,086**	161,754
Disposals and written off of expired exploration and evaluation assets	**10,516**	5,457	**–**	–	**–**	–	**10,516**	5,457
Amortisation of prepaid lease payments	**–**	–	**457**	478	**–**	–	**457**	478
Reversal of impairment loss of property, plant and equipment	**(104,490)**	(7,266)	**–**	–	**–**	–	**(104,490)**	(7,266)
Additions to non-current assets*	**160,508**	270,224	**7,421**	8,786	**1**	12	**167,930**	279,022

* The amount represents additions to property, plant and equipment as well as exploration and evaluation assets for the years ended 31 December 2018 and 31 December 2017.

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 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** *(Note)*	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(Restated)		
PRC	**5,660,493**	3,776,166	**328,683**	344,474
Canada	**272,895**	316,011	**1,690,949**	1,699,987
Hong Kong and others	**–**	–	**86**	96
	5,933,388	4,092,177	**2,019,718**	2,044,557

Note: Non-current assets excluded deferred tax assets and other non-current assets.

Information about major customers

Included in revenue arising from supply and procurement business segment of HK$5,660,493,000 (2017: HK$3,776,166,000) are revenue of HK$1,468,488,000 (2017: HK$1,084,872,000) which arose from two (2017: two) 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:

	2018	2017
	HK$'000	*HK$'000*
		(Restated)
Customer A *(note 1)*	**805,859**	112,064
Customer B *(note 1)*	**662,629**	–
Customer C *(note 2)*	**490,782**	655,323
Customer D *(note 2)*	**184,973**	429,549

Note:

1. The corresponding revenues from Customer A and B did not contribute over 10% of the total revenue of the Group during the year ended 31 December 2017.

2. 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 2018.

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:

	2018	2017
	HK$'000	*HK$'000*
		(Restated)
Revenue		
Sales of crude oil and gas	**272,895**	316,011
Trading and distribution of oil related products	**5,660,493**	3,776,166
	5,933,388	4,092,177
Other revenue		
Bank interest income	**3,172**	2,649
Rental income	**1,416**	1,644
Storage fee income	**14,363**	10,194
Others	**68**	–
	19,019	14,487

5. OTHER GAINS AND LOSSES

	2018	2017
	HK$'000	*HK$'000*
Net foreign exchange loss	**(4,404)**	(630)
Fair value change on investment properties	**738**	(8,767)
Change in fair value on derivative components of convertible bonds	**–**	967
Gain on disposal of property, plant and equipment and exploration and evaluation assets	**1,821**	6,317
Disposals and written off of expired exploration and evaluation assets	**(10,516)**	(5,457)
Reversal of impairment loss of property, plant and equipment	**104,490**	7,266
Fair value change on derivative financial instruments	**7,672**	(134)
Others	**(58)**	–
	99,743	(438)

6. PROFIT FROM OPERATING ACTIVITIES

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

	2018	2017
	HK$'000	*HK$'000*
		(Restated)
Auditors' remuneration		
– Audit services	**3,474**	3,158
– Non-audit services	**1,520**	502
Cost of inventories sold	**5,602,190**	3,722,182
Depreciation and depletion of property, plant and equipment	**137,979**	170,148
Amortisation of prepaid lease payments	**457**	478
Minimum lease payments under operating leases of rented premises	**8,270**	8,525
Staff costs (including Directors' remuneration)		
– Salaries and wages	**63,540**	54,139
– Share-based payment expenses	**1,805**	3,375
– Pension scheme contributions	**2,547**	2,297

7. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest expenses on bank borrowings wholly repayable within five years	**17,967**	13,918
Interest expense on convertible bonds	**38,099**	36,996
Accretion of decommissioning liabilities	**3,131**	2,462
	59,197	53,376

8. TAXATION

Taxation in the consolidated statement of profit or loss represent:

	2018	2017
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	**–**	–
Current tax – Outside Hong Kong		
Provision for the year	**10,220**	12,437
Deferred tax		
Origination and reversal of temporary differences	**23,991**	(3,463)
	34,211	8,974

The provision for Hong Kong Profits tax for 2018 is calculated at 16.5% (2017: 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% (2017: 27%) and 25% (2017: 25%) respectively.

9. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders during the year ended 31 December 2018, nor has any dividend been proposed since the end of the reporting period (2017: 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:

	2018	2017
	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	**(741)**	(65,289)

	2018	2017
	'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 2018 and 31 December 2017 were the same as the basic loss per share. The computation of diluted loss per share for the years ended 31 December 2018 and 31 December 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.

11. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 90 days (2017: 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:

	2018	2017
	HK$'000	*HK$'000*
0 to 30 days	**236,742**	124,549
31 to 60 days	**126**	458
61 to 90 days	**236**	131
Over 90 days	**2,084**	2,519
	239,188	127,657

The Directors believe that no loss allowance 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$2,084,000 (2017: HK$2,519,000) was 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

	2018	2017
	HK$'000	*HK$'000*
Trade payables	**202,144**	53,909
Contract liabilities	**133,593**	–
Deposits received in advance from customers	**–**	257,128
Other payables	**153,417**	134,546
	489,154	445,583

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

	2018	2017
	HK$'000	*HK$'000*
0 to 30 days	**195,727**	46,787
31 to 60 days	**3,252**	5,999
61 to 90 days	**323**	429
Over 90 days	**2,842**	694
	202,144	53,909

As at 31 December 2018 and 31 December 2017, the trade payables are non-interest bearing and have an average credit period on purchases of one to three months.

BUSINESS REVIEW AND PROSPECTS

In 2018, the management of the Company has made orderly progress on various businesses targets under its strategy of "sustaining production at minimum cost and seeking development", while the operation, management and development of the Company has been in a positive position of "making progress amid stability". In spite of market challenges, the Company has achieved a turnaround in profit for the year and also successed to consolidate its existing assets and actively seeking for new business opportunities.

I. Upstream Oil and Gas Producing Business in Canada

In 2018, Novus Energy Inc. ("Novus") achieved an average daily production of 2,313 barrels of equivalent ("BOE"). In addition to minimising production cost, the management team has unlocked the potential of the existing assets of Novus to the greatest extent by optimising on-site process. With an improvement in drilling technique, Novus has increased the length of horizontal section of "Viking" oil well from 700 metres to 1,000-1,400 metres, resulting in an enhancement of ultimate oil extraction rate of the oil well. Also, a new logging-while-drilling tool has been employed by Novus for more precise geosteering, achieving over 95% of drilling-encounter ratio, i.e. the percentage of horizontal section in target's oil layer, of "Viking" oil well newly drilled in 2018, and such percentage was above the average of the industry. In addition, a breakthrough progress was made in the "Success" oil play in 2018, Novus has successfully adopted an open-hole completion technology for the horizontal section of a single multilateral well, allowing Novus to be the pioneer of oil exploitation of the "Success" oil play. Novus has completed 3 oil wells in the "Success" oil play. In 2018, the initial daily production of the wells in the "Success" oil play was around 80 to 100 BOE. With the experience in operating and developing the "Success" oil play in 2018, Novus concluded that the reserve of a single well would be 80,000 to 100,000 BOE, approximately double volume of the existing major "Viking" oil play, preliminarily justifying potential for sustainable development of the "Success" oil play. As such, further increase in reserve and asset value of Novus which in turn, has laid a concrete foundation for future development.

II. Downstream Refined Oil Trading Business in the PRC

In 2018, Henan Yanchang Petroleum Sales Co., Limited ("Henan Yanchang") achieved sales of around 3.2 million tonnes of refined oil, with revenue of around RMB5.0 billion and profit of around RMB21.9 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.

In 2018, the management endeavoured to achieve annual business targets by adopting multiple measures to adapt to local conditions and make the best of new opportunities, the key measures were as follows:

1. ***Sales Strategies***

   Firstly, Henan Yanchang has designed operational strategy, pricing policy and negotiation solution by precisely mastering the changes in refined oil market and conducting effective analysis and research in a scientific approach. Over 50 weekly research insights and more than 10 market research reports in total were issued throughout 2018. In 2018, Henan Yanchang made 52 price adjustments and increased the price of refined oil in due course with a maximum price difference of RMB550 per tonne. Secondly, in addition to consolidating the business presence in Henan, Henan Yanchang has expanded its market by strengthening its precision sales and establishing new sales spots outside Henan. The sales volume of refined oil in six sales spots, namely Lin Tong, Yan Lian, Jing Bian, Yong Ping, Zibo in Shandong and Yulin, soared by approximately 100% in 2018. The management team has paid frequent visits in Shandong, Inner Mongolia, Ningxia, Sichuan, Chongqing and Hunan and conducted research and analysis for strengthening and extending cooperation with major customers. Thirdly, Henan Yanchang has unlocked the potential of the oil storage assets to the greatest extent and explored new driver for profit growth. In addition to putting in a greater effort on depot storage marketing, Henan Yanchang has effectively enhanced the turnover rate of oil storage by acting as storage and distribution agent, partially leasing space storage capacity and acting as subcontractor of oil refining works. After commencing the business of acting as storage and distribution agent in 2018, the throughput of oil storage was over 100,000 tonnes per month in two consecutive months with daily distribution volume of over 3,000 tonnes and daily volume unloaded of over 110 vehicles. The revenue from the storage business was around RMB12.7 million, representing a year-on-year increase of 34%.

