

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2021

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 2021 together with the unaudited comparative figures for the six months ended 30 June 2020 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
	<i>Notes</i>	(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Revenue	4	10,208,266	8,161,298
Other revenue	4	5,128	1,544
		10,213,394	8,162,842
Expenses			
Purchases		(10,007,551)	(8,063,522)
Royalties		(7,862)	(5,332)
Field operation expenses		(30,086)	(27,001)
Exploration and evaluation expenses		(1,186)	(759)
Selling and distribution expenses		(38,219)	(5,752)
Administrative expenses		(38,578)	(26,493)
Depreciation, depletion and amortisation		(36,417)	(41,730)
Other gains and losses	5	5,917	(14,269)
		(10,153,982)	(8,184,858)

		Six months ended 30 June	
		2021	2020
	<i>Notes</i>	(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Profit/(loss) from operating activities	6	59,412	(22,016)
Finance costs	7	<u>(37,473)</u>	<u>(32,536)</u>
Profit/(loss) before taxation		21,939	(54,552)
Taxation	8	<u>(9,856)</u>	<u>(6,978)</u>
Profit/(loss) for the period		<u>12,083</u>	<u>(61,530)</u>
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		<u>13,801</u>	<u>(61,965)</u>
Other comprehensive income for the period, with nil tax effect		<u>13,801</u>	<u>(61,965)</u>
Total comprehensive income for the period		<u>25,884</u>	<u>(123,495)</u>
Profit/(loss) for the period attributable to:			
Owners of the Company		3,893	(68,630)
Non-controlling interests		<u>8,190</u>	<u>7,100</u>
		<u>12,083</u>	<u>(61,530)</u>
Total comprehensive income for the period attributable to:			
Owners of the Company		16,755	(128,586)
Non-controlling interests		<u>9,129</u>	<u>5,091</u>
		<u>25,884</u>	<u>(123,495)</u>
Profit/(loss) per share attributable to the owners of the Company			
Basic and diluted, HK cents	10	<u>0.02</u>	<u>(0.50)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

		30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
	Notes		
ASSETS			
Non-current assets			
Property, plant and equipment		974,621	955,951
Investment properties		17,696	17,533
Exploration and evaluation assets		–	–
Right-of-use assets		96,630	99,631
Goodwill and intangible asset		58,149	58,149
Other non-current assets		3,915	5,609
		<u>1,151,011</u>	<u>1,136,873</u>
Current assets			
Inventories		539,311	195,992
Trade receivables	11	1,070,834	344,351
Prepayments, deposits and other receivables		1,643,056	522,712
Cash and bank balances		251,116	436,084
		<u>3,504,317</u>	<u>1,499,139</u>
Total assets		<u>4,655,328</u>	<u>2,636,012</u>
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital		366,701	366,701
Reserves		321,179	304,424
Total equity attributable to the owners of the Company		687,880	671,125
Non-controlling interests		<u>139,140</u>	<u>130,011</u>
Total equity		<u>827,020</u>	<u>801,136</u>

		30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
	<i>Notes</i>		
LIABILITIES			
Current liabilities			
Trade and other payables	12	2,690,955	743,764
Lease liabilities		6,376	5,949
Tax payables		3,234	2,929
Bank borrowings		613,530	572,112
		3,314,095	1,324,754
Non-current liabilities			
Decommissioning liabilities		150,544	144,667
Lease liabilities		80,071	82,719
Deferred tax liabilities		12,214	11,352
Secured term loan		271,384	271,384
		514,213	510,122
Total liabilities		3,828,308	1,834,876
Total equity and liabilities		4,655,328	2,636,012
Net current assets		190,222	174,385
Total assets less current liabilities		1,341,233	1,311,258

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 2020 as contained in the Company’s annual report 2020 (the “Annual Report 2020”), 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 2021.

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 2021 are consistent with those followed in the preparation of the Annual Report 2020 except for the impact of the adoption of the new and revised standards, amendments and interpretations (the “new and amendments to HKFRSs”).

