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延長石油國際有限公司

YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00346)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

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 2020 together with the unaudited comparative figures for the six months ended 30 June 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
	<i>Notes</i>	(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Revenue	4	8,161,298	3,423,727
Other revenue	4	1,544	3,776
		8,162,842	3,427,503
Expenses			
Purchases		(8,063,522)	(3,276,440)
Royalties		(5,332)	(13,120)
Field operation expenses		(27,001)	(35,911)
Exploration and evaluation expenses		(759)	(1,103)
Selling and distribution expenses		(5,752)	(5,457)
Administrative expenses		(26,493)	(42,262)
Depreciation, depletion and amortisation		(41,730)	(52,328)
Other losses	5	(14,269)	(15,794)
		(8,184,858)	(3,442,415)

		Six months ended 30 June	
		2020	2019
	<i>Notes</i>	(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Loss from operating activities	6	(22,016)	(14,912)
Finance costs	7	(32,536)	(28,439)
Loss before taxation		(54,552)	(43,351)
Taxation	8	(6,978)	248
Loss for the period		(61,530)	(43,103)
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong		(61,965)	50,925
Other comprehensive income for the period, with nil tax effect		(61,965)	50,925
Total comprehensive income for the period		(123,495)	7,822
(Loss)/profit for the period attributable to:			
Owners of the Company		(68,630)	(47,091)
Non-controlling interests		7,100	3,988
		(61,530)	(43,103)
Total comprehensive income for the period attributable to:			
Owners of the Company		(128,586)	3,524
Non-controlling interests		5,091	4,298
		(123,495)	7,822
Loss per share attributable to the owners of the Company			
Basic and diluted, HK cents	10	(0.50)	(0.39)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

		30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
	Notes		
ASSETS			
Non-current assets			
Property, plant and equipment		1,543,716	1,653,657
Investment properties		16,399	16,718
Exploration and evaluation assets		13,833	16,802
Right-of-use assets		22,417	24,656
Goodwill and intangible asset		58,149	58,149
Other non-current assets		7,523	6,757
		<u>1,662,037</u>	<u>1,776,739</u>
Current assets			
Inventories		124,890	31,541
Trade receivables	11	19,570	170,711
Prepayments, deposits and other receivables		1,120,552	267,705
Cash and bank balances		196,070	298,688
		<u>1,461,082</u>	<u>768,645</u>
Total assets		<u>3,123,119</u>	<u>2,545,384</u>
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital		366,701	242,911
Reserves		939,348	721,150
Total equity attributable to the owners of the Company		1,306,049	964,061
Non-controlling interests		<u>134,376</u>	<u>129,285</u>
Total equity		<u>1,440,425</u>	<u>1,093,346</u>

		30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
	<i>Notes</i>		
LIABILITIES			
Current liabilities			
Trade and other payables	12	826,700	302,846
Lease liabilities		3,079	3,077
Tax payables		5,655	2,227
Bank borrowings		438,480	257,025
Convertible bonds		–	467,755
		1,273,914	1,032,930
Non-current liabilities			
Decommissioning liabilities		122,089	129,114
Lease liabilities		5,683	7,323
Deferred tax liabilities		11,037	11,287
Secured term loan		269,971	271,384
		408,780	419,108
Total liabilities		1,682,694	1,452,038
Total equity and liabilities		3,123,119	2,545,384
Net current assets/(liabilities)		187,168	(264,285)
Total assets less current liabilities		1,849,205	1,512,454

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 2019 as contained in the Company’s annual report 2019 (the “Annual Report 2019”), 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 27 August 2020.

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 2020 are consistent with those followed in the preparation of the Annual Report 2019 except for the impact of the adoption of the new and revised standards, amendments and interpretations (the “new and amendments to HKFRSs”).

The Group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- Amendments to HKFRS 3, *Definition of a Business*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendments to HKFRS 3, *Definition of a Business*

The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional “concentration test” that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The Group has applied the amendments prospectively to transactions for which the acquisition date is on or after 1 January 2020.

