延長石油國際有限公司
YANCHANG PETROLEUM INTERNATIONAL LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 00346)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board (the "Board") of directors (the "Director(s)") of Yanchang Petroleum International Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2019 together with the unaudited comparative figures for the six months ended 30 June 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
	Notes	**(Unaudited)**	(Unaudited)
		HK$'000	*HK$'000*
			(Note)
Revenue	4	**3,423,727**	2,288,147
Other revenue	4	**3,776**	9,832
		3,427,503	2,297,979
Expenses			
Purchases		**(3,276,440)**	(2,114,661)
Royalties		**(13,120)**	(15,680)
Field operation expenses		**(35,911)**	(37,665)
Exploration and evaluation expenses		**(1,103)**	(1,149)
Selling and distribution expenses		**(5,457)**	(3,325)
Administrative expenses		**(42,262)**	(44,158)
Depreciation, depletion and amortisation		**(52,328)**	(63,913)
Other losses	5	**(15,794)**	(4,288)
		(3,442,415)	(2,284,839)

	Notes	Six months ended 30 June **2019** **(Unaudited)** ***HK$'000***	 2018 (Unaudited) *HK$'000* *(Note)*
(Loss)/profit from operating activities	6	**(14,912)**	13,140
Finance costs	7	**(28,439)**	(26,127)
Loss before taxation		**(43,351)**	(12,987)
Taxation	8	**248**	(8,799)
Loss for the period		**(43,103)**	(21,786)
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		**50,925**	(66,460)
Other comprehensive income for the period, with nil tax effect		**50,925**	(66,460)
Total comprehensive income for the period		**7,822**	(88,246)
(Loss)/profit for the period attributable to:			
Owners of the Company		**(47,091)**	(24,991)
Non-controlling interests		**3,988**	3,205
		(43,103)	(21,786)
Total comprehensive income for the period attributable to:			
Owners of the Company		**3,524**	(90,085)
Non-controlling interests		**4,298**	1,839
		7,822	(88,246)
Loss per share attributable to the owners of the Company			
Basic and diluted, HK cents	10	**(0.39)**	(0.21)

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Using this approach, comparative information is not restated.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	**30 June 2019 (Unaudited)** *HK$'000*	31 December 2018 (Audited) *HK$'000* *(Note)*
ASSETS			
Non-current assets			
Property, plant and equipment		**1,989,983**	1,909,854
Prepaid lease payments		**15,347**	15,602
Investment properties		**16,766**	16,794
Exploration and evaluation assets		**19,957**	19,319
Goodwill and intangible asset		**58,149**	58,149
Deferred tax assets		**55,790**	47,017
Right-of-use assets		**9,041**	–
Other non-current assets		**5,868**	29,695
		2,170,901	2,096,430
Current assets			
Inventories		**51,194**	67,278
Trade receivables	11	**221,159**	239,188
Prepayments, deposits and other receivables		**374,935**	261,299
Derivative financial instruments		**–**	8,719
Cash and bank balances		**349,202**	316,768
		996,490	893,252
Total assets		**3,167,391**	2,989,682
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital		**242,911**	242,911
Reserves		**1,124,979**	1,121,129
Total equity attributable to the owners of the Company		**1,367,890**	1,364,040
Non-controlling interests		**133,291**	106,897
Total equity		**1,501,181**	1,470,937

	Notes	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000 (Note)
LIABILITIES			
Current liabilities			
Trade and other payables	12	**568,964**	489,154
Derivative financial liabilities		**2,983**	–
Lease liabilities		**2,806**	–
Tax payables		**3,328**	36
Bank borrowings		**468,720**	425,659
		1,046,801	914,849
Non-current liabilities			
Convertible bonds		**465,998**	464,327
Decommissioning liabilities		**134,872**	128,094
Lease liabilities		**7,086**	–
Deferred tax liabilities		**11,453**	11,475
		619,409	603,896
Total liabilities		**1,666,210**	1,518,745
Total equity and liabilities		**3,167,391**	2,989,682
Net current liabilities		**(50,311)**	(21,597)
Total assets less current liabilities		**2,120,590**	2,074,833

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Using this approach, comparative information is not restated.

NOTES:

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standard (the "HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The unaudited condensed consolidated financial statements should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2018 as contained in the Company's annual report 2018 (the "Annual Report 2018"), which have been prepared in accordance with the Hong Kong Financial Reporting Standards (the "HKFRSs").