In the current period, the Group has applied, for the first time, a number of the new and revised HKFRSs issued by the HKICPA which are effective for the Group’s financial period beginning 1 January 2021. A summary of the new and revised HKFRSs are set out as below:

- Amendments to HKFRS 16, *COVID-19-Related Rent Concessions*
- Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16, *Interest Rate Benchmark Reform – Phase 2*

The application of the above new and revised HKFRSs had no material effect on the results and financial positions of the Group for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The following new or amended HKFRSs, potentially relevant to the Group's unaudited condensed consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to HKAS 1, *Classification of Liabilities as Current or Non-current* and HK Interpretation 5 (2020), *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*³

Amendments to HKAS 16, *Proceeds before Intended Use*¹

Amendments to HKAS 37, *Onerous Contracts – Cost of Fulfilling a Contract*¹

Amendments to HKFRS 3, *Reference to the Conceptual Framework*²

Amendments to HKFRS 10 and HKAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*⁴

Annual Improvements to HKFRSs 2018–2020¹

- ^{1.} Effective for annual periods beginning on or after 1 January 2022.
- ^{2.} Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.
- ^{3.} Effective for annual periods beginning on or after 1 January 2023.
- ^{4.} The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

3. SEGMENT INFORMATION

The Group's operating and reportable segments are as follows:

- (a) the exploration, exploitation and operation business segment involves oil and gas exploration, exploitation, sale and operation; and
- (b) the supply and procurement business segment involves storage, transportation, trading and distribution of oil related products.

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					
	2021	2020	2021	2020	2021	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	<u>75,287</u>	<u>38,746</u>	<u>10,132,979</u>	<u>8,122,552</u>	<u>10,208,266</u>	<u>8,161,298</u>
Segment profit/(loss)	<u>1,055</u>	<u>(40,116)</u>	<u>55,670</u>	<u>35,918</u>	<u>56,725</u>	<u>(4,198)</u>
Other revenue					5,128	1,544
Net foreign exchange gain/ (loss)					7,612	(12,953)
Unallocated corporate expenses					<u>(10,053)</u>	<u>(6,409)</u>
Profit/(loss) from operating activities					59,412	(22,016)
Finance costs					<u>(37,473)</u>	<u>(32,536)</u>
Profit/(loss) before taxation					21,939	(54,552)
Taxation					<u>(9,856)</u>	<u>(6,978)</u>
Profit/(loss) for the period					<u>12,083</u>	<u>(61,530)</u>

Revenue reported was generated from external customers. There were no inter-segment sales during the six months ended 30 June 2021 and 2020.

Segment profit/(loss) represents the profit earned/loss incurred by each segment without allocation of other revenue, net foreign exchange gain/(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	31 December	30 June	31 December	30 June	31 December
	2021	2020	2021	2020	2021	2020
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	792,750	751,229	3,847,309	1,854,403	4,640,059	2,605,632
Unallocated assets					15,269	30,380
Total assets					4,655,328	2,636,012
Segment liabilities	451,807	445,421	3,370,041	1,379,320	3,821,848	1,824,741
Unallocated liabilities					6,460	10,135
Total liabilities					3,828,308	1,834,876

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\$10,132,979,000 (six months ended 30 June 2020: HK\$8,122,552,000) are revenue of HK\$4,058,856,000 (six months ended 30 June 2020: HK\$2,507,881,000) which arose from two customers (six months ended 30 June 2020: 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	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Customer A (note)	524,643	–
Customer B (note)	359,248	569,610
Customer C	2,400,185	902,993
Customer D	1,658,671	1,604,888

Note: The corresponding revenue from Customer A and B did not contribute over 10% of the total revenue of the Group during the period ended 30 June 2021 and 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	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue		
Sales of crude oil and gas	75,287	38,746
Trading and distribution of oil related products	10,132,979	8,122,552
	10,208,266	8,161,298
Other revenue		
Bank interest income	2,928	866
Rental income	258	237
Storage fee income	–	72
Others	1,942	369
	5,128	1,544

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net foreign exchange gain/(loss)	7,612	(12,953)
Gain on disposal of property, plant and equipment	–	37
Written off of expired exploration and evaluation assets	–	(2,118)
Others	(1,695)	765
	5,917	(14,269)