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			
	2020	2019	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue:						
Sales to external customers	<u>38,746</u>	<u>100,419</u>	<u>8,122,552</u>	<u>3,323,308</u>	<u>8,161,298</u>	<u>3,423,727</u>
Segment (loss)/profit	<u>(40,116)</u>	<u>(26,034)</u>	<u>35,918</u>	<u>22,191</u>	<u>(4,198)</u>	<u>(3,843)</u>
Other revenue					1,544	3,776
Net foreign exchange loss					(12,953)	(978)
Unallocated corporate expenses					<u>(6,409)</u>	<u>(13,867)</u>
Loss from operating activities					(22,016)	(14,912)
Finance costs					<u>(32,536)</u>	<u>(28,439)</u>
Loss before taxation					(54,552)	(43,351)
Taxation					<u>(6,978)</u>	<u>248</u>
Loss for the period					<u><u>(61,530)</u></u>	<u><u>(43,103)</u></u>

Revenue reported was generated from external customers. There were no inter-segment sales during the six months ended 30 June 2020 and 2019.

Segment (loss)/profit represents the loss incurred/profit earned by each segment without allocation of other revenue, net foreign exchange 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	
	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Segment assets	1,360,135	1,489,515	1,713,649	1,003,579	3,073,784	2,493,094
Unallocated assets					49,335	52,290
Total assets					<u>3,123,119</u>	<u>2,545,384</u>
Segment liabilities	421,704	435,914	1,227,531	515,536	1,649,235	951,450
Unallocated liabilities					33,459	500,588
Total liabilities					<u>1,682,694</u>	<u>1,452,038</u>

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; and
- 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\$8,122,552,000 (30 June 2019: HK\$3,323,308,000) are revenue of HK\$2,507,881,000 (30 June 2019: HK\$1,062,803,000) which arose from two customers (30 June 2019: two 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	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Customer A	–	442,443
Customer B (note)	569,610	620,360
Customer C	902,993	–
Customer D	1,604,888	–

Note: The corresponding revenue from Customer B did not contribute over 10% of the total revenue of the Group during the period ended 30 June 2020.

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.

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. In this case, the Group acts as an agent for certain sales transaction of oil related products as the Group does not have sufficient control over the specific goods provided by the suppliers before goods transferred to customers. When the Group acts as an agent, it recognises revenue on a net basis to which it expects to be entitled in exchange for arranging for the specified goods to be provided by the other party.

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

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue		
Sales of crude oil and gas	38,746	100,419
Trading and distribution of oil related products	8,122,552	3,323,308
	8,161,298	3,423,727
Other revenue		
Bank interest income	866	1,646
Rental income	237	509
Storage fee income	72	1,590
Others	369	31
	1,544	3,776

5. OTHER LOSSES

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net foreign exchange loss	(12,953)	(978)
Gain/(loss) on disposal of property, plant and equipment	37	(414)
Written off of expired exploration and evaluation assets	(2,118)	–
Fair value change on derivative financial instruments	–	(13,567)
Others	765	(835)
	(14,269)	(15,794)

6. LOSS FROM OPERATING ACTIVITIES

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

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	8,063,522	3,276,440
Depreciation and depletion charge		
– property, plant and equipment	39,875	51,626
– right-of-use assets	1,855	473
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2020 and 2019	761	2,876
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	294	350
Staff costs (including Directors' remuneration):		
– Salaries and wages	24,101	34,597
– Share-based payment expenses	–	327
– Pension scheme contributions	557	1,218
	<u>557</u>	<u>1,218</u>

7. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest expenses on bank borrowings and secured term loan wholly repayable within five years	19,294	11,044
Interest expenses on convertible bonds	11,852	15,684
Interest expenses on lease liabilities	262	118
Accretion of decommissioning liabilities	1,128	1,593
	<u>1,128</u>	<u>1,593</u>
	<u>32,536</u>	<u>28,439</u>

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 2020 is calculated at 16.5% of estimated assessable profits (six months ended 30 June 2019: 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 People's Republic of China (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 2020 and 2019 respectively.