These unaudited condensed consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Group. All values are rounded to the nearest thousand (HK$'000), unless otherwise stated. These unaudited condensed consolidated financial statements were approved for issue on 29 August 2019.

2. SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies adopted in the unaudited condensed consolidated financial statements for the six months ended 30 June 2019 are consistent with those followed in the preparation of the Annual Report 2018 except for the impact of the adoption of the new and revised standards, amendments and interpretations (the "new and amendments to HKFRSs").

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to right-of-use assets.

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. For the Group, low-value assets are typically laptops or office furniture. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses, except for the following types of right-of-use asset:

– right-of-use assets that meet the definition of investment property are carried at fair value

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(iii) Leasehold investment property

Under HKFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation ("leasehold investment properties"). The adoption of HKFRS 16 does not have a significant impact on the Group's financial statements as the Group previously elected to apply HKAS 40, *Investment properties*, to account for all of its leasehold properties that were held for investment purposes as at 31 December 2018. Consequentially, these leasehold investment properties continue to be carried at fair value.

(iv) Lessor accounting

The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

The adoption of HKFRS 16 does not have a significant impact on the Group's financial statements.

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies

(i) Classification of interest in leasehold land and buildings held for own use

In accordance with HKAS 16, *Property, plant and equipment,* the Group chooses to apply either the cost model or the revaluation model as its accounting policy for items of property, plant and equipment held for own use on a class-by-class basis. In applying this policy, the Group has concluded that its registered ownership interests in leasehold properties and the right to use other properties leased under tenancy agreements are two separate groupings of assets which differ significantly in their nature and use. Accordingly, they are regarded by the Group as separate classes of asset for subsequent measurement policies in accordance with the above accounting policies.

(ii) Determining the lease term

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

(iii) Transitional impact

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.35% to 6.00%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in note 32 of Annual Report 2018 as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019.

	1 January 2019 *HK$'000*
Operating lease commitments at 31 December 2018	21,346
Less: commitments relating to lease exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(3,041)
– leases of low value assets	(268)
Add: lease payments for the additional periods where the Group considers it reasonably certain that it will exercise the extension options	–
	18,037
Less: lease contracts signed but not yet commenced	(17,329)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	708
Add: finance lease liabilities recognised as at 31 December 2018	–
Total lease liabilities recognised at 1 January 2019	708

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position at 31 December 2018.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased asset is identified as a right-of-use asset. There is no impact on the opening balance of equity.

The Group presents right-of-use assets that do not meet the definition of investment property in 'right-of-use assets' and presents lease liabilities separately in the statement of financial position.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018	Capitalisation of operating lease contracts	Carrying amount at 1 January 2019
	HK$'000	*HK$'000*	*HK$'000*
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Right-of-use assets	–	708	708
Total non-current assets	**2,096,430**	**708**	**2,097,138**
Lease liabilities (current)	–	346	346
Current liabilities	**914,849**	**346**	**915,195**
Net current liabilities	**(21,597)**	**(346)**	**(21,943)**
Total assets less current liabilities	**2,074,833**	**362**	**2,075,195**
Lease liabilities (non-current)	–	362	362
Total non-current liabilities	**603,896**	**362**	**604,258**
Net assets	**1,470,937**	**–**	**1,470,937**

(c) Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

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

	Exploration, exploitation and operation		Supply and procurement		Consolidated	
	For the six months ended 30 June					
	2019	2018	**2019**	2018	**2019**	2018
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
		(Note)		*(Note)*		*(Note)*
Segment revenue:						
Sales to external customers	**100,419**	146,521	**3,323,308**	2,141,626	**3,423,727**	2,288,147
Segment (loss)/profit	**(26,034)**	12,980	**22,191**	8,111	**(3,843)**	21,091
Other revenue					**3,776**	9,832
Net foreign exchange loss					**(978)**	(18)
Unallocated corporate expenses					**(13,867)**	(17,765)
(Loss)/profit from operating activities					**(14,912)**	13,140
Finance costs					**(28,439)**	(26,127)
Loss before taxation					**(43,351)**	(12,987)
Taxation					**248**	(8,799)
Loss for the period					**(43,103)**	(21,786)

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Using this approach, comparative information is not restated.

Revenue reported was generated from external customers. There were no inter-segment sales during the six months ended 30 June 2019 and 2018.