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	10,007,551	8,063,522
Depreciation and depletion charge		
– property, plant and equipment	32,494	39,875
– right-of-use assets	3,923	1,855
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2021 and 2020	752	761
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	266	294
Staff costs (including Directors' remuneration):		
– Salaries and wages	33,776	24,101
– Pension scheme contributions	2,175	557
	=====	=====

7. FINANCE COSTS

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest expenses on bank borrowings and secured term loan wholly repayable within five years	34,072	19,294
Interest expenses on convertible bonds	–	11,852
Interest expenses on lease liabilities	2,204	262
Accretion of decommissioning liabilities	1,197	1,128
	=====	=====
	37,473	32,536

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 2021 is calculated at 16.5% of estimated assessable profits (six months ended 30 June 2020: 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 25% and 25% for the six months ended 30 June 2021 and 2020 respectively.

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax – Hong Kong Profits Tax		
Provision for the period	–	–
Current tax – Outside Hong Kong		
Provision for the period	9,113	6,978
Deferred tax		
Origination of temporary differences	743	–
	9,856	6,978

9. INTERIM DIVIDENDS

The Directors do not recommend the payment of any interim dividends in respect of the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

10. PROFIT/(LOSS) PER SHARE

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

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit/(loss)		
Profit/(loss) for the period attributable to the owners of the Company for the purpose of basic and diluted profit/(loss) per share	3,893	(68,630)
	18,335,047	13,743,954
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted profit/(loss) per share	18,335,047	13,743,954

Diluted profit/(loss) per share for the six months ended 30 June 2021 and 2020 were the same as the basic profit/(loss) per share. The computation of diluted loss per share for the six months ended 30 June 2020 does not assume the Company's outstanding convertible bonds since the assumed conversion of convertible bonds would result in a decrease in loss per share. There was no dilutive potential ordinary shares in existence during the six months ended 30 June 2021.

11. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 90 days (31 December 2020: 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 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
0 to 30 days	622,204	341,941
31 to 60 days	129,118	195
61 to 90 days	101,908	176
Over 90 days	<u>217,604</u>	<u>2,039</u>
	<u>1,070,834</u>	<u>344,351</u>

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\$217,604,000 (31 December 2020: HK\$2,039,000) 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 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Over 90 days	<u>217,604</u>	<u>2,039</u>

12. TRADE AND OTHER PAYABLES

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Trade payables	849,609	115,313
Contract liabilities (<i>note</i>)	1,747,703	510,779
Other payables	93,643	117,672
	<u>2,690,955</u>	<u>743,764</u>

Note: Contract liabilities as at 30 June 2021 and 31 December 2020 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\$1,747,703,000 were recognised as at 30 June 2021 (31 December 2020: HK\$510,779,000) 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 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
0 to 30 days	665,872	115,139
31 to 60 days	80,333	174
61 to 90 days	73,183	–
Over 90 days	30,221	–
	<u>849,609</u>	<u>115,313</u>

As at 30 June 2021 and 31 December 2020, 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 2021, 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	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Salaries and allowance	4,219	4,922
Mandatory provident fund contributions	18	9
	<u>4,237</u>	<u>4,931</u>

Purchases and sales of refined oil and by-products

			Six months ended 30 June	
Name of related party	Relationship	Nature of transaction	2021	2020
			(Unaudited)	(Unaudited)
			HK\$'000	HK\$'000
Shaanxi Yanchang Petroleum (Group) Co., Limited ("Yanchang Petroleum Group")	Ultimate holding company	Purchases of refined oil (note 1)	2,468,281	2,519,982
Shaanxi Yanchang Petroleum Yanan Energy Chemical Company Limited* ("Yanan Energy Chemical")	A fellow subsidiary	Sales of refined oil and by-products (note 2)	1,167	802
Yanchang Shell Henan Petroleum Limited* ("Yanchang Shell Henan")	A related party	Sales of refined oil and by-products (note 2)	12,489	12,128
China Petroleum Yanchang Petroleum Trading Stock Limited Company*	A related party	Sales of refined oil and by-products (note 2)	–	147,064
China Petroleum Yanchang (Zhoushan) Petroleum Chemical Limited*	A related party	Sales of refined oil and by-products (note 2)	14,407	19,469

* Certain English translation of Chinese names or words for information only, and are not official English translations of such Chinese names or words.