2. ***Corporate Management***

   Henan Yanchang has conducted precise performance assessment for enhancing sales efficiency. We formulated a refined performance assessment solution for sales business and an accurate master marketing strategy for highway and railway by preparing major sales targets, such as monthly sales plans of all spots along highways, monthly settlement as well as sales at self-service spots and oil storage stations, and every staff member is informed about the targets at the beginning of each month. At the end of each month, performance of the targets is, then, reviewed with every staff member for a strict performance assessment. By rewarding and punishing, we motivate our sales staff members to find their passion and explore their potential in maximising sales and achieving our targets.

III. Financing

The issue of convertible bonds by the Company to Yanchang Petroleum Group (Hong Kong) Co., Limited ("Yanchang Petroleum HK"), a controlling shareholder of the Company, was approved by the independent shareholders of the Company at a special general meeting held on 23 November 2018. The subscription was completed on 28 November 2018. The principal of the convertible bonds issued was US$60,000,000 with terms of 2 year at 6% per annum and the initial conversion price is HK$0.076 per share.

The proceeds from the issue of the convertible bonds have been used for repaying the existing convertible bonds and used as general working capital for the business needs of the Group. As the interest rate per annum is in substance 4% lower than the convertible bonds previously issued, substantially reducing finance cost of the Company. The relatively low interest rate showed the confidence of the parent company in the business strategy and prospects of the Company. Meanwhile, the Company will continue to seek multi-channel financing, such as equity financing and debt financing, to meet the capital requirement for business development of the Company.

IV. Outlook

Every effort having been made over the year, the Company has achieved a turnaround in profit for the year and successed to consolidate its existing assets and improve its financial position. In addition, the management of the Company will expand its trading business through fuel oil imports and refined oil exports. The Company will leverage the capital and resources from external business partners, so as to increase operating revenue and profit; establish a sustainable business model; and maximise the benefit of the Company's shareholders.

FINANCIAL REVIEW

Highlights on financial results

	2018	2017	Change in
	HK$'000	*HK$'000*	%
		(Restated)	
Revenue	**5,933,388**	4,092,177	45%
Other revenue	**19,019**	14,487	31%
Purchases	**(5,602,190)**	(3,722,182)	51%
Royalties	**(33,329)**	(32,236)	3%
Field operation expenses	**(74,719)**	(80,672)	(7%)
Exploration and evaluation expenses	**(3,007)**	(4,127)	(27%)
Selling and distribution expenses	**(9,526)**	(6,759)	41%
Administrative expenses	**(91,267)**	(85,899)	6%
Depreciation, depletion and amortisation	**(138,436)**	(170,626)	(19%)
Other gains and losses	**99,743**	(438)	N/A
Finance costs	**(59,197)**	(53,376)	11%
Taxation	**(34,211)**	(8,974)	281%
Profit/(loss) for the year	**6,268**	(58,625)	N/A

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 2018, the Group's turnover was mainly derived from the production of oil and natural gas in Canada as well as the trading of 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 844,000 BOE and contributed production income of HK$272,895,000 during the year under review as compared to production of 1,055,000 BOE and production income of HK$316,011,000 of the previous year. Despite the fluctuation of the international oil prices in 2018, Novus successfully managed to increase the oil and gas reserves and achieved an impairment recovery of HK$104,490,000 through remarkable operational efficiency enhancement. Including impairment recovery, a segment operating profit of HK$104,348,000 achieved this year, as compared to a profit of HK$17,430,000 in the previous year.

Due to an increase in sales volume from the previous year of 2.8 million tonnes to this year of 3.2 million tonnes and increase in average selling price, the revenue of refined oil trading business of Henan Yanchang increased by 50% from the previous year of HK$3,776,166,000 to this year of HK$5,660,493,000 and contributed a segment operating profit of HK$20,237,000, as compared to a profit of HK$17,379,000 in the previous year.

Other revenue

Apart from the aforesaid segment results, other revenue of HK$19,019,000 which mainly represented interest income from bank deposits and storage fee income from the PRC was recorded for the year under review, compared to that of HK$14,487,000 in the previous year.