	Six months ended 30 June	
	2020	2019
	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	6,978	6,725
Deferred tax		
Reversal of temporary differences	–	(6,973)
	6,978	(248)

9. INTERIM DIVIDENDS

The Directors do not recommend the payment of any interim dividends in respect of the six months ended 30 June 2020 (six months ended 30 June 2019: 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	
	2020	2019
	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	(68,630)	(47,091)

Six months ended 30 June	
2020	2019
'000	'000
(Unaudited)	(Unaudited)

Number of shares

Weighted average number of ordinary shares for the purpose of basic and diluted loss per share

13,743,954	12,145,573
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Diluted loss per share for the six months ended 30 June 2020 and 2019 were the same as the basic loss per share. The computation of diluted loss per share for the six months ended 30 June 2020 and 2019 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 2019: 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 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
0 to 30 days	17,466	168,429
31 to 60 days	64	135
61 to 90 days	11	40
Over 90 days	2,029	2,107
	19,570	170,711

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\$2,029,000 (31 December 2019: HK\$2,107,000) 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 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Over 90 days	2,029	2,107

12. TRADE AND OTHER PAYABLES

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Trade payables	8,644	150,778
Contract liabilities (<i>note</i>)	737,510	50,860
Other payables	80,546	101,208
	826,700	302,846

Note: Contract liabilities as at 30 June 2020 and 31 December 2019 mainly represented the advance received from customers upon order placement, and were fully recognised as revenue during the period/year when the control over a product was transferred to customer. The Group typically received advance on acceptance of orders. The amount of the advance, if any, was negotiated on a case by case basis with customers.

Contract liabilities of HK\$737,510,000 were recognised as at 30 June 2020 (31 December 2019: HK\$50,860,000) as a result of the receipt of payment during the period/year in advance of the satisfaction of performance obligation, and are expected to be fully recognised as revenue within one year.

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

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
0 to 30 days	7,370	149,099
31 to 60 days	60	734
61 to 90 days	264	–
Over 90 days	950	945
	8,644	150,778

As at 30 June 2020 and 31 December 2019, 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 2020, 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	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Salaries and allowance	4,922	4,473
Share-based payment expenses	–	327
Mandatory provident fund contributions	9	11
	<u>4,931</u>	<u>4,811</u>

During the six months ended 30 June 2020, the Group had the following connected transactions with a related party arising from the refined oil supply agreement dated 12 November 2019 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 2022:

Name of related party	Relationship	Nature of transaction	Six months ended 30 June	
			2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Yanchang Petroleum Group	A substantial shareholder	Purchase of refined oil	<u>2,519,982</u>	<u>1,740,005</u>

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

14. IMPACTS OF COVID-19 PANDEMIC

The COVID-19 pandemic since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations and financial position. The Group has been closely monitoring the impact of the development of the epidemic and assess its impact on its operations.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

The global outbreak and spread of COVID-19 in the first half of 2020 has compelled major economies in the world to lower growth target of their gross domestic products. Meanwhile, disputes between China and the U.S. have not been settled. Global economy is having a rocky road to recovery, and weak demand for crude oil remains. As the market has been facing the most brutal challenges in recent years, the Company's management adopted a series of effective measures under its strategy of "sustaining production at minimum cost and seeking development" in an effort to maintain the value of the Company's assets and protect the interests of its shareholders under adverse circumstances, laying a concrete foundation of the Company for development and placing itself in a better position for growth on course for market recovery.

I. Upstream oil and gas producing business in Canada

Production and operation

In the first half of 2020, Novus Energy Inc. ("Novus") achieved an average daily production of 1,220 barrels of equivalent ("BOE"), as compared with an average daily production of 1,792 BOE in the same period last year. Novus has minimized dual impacts of fluctuation of international oil price and the outbreak of COVID-19 through adjusting and optimizing manpower deployment and manhours as well as temporarily closing some "Viking" play wells and some "Success" play wells with poor productivity performance with an aim to maintain stable and high efficient operation of Novus. Operating expenses for the first half of 2020 decreased by Canadian dollar ("CAD") 1 million from that for the same period last year. With various subsidy and assistance measures implemented by Canadian government, Novus has received a subsidy of CAD216,000 as at the date of this announcement, and a subsidy of CAD230,000 is expected to received in the second half of this year.