Notes:

- (1) During the six months ended 30 June 2021, the Group had connected transactions with ultimate holding company arising from the refined oil supply agreement dated 12 November 2019 and the supplemental agreement to the supply agreement dated 30 September 2020 entered into between Henan Yanchang Petroleum Sales Co., Limited (“Henan Yanchang”) and Yanchang Petroleum Group in respect of the purchases of refined oil from Yanchang Petroleum Group by Henan Yanchang for the three years ending 31 December 2022.
- (2) During the six months ended 30 June 2021, the Group had connected transactions with a fellow subsidiary and related parties arising from the sales of refined oil and by-products. Henan Yanchang entered into sales agreements with Yanan Energy Chemical and Yanchang Shell Henan, respectively on 13 May 2021 and with effect from 1 July 2021 in respect of the sales of refined oil and by-products from Henan Yanchang to Yanan Energy Chemical and Yanchang Shell Henan, respectively for the three years ending 31 December 2023. Please refer to the announcement dated 13 May 2021 and the circular dated 7 June 2021 of the Company for further details.
- (3) The above transactions constitute continuing connected transactions under Chapter 14A of the Listing Rules.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

The global economy resumed its growth overall in the first half of 2021 with international oil price went up gradually amid fluctuations. As the economy of China maintained its stable growth momentum, market demand for oil and gas products had significantly improved. The Company seized favourable opportunities, vigorously improved quality and efficiency and continued to optimize its production and operation. At the same time, it persisted its cost and expense control. The operation results improved significantly as compared with the corresponding period in 2020.

Upstream Oil and Gas Production Business in Canada

In the first half of 2021, Novus recommenced the operation of those wells that were closed last year due to poor productivity. It made rational inventory adjustment according to oilfield operations to control costs and optimize economic efficiency. As of the end of June 2021, Novus produced a total of 188,000 barrels of equivalent (“BOE”) of crude oil. Crude oil accumulated sales was 202,000 BOE, which included 167,000 barrels of crude oil and 5.90 million cubic meters of natural gas. The average crude oil selling price was CAD66.4/barrel and natural gas selling price was CAD0.1/m³. Total sales revenue was CAD11.85 million, representing an increase of CAD5.08 million as compared with the corresponding period in 2020. Novus recorded cumulative income after tax of CAD10.61 million and expenses of CAD10.44 million, resulting a net operating income of CAD170,000 for the first half of 2021. Net income for the first half year was CAD70,000, achieving a turnaround from loss to profit, decreased by CAD9.74 million in loss as compared to the previous period.

Production and Operation

The global prevention and control of the pandemic were improved in the first half of 2021 despite regional reoccurrence. The impact of the third wave of the pandemic in Canada far outstripped the first two waves. However, the pandemic was under control to a certain extent with the popularization of vaccination and the number of single-day new cases gradually declined. It is expected that with the improvement of the vaccination rate, the pandemic will be relieved in the third quarter. Novus responded to the pandemic in a scientific manner. While guaranteeing the life and health safety of employees to the maximum extent, it ensured normal production and operation.

Novus has 2 new wells commencing operation in 2021, with one single well producing 110 barrels of crude oil per day in its first month and a total of 10,000 barrels of crude oil were produced in six months, which is much higher than the average production volume of “Viking” play well (7,500 barrels in six months) and becomes an industry leader in terms of production volume. Novus started its 2021 production ramp-up program since 15 May and completed the drilling of 5 wells at the moment and will commence production in the third quarter. As of June 2021, Novus had 402.2 net horizontal wells and 73.7 net vertical wells.

The operating expenses of the oil fields from January to June 2021 were CAD4.73 million as compared with CAD4.72 million in the previous period. The Novus site staff strived to cut down costs while keeping as many wells as possible in normal operation. Many on-site workers worked for Novus without pay to ensure the normal and safe operation of the oil fields. The administrative and management expenses were CAD1.26 million as compared with CAD1.32 million of the same period last year.