Purchases

Purchases were wholly derived from the refined oil trading business of Henan Yanchang in the PRC, which increased from the previous year of HK$3,722,182,000 to this year of HK$5,602,190,000. The increase of purchases was due to the increase in sales of the refined oil trading business.

Royalties

Royalties, including crown, freehold and overriding royalties incurred by Novus for the oil and natural gas production in Canada, amounted to HK$33,329,000, similar to that of the previous year.

Field operation expenses

Due to the decrease in production, field operation expenses decreased to this year of HK$74,719,000 from the previous year of HK$80,672,000. Such 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

Exploration and evaluation expenses amounted to HK$3,007,000 which represented the holding costs, mainly lease rentals, on the interests of non-producing lands held by Novus, as compare to that of HK$4,127,000 in the previous year.

Selling and distribution expenses

Selling and distribution expenses, increased from the previous year of HK$6,759,000 to the current year of HK$9,526,000. Such increase in the expenses was mainly incurred by Henan Yanchang as a result of increase in trading volume of refined oil in the PRC.

Administrative expenses

Administrative expenses including directors' remuneration, staff costs, office rentals, professional fees and listing fee etc, amounted to HK$91,267,000 this year, as compared to HK$85,899,000 of the previous year. The increase was mainly attributable to the increase in expenditure incurred for business development.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation decreased from the previous year of HK$170,626,000 to the current year of HK$138,436,000. This was mainly due to the decrease in depletion of petroleum and natural gas properties incurred by Novus as a result of the decrease in production during the year under review.

Other gains and losses

Other gains of HK$99,743,000 recorded this year was mainly attributable to the reversal of impairment on the petroleum and natural gas properties in Canada owned by Novus.

Finance costs

Finance costs of HK$59,197,000 comprised (i) bank borrowing costs of HK$17,967,000 related to the businesses of Novus and Henan Yanchang, (ii) accretion of HK$3,131,000 related to the provision of the decommissioning liabilities incurred by Novus, and (iii) imputed interest of HK$38,099,000 arising from the issue of the convertible bonds.

Taxation

Taxation of HK$34,211,000 comprised (i) provision for the PRC enterprise income tax on the profit earned from the refined oil trading business of Henan Yanchang amounted to HK$10,220,000 and (ii) deferred tax provision amounted to HK$23,991,000.

Profit/(loss) for the year

The oil and gas producing business in Canada as well as the refined oil trading business in the PRC performed well amid the volatile crude oil market environment in 2018. The Group had successfully turnaround and recorded a profit of HK$6,268,000 for the year under review, as compared to a loss of HK$58,625,000 in the previous year.

Highlights on financial position

	2018	2017	Change in
	HK$'000	*HK$'000*	%
Property, plant and equipment	**1,909,854**	1,916,629	–
Prepaid lease payments	**15,602**	16,911	(8%)
Investment properties	**16,794**	21,760	(23%)
Exploration and evaluation assets	**19,319**	31,108	(38%)
Goodwill and intangible assets	**58,149**	58,149	–
Inventories	**67,278**	54,214	24%
Trade receivables	**239,188**	127,657	87%
Prepayments, deposits and other receivables	**261,299**	353,859	(26%)
Cash and bank balances	**316,768**	207,998	52%
Trade and other payables	**(489,154)**	(445,583)	10%
Bank borrowings	**(425,659)**	(295,527)	44%
Convertible bonds	**(464,327)**	(376,553)	23%
Decommissioning liabilities	**(128,094)**	(139,575)	(8%)

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 amounted to HK$1,909,854,000 similar to that of the previous year.

Prepaid lease payments

Prepaid lease payments represented the leasehold lands in the PRC owned by Henan Yanchang. The decrease in the amount represented mainly the yearly amortisation and the fluctuation in exchange rate during the year.

Investment properties

Investment properties comprised 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 held by Novus as at 31 December 2018.

Goodwill and intangible assets

Goodwill and intangible assets were arisen on the acquisition of 70% interest in Henan Yanchang by the Group in 2011. No impairment had been made for such assets 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 2018.

Trade receivables

Trade receivables represented account receivables from both customers of Novus in Canada and Henan Yanchang in the PRC as at 31 December 2018. The increase of HK$111,531,000 of the trade receivables was mainly attributable to the account receivables of Henan Yanchang recorded at the year end, such amounts had been fully recovered in January 2019.

Prepayments, deposits and other receivables

Prepayments, deposits and other receivables significantly decreased to this year of HK$261,299,000 from the previous year of HK$353,859,000. Such decrease was mainly due to the decrease 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 2018, cash and bank balances increased to HK$316,768,000 from the previous year of HK$207,998,000. The increase was mainly attributable to the fund raised from the issue of convertible bonds.