Transportation and sales

In response to adverse impacts of a meltdown in oil price and its considerable fluctuation in the first half of 2020, Novus has developed a flexible sales strategy by leveraging the benefit of its own storage capacity, to upward or downward adjust its oil inventory subject to local selling price of crude oil. Novus has further reduced transportation cost by entering into new contracts with pipe transportation companies, it is expected that transportation cost of Novus will be cut down by CAD1.1 million for the period from May 2020 to May 2021.

Exploration and development

Novus made a stable progress in exploration business in the first half of 2020, and it completed a technology assessment for land bidding with an area of 189 square kilometers and successfully renewed mining rights of 29.11 square kilometers during the period, on-going optimization of deployment of mining rights will maintain momentum for development in the future.

II. Downstream oil products trading business in the PRC

(i) Refined oil business of Henan Yanchang

Sales and operation

Accumulated refined oil sales of Henan Yanchang in the first half of 2020 recorded 2,490,000 tonnes, the operating revenue was RMB7.33 billion with total profit of RMB9.31 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.

The spread of COVID-19 and the plunge in international oil price in the first half of 2020 have struck an unprecedented blow to oil industry. Facing the arduous challenges, Henan Yanchang has adopted a series of effective measures to respond to the situation hard hit by low oil price, resulting in outstanding performance by fulfilling sales target initially set.

Putting more effort in market expansion and customer exploration

Since the beginning of 2020, marketing team of Henan Yanchang has paid a great number of visits to Ningxia, Guangdong, Jiangsu, Yunnan, Hunan and Shenzhen in an effort to explore market potential and vigorously broaden new customer base. Business has been expanded to regions beyond Henan Province by further expanding geographical coverage of its sales network with a focus on the expansion towards south-west and north-west of China. Nearly 200 new customers have been acquired in total in the first half of 2020.

Securely building up oil depot network and gas stations

Firstly, Henan Yanchang has entered into a strategic cooperation with a partner to operate an oil depot in Ningxia for expanding wholesale and trading of refined oil business, substantially developing the north-west market. Secondly, Henan Yanchang intends to expand its network of terminal gas stations in Ningxia by leveraging the strategic cooperative oil depot. At present, it signs a letter of intent for cooperation with a newly-built local gas station. In addition, Henan Yanchang has actively conducted negotiation with 4 local gas stations in Ningxia in an attempt to establish cooperation relationship. Thirdly, Henan Yanchang has initially confirmed with intent for cooperation with 3 gas stations in Zhoukou, Henan.

(ii) *Other oil products trading business*

The Group has established oil products trading companies in Zhoushan, Zhejiang and Shenzhen, China, respectively, for expanding its oil products trading business which will become a new profit driver. Initial achievement has been obtained in the first half of 2020 with aggregate sales revenue of RMB109 million and a total profit of RMB8.96 million.

III. Financing

On 15 May 2020, Yanchang Petroleum Group exercised the conversion rights attached to the convertible bonds previously subscribed through Yanchang Petroleum Group (Hong Kong) Co., Limited (“Yanchang Petroleum HK”), its direct wholly-owned subsidiary, to convert the convertible bonds with a principal amount of US\$60 million at a conversion price of HK\$0.076 per share. Conversion of the convertible bonds by Yanchang Petroleum HK at a high premium represents financial and strategic support to the Company offered by the parent company. In particular, against the backdrop of the impacts of the global COVID-19 pandemic, economic downward pressure and wide fluctuation of international oil price, the support will improve and consolidate the capital structure of the Company. Following the conversion, annual interest payment of the Company will be cut by US\$3.60 million, which would significantly release its financial pressure and improve its liquidity.