Segment results represent the profit earned by each segment without allocation of other revenue, change in fair value on derivative components of convertible bonds, net foreign exchange loss, corporate expenses, finance costs and taxation. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

Segment assets and liabilities

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

	Exploration, exploitation and operation		Supply and procurement		Consolidated	
	30 June 2019	31 December 2018	**30 June 2019**	31 December 2018	**30 June 2019**	31 December 2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Audited) *(Note)*	**(Unaudited)**	(Audited) *(Note)*	**(Unaudited)**	(Audited) *(Note)*
Segment assets	**1,880,329**	1,771,423	**1,236,712**	1,028,059	**3,117,041**	2,799,482
Unallocated assets					**50,350**	190,200
Total assets					**3,167,391**	2,989,682
Segment liabilities	**449,490**	423,764	**710,540**	591,468	**1,160,030**	1,015,232
Unallocated liabilities					**506,180**	503,513
Total liabilities					**1,666,210**	1,518,745

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Using this approach, comparative information is not restated.

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.

Information about major customers

Included in revenue arising from supply and procurement business segment of HK$3,323,308,000 (30 June 2018: HK$2,141,626,000) are revenue of HK$1,062,803,000 (30 June 2018: HK$1,248,350,000) which arose from two customers (30 June 2018: four customers) of the Group which contributed 10% or more to the Group's total revenue for the period.

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

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Customer A *(Note 1)*	**179,530**	336,199
Customer B	**442,443**	364,041
Customer C *(Note 1)*	**72,388**	288,913
Customer D *(Note 1)*	**–**	259,197
Customer E	**620,360**	–

Note:

1. The corresponding revenues from Customer A, C and D did not contribute over 10% of the total revenue of the Group during the period ended 30 June 2019.

4. REVENUE AND OTHER REVENUE

Revenue comprises the invoiced value of goods sold under sales of crude oil and gas, and net income from trading and distribution of oil related products. All significant intra-group transactions have been eliminated on consolidation.

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

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue		
Sales of crude oil and gas	**100,419**	146,521
Trading and distribution of oil related products	**3,323,308**	2,141,626
	3,423,727	2,288,147
Other revenue		
Bank interest income	**1,646**	1,317
Rental income	**509**	967
Storage fee income	**1,590**	7,408
Others	**31**	140
	3,776	9,832

5. OTHER LOSSES

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net foreign exchange loss	**(978)**	(18)
(Loss)/gain on disposal of property, plant and equipment	**(414)**	1,871
Written off of expired exploration and evaluation assets	**–**	(4,527)
Fair value change on derivative financial instruments	**(13,567)**	(1,614)
Others	**(835)**	–
	(15,794)	(4,288)

6. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

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

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
		(Note)
Cost of inventories sold	**3,276,440**	2,114,661
Depreciation and depletion charge		
– property, plant and equipment	**51,626**	63,668
– right-of-use assets	**473**	–
Amortisation of prepaid lease payments	**229**	245
Minimum lease payments under operating leases of rented premises	**3,226**	4,095
Staff costs (including Directors' remuneration):		
– Salaries and wages	**34,597**	32,735
– Share-based payment expenses	**327**	1,072
– Pension scheme contributions	**1,218**	325

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Using this approach, comparative information is not restated.

7. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
		(Note)
Interest expenses on bank borrowings wholly repayable within five years	**11,044**	7,891
Interest expenses on convertible bonds	**15,684**	16,663
Interest expenses on lease liabilities	**118**	–
Accretion of decommissioning liabilities	**1,593**	1,573
	28,439	26,127

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Using this approach, comparative information is not restated.

8. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

The provision for Hong Kong profits tax for the six months ended 30 June 2019 is calculated at 16.5% of estimated assessable profits (six months ended 30 June 2018: 16.5%). Taxation for subsidiaries outside Hong Kong is charged at appropriate current rate of taxation ruling in the relevant countries. The Canada blended statutory tax rate and the PRC corporate income tax rate applicable to the Group's subsidiaries in Canada and the PRC are 27% and 25% for the six months ended 30 June 2019 and 2018 respectively.