Trade and other payables

Trade and other payables mainly represented trade payables from suppliers and prepayments received in advance from customers of Henan Yanchang as at 31 December 2018.

Bank borrowings

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

Convertible bonds

The amount represented the US$60 million 2-year convertible bonds with coupon interest rate of 6% issued in November 2018.

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.

LIQUIDITY AND FINANCIAL RESOURCES

The Group funded its operation mainly by its internal resources together with bank borrowings for the year ended 31 December 2018.

	2018	2017
	HK$'000	*HK$'000*
Current assets	**893,252**	743,728
Total assets	**2,989,682**	2,863,908
Current liabilities	**914,849**	1,118,340
Total liabilities	**1,518,745**	1,269,262
Total equity	**1,470,937**	1,594,646
Gearing ratio	**103.3%**	79.6%
Current ratio	**97.6%**	66.5%

The Group had outstanding variable interest rates bank borrowings amounted to HK$425,659,000 as at 31 December 2018 (31 December 2017: HK$295,527,000) which comprised (i) HK$170,790,000 (equivalent to RMB150,000,000) under Henan Yanchang and (ii) HK$254,869,000 (equivalent to CAD44,325,000) under Novus. The Group has obtained bank facilities of HK$569,300,000 (equivalent to RMB500,000,000) from banks in the PRC in writing or verbal form and of HK$276,000,000 (equivalent to CAD48,000,000) from a bank in Canada.

On 23 December 2015, the Company raised fund from the issue of convertible bonds to China Construction Bank Corporation ("CCBC") in principal amount of US$46,300,000 (equivalent to HK$358,825,000) which carried coupon interest with 7% and matured 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 fully redeemed during the year ended 31 December 2018.

On 28 November 2018, the Company raised fund from the issue of convertible bonds to Yanchang Petroleum HK in the principal amount of US$60,000,000 (equivalent to HK$471,000,000) which carry coupon interest with 6% and mature on the second anniversary date from the date of issue. Part of the fund raised amounted to HK$383,897,000 had been used for the repayment of the convertible bonds issued to CCBC mentioned above and the balance is intended to be used as general working capital for the Group's business needs. The principal of convertible bonds was still outstanding as at 31 December 2018.

As at 31 December 2018, the Group had cash and bank balances of HK$316,768,000 (31 December 2017: HK$207,998,000). 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 2018, the gearing ratio of the Group, measured on the basis of total liabilities as a percentage of total equity, was 103.3% as compared to 79.6% 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 97.6% as at 31 December 2018 (31 December 2017: 66.5%).

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 2018, Novus had entered twenty one 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 2018.

SIGNIFICANT INVESTMENTS

The Group did not hold any significant investments as at 31 December 2018.

CAPITAL COMMITMENTS

As at 31 December 2018, the Group had commitments related to property, plant and equipment amounted to HK$25,362,000 (31 December 2017: HK$29,161,000).

Save as the aforesaid, the Group did not have any other material commitments as at 31 December 2018.

PLEDGE OF ASSETS

The Group's CAD48,000,000 (31 December 2017: CAD42,000,000) banking facility, 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.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any significant contingent liabilities (31 December 2017: Nil).

LITIGATION

As at 31 December 2018, the Group had no material litigation (31 December 2017: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group's total number of staff was 158 (2017: 142). Salaries of employees are maintained at a competitive level with total staff costs for the year ended 31 December 2018 amounted to HK$67,892,000 (2017: HK$59,811,000). 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. No share option was granted under the Company's share option scheme during the year ended 31 December 2018 (31 December 2017: 63,000,000 share options granted).

DIVIDENDS

The Board did not recommend the payment of any dividends for the year ended 31 December 2018 (31 December 2017: 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 2018 and 2017.

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 and the PRC, regarding environmental protection in all material respects during the year under review and as at the date of this announcement. 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 and the PRC.

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 2018.

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 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2018, 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 2018.

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 2018 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 consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG, Certified Public Accountants, 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 2018 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 2018 will be despatched to the shareholders of the Company and available on the above websites in due course.

ANNUAL GENERAL MEETING

The annual general meeting (the "AGM") of the Company will be held on 30 May 2019 and the notice of the 2019 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 27 May 2019 to 30 May 2019 (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 30 May 2019, 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 24 May 2019.

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

Hong Kong, 28 March 2019

Executive Directors:

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

Independent Non-Executive Directors:

Mr. Ng Wing Ka
Mr. Leung Ting Yuk
Mr. Sun Liming
Dr. Mu Guodong