The Company has actively approached domestic and international funds and banks as well as potential investors for seeking financing cooperation, in order to support the development of the Group. At present, the Company is exploring all possibilities to further improve the capital structure and financial position of the Company.

IV. OUTLOOK

In the second half of 2020, the COVID-19 may subsist and spread further globally. Also, Sino-US tensions will continue. The Company remains cautious about demand for crude oil in the second half of 2020. The Company will stay alert at all time and determinedly implement cost effective and performance enhancement measures to maximize the value of the Company's assets and protect the interests of its shareholders.

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 2020, the Group's turnover was mainly derived from the production of crude oil and natural gas in Canada as well as the trading of oil products 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 222,019 BOE and contributed production income of HK\$38,746,000 during the period under review, as compared to production of 324,343 BOE and production income of HK\$100,419,000 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\$40,116,000 recorded for the exploration, exploitation and operation business for the six months ended 30 June 2020, as compared to an operating loss of HK\$26,034,000 for the previous period.

During the six months ended 30 June 2020, the revenue of oil products trading business in the PRC was HK\$8,122,552,000 as compared to HK\$3,323,308,000 of the previous period. Resulting from the higher sales volume from the previous period of 1.65 million tonnes to the current period of 2.57 million tonnes, that contributed an operating profit of HK\$35,918,000 to the supply and procurement business, as compared to an operating profit of HK\$22,191,000 of the previous period.

Other revenue

Apart from the aforesaid segment results, other revenue of HK\$1,544,000 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\$2,232,000 from HK\$3,776,000 of the previous period.

Purchases

Purchases increased from the previous period of HK\$3,276,440,000 to this period of HK\$8,063,522,000, 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\$13,120,000 to the current period of HK\$5,332,000 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\$27,001,000 this period from the previous period of HK\$35,911,000. 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\$759,000 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 were mainly incurred by Henan Yanchang for the refined oil trading business in the PRC, and the expenses in this period was substantially in line with that in the same period last year.

Administrative expenses

Administrative expenses including Directors' remuneration, staff costs, office rentals, professional fees, business development expenses and listing fee etc, decreased by HK\$15,769,000 to HK\$26,493,000 for the period under review.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation expenses decreased from the previous period of HK\$52,328,000 to the current period of HK\$41,730,000. 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 in Canada during the period under review.

Other losses

Other losses of HK\$14,269,000 represented the aggregate of (i) net foreign exchange loss of HK\$12,953,000; (ii) written off of expired exploration and evaluation assets of HK\$2,118,000, after offsetting (iii) gain on disposal of property, plant and equipment of HK\$37,000; and (iv) other gain of HK\$765,000.

Finance costs

Finance costs amounted to HK\$32,536,000 comprised (i) bank borrowing costs of HK\$12,505,000 related to the businesses of Henan Yanchang and interest of the secured term loan drawn down by Novus of HK\$6,789,000; (ii) accretion of HK\$1,128,000 related to the provision of the decommissioning liabilities incurred by Novus; (iii) imputed interest on convertible bonds of HK\$11,852,000 arisen from the issue of 2-year convertible bonds with a principal amount of US\$60,000,000; and (iv) imputed interest of lease liabilities of HK\$262,000 related to the leases of the Group.

Taxation

Taxation of HK\$6,978,000 represented the provision for the PRC corporate income tax on the profit earned from oil products trading business in the PRC.

Loss for the period

Compared to a loss for the last period of HK\$43,103,000, a loss of HK\$61,530,000 was recorded for the period under review. The loss is mainly attributable to the loss of the oil and gas production business in Canada due to the depressed oil prices as a result of the slowing global demand caused by the outbreak and spread of the COVID-19.

LIQUIDITY AND FINANCIAL RESOURCES

The Group funded its operation mainly by its internal resources together with bank borrowings and secured term loan for the six months ended 30 June 2020.