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax – Hong Kong Profits Tax		
Provision for the period	**–**	–
Current tax – Outside Hong Kong		
Provision for the period	**6,725**	7,975
Deferred tax		
Reversal and origination of temporary differences	**(6,973)**	824
	(248)	8,799

9. INTERIM DIVIDENDS

The Directors do not recommend the payment of any interim dividends in respect of the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

10. LOSS PER SHARE

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

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss		
Loss for the period attributable to the owners of the Company for the purpose of basic and diluted loss per share	**(47,091)**	(24,991)

	Six months ended 30 June	
	2019	2018
	'000	*'000*
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**12,145,573**	12,145,573

Diluted loss per share for the six months ended 30 June 2019 and 2018 were the same as the basic loss per share. The computation of diluted loss per share for the six months ended 30 June 2019 and 2018 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 (31 December 2018: 90 days), are recognised and carried at the original invoiced amount less loss 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:

	30 June 2019	31 December 2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 to 30 days	**219,016**	236,742
31 to 60 days	**247**	126
61 to 90 days	**243**	236
Over 90 days	**1,653**	2,084
	221,159	239,188

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$1,653,000 (31 December 2018: HK$2,084,000) was past due at the end of the reporting period for which the Group has not provided for loss allowance. The Group does not hold any collaterals or other credit enhancements over these balances.

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

	30 June 2019	31 December 2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Over 90 days	**1,653**	2,084

12. TRADE AND OTHER PAYABLES

	30 June 2019	31 December 2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables	**226,450**	202,144
Contract liabilities	**227,647**	133,593
Other payables	**114,867**	153,417
	568,964	489,154

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

	30 June 2019	31 December 2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 to 30 days	**223,198**	195,727
31 to 60 days	**1,264**	3,252
61 to 90 days	**985**	323
Over 90 days	**1,003**	2,842
	226,450	202,144

As at 30 June 2019 and 31 December 2018, the trade payables are non-interest bearing and have an average credit period on purchases of one to three months.

13. MATERIAL RELATED PARTIES TRANSACTIONS

Save as disclosed elsewhere in the unaudited condensed consolidated financial statements, during the six months ended 30 June 2019, the Group had the following transactions with related parties.

Remuneration for key personnel management, including emoluments paid to the Company's Directors and certain highest paid employees, were as follows:

Key management personnel

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Salaries and allowance	**4,473**	3,410
Share-based payment expenses	**327**	1,072
Mandatory provident fund contributions	**11**	18
	4,811	4,500

During the six months ended 30 June 2019, the Group had the following connected transactions with a related party arising from the refined oil supply agreement dated 30 December 2016 entered into between Henan Yanchang Petroleum Sales Co., Limited ("Henan Yanchang") and Shaanxi Yanchang Petroleum (Group) Co., Limited ("Yanchang Petroleum Group") in respect of the purchase of refined oil from Yanchang Petroleum Group by Henan Yanchang for the three years ending 31 December 2019:

			Six months ended 30 June	
Name of related party	**Relationship**	**Nature of transaction**	**2019**	2018
			HK$'000	*HK$'000*
			(Unaudited)	(Unaudited)
Yanchang Petroleum Group	A substantial shareholder	Purchase of refined oil	**1,740,005**	1,152,116

Note: The above transaction constitutes continuing connected transaction under Chapter 14A of the Listing Rules.

14. COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective method. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

As difficult challenges emerged in the first half of 2019 in the global market arising from unceasing fluctuations in crude oil prices and more intensive Sino-US trade war, the Company has continued to make orderly progress on various business targets under its strategy of "sustaining production at minimum cost and seeking development".

I. Upstream oil and gas producing business in Canada

In the first half of 2019, Novus achieved a total of crude oil production of 324,343 barrels of equivalent ("BOE") with an average daily production of 1,792 BOE, as compared to an average daily production of 2,239 BOE for the corresponding period in 2018, the decrease was principally due to interruption of Novus scheduled drillings for the first quarter by extreme bad weather. Novus recorded sales amount of CAD17.05 million and a loss of CAD4.42 million. During the period under review, as a result of decrease in production volume, field operation and transportation costs per BOE increased to CAD19.6 from CAD15.6 for the corresponding period in 2018, and netback per BOE was CAD27.0. Given the weather getting back to normal, drilling works have been in full swing since May 2019. As at the end of June 2019, drilling of 11 wells has commenced and drilling of 10 wells has completed.

II. Downstream refined oil trading business of Henan Yanchang in the PRC

In the first half of 2019, sales volume of refined oil by Henan Yanchang increased to 1.65 million tonnes from 1.33 million tonnes for the corresponding period in 2018. The revenue amounted to RMB2.91 billion with a profit of RMB12 million for the period under review, as compared to the revenue of RMB1.76 billion with a profit of RMB9.29 million for the corresponding period in 2018. 100% recovery of receivables had been achieved. Integrated controls on production and financial operations had been conducted in a safe and efficient manner with no accidents reported.

III. Outlook

In the second half of 2019, the management team will maintain strict control over production costs, assets and capital of the Company so as to enhance its management efficiency and profitability.

1. Gaining a better annual performance of upstream project in Canada

As the drilling season started in May, the knowledge obtained from the process optimisation of drilling and refrac technique in the past and the successful experience in developing new region will be applied by Novus to the drilling activities in the second half of 2019, aiming to increase overall market value of Novus by further enhancing both production volume and reserves.

2. ***Striving for fulfilling business objectives of refined oil trading business by Henan Yanchang***

   In the second half of 2019, Henan Yanchang will sustain the development of the existing business and extensively explore potential business through formulating a targeted marketing scheme by conducting real-time market research for collecting accurate market data. In addition, a number of measures will be taken, such as effective motivation of staff members for striving for excellence, improvement of sales at oil storage stations, enhancement of delicacy management of newly operating petrol stations, with the goal of fulfilling all business objectives of the entire year.

3. ***Obtaining financing sources in the market***

   To support the development of the Company, it will endeavour to establish closer relationship with funds, banks and potential investors abroad and at home for exploiting opportunity to obtain financing sources. At present, the Company is exploring possibilities on all fronts to further improve its capital structure and financial position.

As the global economy is being adversely affected by the Sino-US trade war, the possibility of reaching an agreement will be remote in the near future. The management of the Company will be more cautious on demand for crude oil in the second half of 2019 and be alert at all times for determinedly implementing measures for cost reduction and operational efficiency enhancement in a bid to protect the assets of the Company and its shareholders' interests to the greatest extent possible.

FINANCIAL REVIEW

Revenue and segment results

For the period under review, the Group's operating segments comprised (i) exploration, exploitation and operation business, and (ii) supply and procurement business. For the six months ended 30 June 2019, the Group's turnover was mainly derived from the production of crude 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 crude oil and natural gas in Western Canada. Novus achieved production of oil and gas of 324,343 BOE and contributed production income of HK$100,419,000 during the period under review, as compared to production of 405,300 BOE and production income of HK$146,521,000 of the previous period. As the sales dropped sharply as a result of weak oil prices and decrease in production, therefore an operating loss of HK$26,034,000 recorded for the exploration, exploitation and operation business for the six months ended 30 June 2019, as compared to an operating profit of HK$12,980,000 for the previous period.

During the six months ended 30 June 2019, the revenue of refined oil trading business in the PRC was HK$3,323,308,000 as compared to HK$2,141,626,000 of the previous period. Resulting from the higher gross profit margin and higher sales volume from the previous period of 1.33 million tonnes to the current period of 1.65 million tonnes, Henan Yanchang contributed an operating profit of HK$22,191,000 to the supply and procurement business, as compared to an operating profit of HK$8,111,000 of the previous period.

Other revenue

Apart from the aforesaid segment results, other revenue of HK$3,776,000 which mainly represented interest income from bank deposits, rental income and storage fee income recorded from the PRC for the period under review, decreased by HK$6,056,000 from HK$9,832,000 of the previous period.

Purchases

Purchases increased from the previous period of HK$2,114,661,000 to this period of HK$3,276,440,000, which were mainly derived from the refined oil trading business of Henan Yanchang. The increase of purchases was due to the increase in sales of the refined oil trading business in the PRC.

Royalties

Royalties, including crown, freehold and overriding royalties incurred by Novus for crude oil and natural gas production in Canada, decreased from the previous period of HK$15,680,000 to the current period of HK$13,120,000 due to the drop in sales price and volume.

Field operation expenses

Due to the drop in the production, field operation expenses reduced to HK$35,911,000 this period from the previous period of HK$37,665,000. Such expenses including labour costs, repairs and maintenance, processing costs, fluid hauling, lease rentals and workovers etc were incurred by Novus in the production of crude oil and natural gas.

Exploration and evaluation expenses

The exploration and evaluation expenses amounted to HK$1,103,000 represented the holding costs, mainly lease rentals, on the interests of non-producing lands incurred by Novus.