The Group had outstanding variable interest rates bank borrowings amounted to HK\$438,480,000 as at 30 June 2020 (31 December 2019: HK\$257,025,000) under Henan Yanchang. The Group has obtained bank facilities of HK\$493,290,000 (equivalent to RMB450,000,000) from various banks in the PRC.

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 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.

On 15 May 2020, the aggregate principal amount of US\$60,000,000 convertible bonds were fully converted into 6,189,473,684 ordinary shares of HK\$0.02 each at conversion price of HK\$0.076 per share. The new shares issued pari passu with the existing shares in all respects.

Secured term loan has been offered to Novus by Yanchang Petroleum HK for general working capital. On 20 December 2019, Novus drew down an amount of US\$35,000,000 of the secured term loan with interest rate of 4.8% per annum payable in three years.

As at 30 June 2020, the Group had cash and bank balances of HK\$196,070,000 (31 December 2019: HK\$298,688,000). 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 total liabilities as a percentage of total equity, was 116.8% (31 December 2019: 132.8%). The current ratio of the Group, measured on the basis of current assets as a percentage of current liabilities stood at 114.7% as at 30 June 2020 (31 December 2019: 74.4%).

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 2020.

SIGNIFICANT INVESTMENT

The Group did not hold any significant investments as at 30 June 2020.

CAPITAL COMMITMENT

The Group had capital commitments to property, plant and equipment amounted to HK\$1,755,000 (31 December 2019: HK\$1,713,000) which were contracted but not provided for as at 30 June 2020.

PLEDGE OF ASSETS

US\$35,000,000 secured term loan granted by Yanchang Petroleum HK available to Novus, is secured by the debenture of US\$70,000,000 with first and fixed charge over all of Novus' right, title and interest, with floating charge over all assets of Novus.

Save as aforesaid, none of the Group's other assets had been pledged for granting the bank borrowings.

CONTINGENT LIABILITY

As at 30 June 2020, the Group had no material contingent liabilities (31 December 2019: Nil).

LITIGATION

As at 30 June 2020, the Group had no material litigations (31 December 2019: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2020, the Group's total number of staff was 173 (31 December 2019: 163). Salaries of employees are maintained at a competitive level with total staff costs for the six months ended 30 June 2020 amounted to HK\$24,658,000 (six months ended 30 June 2019: HK\$36,142,000). 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 2020 and 2019.

INTERIM DIVIDENDS

The Board does not recommend the payment of interim dividends for the six months ended 30 June 2020 and 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2020, 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 2020, except for the following deviation:

1. code provision A.2.1 of the CG Code provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The position of the chief executive officer of the Company was temporarily vacant following the resignation of Mr. Bruno Guy Charles Deruyck as an executive Director and chief executive officer on 1 June 2019 as the Company needs times to identify a suitable candidate to assume the role of the chief executive officer.
2. 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. Ng Wing Ka was unable to attend the annual general meeting ("AGM") of the Company held on 5 June 2020 due to other ad hoc engagements.
3. code provision E.1.2 of the CG Code provides that the chairman of the board should attend the annual general meeting. He should also invite the chairman of the audit, remuneration, nomination and any other committees (as appropriate) to attend. The chairman of the Board, Mr. Li Yi was unable to attend the AGM due to the impact of the COVID-19 pandemic. Besides, the chairman of the nomination committee, Mr. Ng Wing Ka was unable to attend the AGM due to other ad hoc engagements.

AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) currently comprises 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 2020.

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 12 November 2019 (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 2022. Further details of the transactions are included in note 13.

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 to the securities transactions of the Company by the Directors.

Having made specific enquiry of all Directors of the Company, they confirmed that they have complied with the required standards as set out in the Model Code as their code of conduct regarding to the securities transactions of the Company by the Directors for the six months ended 30 June 2020.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement for the six months ended 30 June 2020 is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.yanchanginternational.com). The Company's interim report for 2020 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, 27 August 2020

Executive Directors:

Mr. Li Yi (*Chairman*)
Ms. Sha Chunzhi
Mr. Feng Yinguo
Mr. Li Jun

Independent Non-Executive Directors:

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