Selling and distribution expenses

Selling and distribution expenses, increased as a result of the growth in sales from the previous period of HK$3,325,000 to the current period of HK$5,457,000, were mainly incurred by Henan Yanchang for the refined oil trading business in the PRC.

Administrative expenses

Administrative expenses including Directors' remuneration, staff costs, office rentals, professional fees, business development expenses and listing fee etc, decreased by HK$1,896,000 to HK$42,262,000 for the period under review.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation expenses decreased from the previous period of HK$63,913,000 to the current period of HK$52,328,000. The decrease was mainly due to the decrease in depletion of petroleum and natural gas properties incurred by Novus resulting from the drop in production affected by extreme bad weather in Canada during the period under review.

Other losses

Other losses of HK$15,794,000 represented the aggregate of (i) loss on hedging of oil and gas commodity contracts of HK$13,567,000; (ii) net foreign exchange loss of HK$978,000; (iii) loss on disposal of properties, plant and equipment of HK$414,000; and (iv) other loss of HK$835,000.

Finance costs

Finance costs amounted to HK$28,439,000 comprised (i) bank borrowing costs of HK$11,044,000 included interests, commitment fees, standby charges, and other expenses related to the businesses of Novus and Henan Yanchang; (ii) accretion of HK$1,593,000 related to the provision of the decommissioning liabilities incurred by Novus; (iii) imputed interest on convertible bonds of HK$15,684,000 arisen from the issue of 2-year convertible bonds with a principal amount of US$60,000,000; and (iv) interest of lease liabilities of HK$118,000 related to the lease of the Group.

Taxation

Tax credit of HK$248,000 represented the net effect of (i) provision for the PRC corporate income tax on the profit earned from refined oil trading business of Henan Yanchang amounted to HK$6,725,000; and (ii) net deferred tax income amounted to HK$6,973,000.

Loss for the period

Compared to a loss for the last period of HK$21,786,000, a loss of HK$43,103,000 was recorded for the period under review. The loss, amongst others, included (i) the loss of HK$26,030,000 incurred by the oil and gas production business in Canada due to the weak oil prices as a result of the U.S. – China trade dispute and the slowing global economy; and (ii) the convertible bonds interest of HK$15,684,000 incurred during the period.

LIQUIDITY AND FINANCIAL RESOURCES

The Group funded its operation mainly by its internal resources together with bank borrowings for the six months ended 30 June 2019.

The Group had outstanding variable interest rates bank borrowings amounted to HK$468,720,000 as at 30 June 2019 (31 December 2018: HK$425,659,000) comprised (i) HK$227,340,000 (equivalent to RMB200,000,000) under Henan Yanchang and (ii) HK$241,380,000 (equivalent to CAD40,500,000) under Novus. The Group has obtained bank facilities of HK$568,350,000 (equivalent to RMB500,000,000) from various banks in the PRC in writing or verbal form and of HK$286,080,000 (equivalent to CAD48,000,000) from a bank in Canada.

On 28 November 2018, the Company raised fund from the issue of convertible bonds to Yanchang Petroleum Group (Hong Kong) Co., Limited ("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 amount to HK$383,897,000 had been used for the repayment of the convertible bonds issued to China Construction Bank Corporation and balance had been used as general working capital for the Group's business needs. The principal amount of convertible bonds was still outstanding as at 30 June 2019.

As at 30 June 2019, the Group had cash and bank balances of HK$349,202,000 (31 December 2018: HK$316,768,000). In view of existing cash on hand together with the available bank facilities, the Group has enough working capital to finance its business operation.

At the period end, the gearing ratio of the Group, measured on the basis of bank borrowings together with convertible bonds as a percentage of total equity, was 62.3% (31 December 2018: 60.5%). The current ratio of the Group, measured on the basis of current assets as a percentage of current liabilities stood at 95.2% as at 30 June 2019 (31 December 2018: 97.6%).

COMMODITY PRICE MANAGEMENT

Novus is engaged in crude oil and gas development, production and selling activities in Canada. Prices of crude oil and gas are affected by both domestic and global factors which are beyond the control of Novus. The fluctuations in such prices may have favourable or unfavourable impacts to the Group. Therefore the Group was exposed to general price fluctuations of crude oil and gas. During the six months ended 30 June 2019, Novus had entered sixty 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 fluctuation in foreign currency exchange rates and interest rates.

Cash has been generally placed in short-term deposits denominated in Hong Kong dollar, US dollar, Canadian dollar and Renminbi. The Group has obtained bank facilities and borrowings with stable interest rates. The Group does not foresee any significant interest rate risks. The Group's transactions and investment are mostly denominated in Hong Kong dollar, US dollar, Canadian dollar and Renminbi. As the Group's policy is to have its operating entities to operate in their corresponding local currencies to minimise currency risks, therefore the Group does not anticipate any material foreign exchange exposures and risks.

During the period under review, no hedging transactions related to foreign exchange had been made, proper steps will be taken when the management considers appropriate.

MATERIAL ACQUISITION AND DISPOSAL

The Group had no material acquisitions and disposals for the six months ended 30 June 2019.

SIGNIFICANT INVESTMENT

The Group did not hold any significant investments as at 30 June 2019.

CAPITAL COMMITMENT

The Group had capital commitments to property, plant and equipment amounted to HK$27,566,000 (31 December 2018: HK$25,362,000) which were contracted but not provided for as at 30 June 2019.

PLEDGE OF ASSETS

The Group's CAD48,000,000 (31 December 2018: CAD48,000,000) banking facilities, granted by a bank in Canada to Novus by way of prime rate based loans, bankers' acceptances and letters of credit/guarantee, are 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 aforesaid, none of the Group's other assets had been pledged for granting the bank borrowings.

CONTINGENT LIABILITY

As at 30 June 2019, the Group had no material contingent liabilities (31 December 2018: Nil).

LITIGATION

As at 30 June 2019, the Group had no material litigations (31 December 2018: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2019, the Group's total number of staff was 168 (31 December 2018: 158). Salaries of employees are maintained at a competitive level with total staff costs for the six months ended 30 June 2019 amounted to HK$36,142,000 (six months ended 30 June 2018: HK$34,132,000). Remuneration policy is based on principles of equality, motivation, performance and prevailing market practice and remuneration packages are normally reviewed on an annual basis. Other staff benefits including provident fund, medical insurance coverage and etc. There is also a share option scheme offered to employees and eligible participants. No share options were granted under the Company's share option scheme during the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

INTERIM DIVIDENDS

The Board does not recommend the payment of interim dividends for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the Board, the Company had complied with the code provisions set out in the Corporate Governance Code (the "CG Code") in Appendix 14 of the Listing Rules during the six months ended 30 June 2019, except for the following deviation:

1. code provision A.6.7 of the CG Code provides that independent non-executive Directors and other non-executive Directors should also attend general meetings and develop a balanced understanding of the views of shareholders. One of the independent non-executive Directors, Mr. Sun Liming was unable to attend at annual general meeting ("AGM") of the Company held on 30 May 2019 due to other ad hoc engagements.

AUDIT COMMITTEE

The audit committee of the Company (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 unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2019.

AUDITORS

With effect from 10 November 2017, HLB Hodgson Impey Cheng Limited ("HLB") resigned as the auditors of the Company. Following the resignation of HLB, KPMG ("KPMG") was appointed as the new auditors of the Company with the recommendation of the Audit Committee. Considering that KPMG had been the auditors of the Company since 2017, the Board and the Audit Committee took the view that a change of auditors demonstrated a good corporate governance practice.

CONTINUING CONNECTED TRANSACTIONS

Yanchang Petroleum Group and Henan Yanchang (an indirect non-wholly owned subsidiary of the Company) renewed and entered into a new supply agreement dated 30 December 2016 (the "Supply Agreement"), pursuant to which Yanchang Petroleum Group agreed to supply and Henan Yanchang agreed to purchase refined oil for the three years ending 31 December 2019. Further details of the transactions are included in note 13 to the unaudited condensed consolidated financial statements.

The independent non-executive Directors of the Company have reviewed the continuing connected transactions contemplated under the Supply Agreement mentioned above and have confirmed that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code regarding its Directors' securities transactions on the Company's Shares. Having made specific enquiry of all Directors of the Company, they confirmed that they have complied with the required standards as set out in the Model Code as its code of conduct regarding Directors' securities transactions dealing with the Company for the six months ended 30 June 2019.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement for the six months ended 30 June 2019 is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.yanchanginternational.com). The Company's interim report for 2019 will be despatched to the shareholders of the Company and available on the above websites in due course.

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

Hong Kong, 29 August 2019

Executive Directors:

Mr. Li Yi *(Chairman)*
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