The federal payroll subsidy program in Canada has saved Novus a total of CAD100,000 from 2021 to date. The new federal rental subsidy program, which came into effect in December 2020, saved CAD 50,000 in that month for Novus. The government of Alberta and Saskatchewan introduced the Program on Accelerated Closedown and Resumption, which will provide capital funds for Novus to decommission old wells and resume well sites. So far, Novus has been awarded CAD120,000 and CAD420,000 from the government of Alberta and Saskatchewan, respectively.

Downstream Oil and By-product Sales Business in China

(i) *Henan Yanchang refined oil business*

In the first half of 2021, Henan Yanchang sold a total of 2.229 million tonnes of refined oil and achieved operating income of RMB6.97 billion, and total profit was RMB13.34 million. Receivables recovery was 100%. Integrated controls on production and financial operations have been conducted in a safe and efficient manner with no accidents reported.

In the first half year, Henan Yanchang progressed its various operating targets as scheduled, and solidly launched its operation and sales through expanding distribution network, broadening sales channels and developing terminal oil depot and station sales:

- (1) Oil distribution, firstly, it arranged its marketing teams to visit Ningxia and Sichuan on many occasions to practically understand actual customer demand and market conditions and continuously developed new customer resources. It developed 3 new customers in the first half year. Secondly, it actively sought breakthroughs and expanded sales channels. It leased oil tanks through the cooperation with Sinopec, deposited refined oil in Golmud, West Lhasa and Leba when oil price was low and sold them to earn price spread after the oil price had recovered.

- (2) Sales from external sourcing, firstly, it vigorously developed and maintained customers and continued to deepen the cooperation with Luoyang Hongda, Sinopec Northwest Branch and other large customers. At the same time, it actively expanded its business in Ningxia, Hubei and Henan and put more efforts in developing new customers with 16 new customers and 28 suppliers being developed in the first half year. Secondly, it continued to advance its business transformation, vigorously developed new varieties of by-products and gave full play of the advantages of chemical products with huge market potential, less capital needs and have considerable profit. Total sales of by-products reached 243,100 tonnes in the first half year, representing a decrease as compared with the sales in the corresponding period of last year but had a slight increase in the gross profit.
- (3) Sales of oil tanks, firstly, it vigorously explored the market and developed customers. It developed 30 new customers in the first half year and the oil tank business in Ningxia had developed a new big customer in sales along highways (with monthly sales of over 1,000 tonnes). Secondly, it reached cooperation with CNAF Henan Branch on delivery and sales and explored quality customers and new business types. Thirdly, it solved the traffic issues of oil tankers and guaranteed smooth sales of oil tanks.
- (4) Terminal development, it completed the upgrading and transformation of 3 gas stations, put them into operation and strengthened publicity through various channels. The 3 gas stations commenced businesses on 28 February 2021 simultaneously. The intraday sales volume of retail exceeded 22.5 tonnes, demonstrating the brand influence of Yanchang Petroleum.

(ii) *Yanchang Zhejiang oil and by-products business*

In the first half of 2021, Yanchang Petroleum (Zhejiang FTZ) Limited (“Yanchang Zhejiang”) achieved total sales volume of 486,000 tonnes of oil products, which were mainly bitumen and diesel products, achieving a 5-fold increase period-on-period. Sales revenue was RMB1.42 billion, including revenue from domestic imported raw oil trade of RMB1.05 billion, and revenue from factory finished product sales of RMB370 million. It achieved total profit of RMB5.97 million in the first half of 2021.

Actively responding to new layout with advanced setting in facing challenges

China started to levy consumption tax on imported diluted asphalt products from 12 June 2021. Yanchang Zhejiang is rosy about the hiking trend of the finished products market in future, procured 300,000 tonnes raw materials in advance when appropriate and hedged procurement cost.

Select quality warehousing partners and break bottlenecks to promote development

To ensure sufficient storage capacity of tanks for imported raw materials for accelerating raw materials turnover, Yanchang Zhejiang's team paid many site inspections to potential warehousing partners. After fully considering the geographical location of the places where oil tanks are located and the conditions of wharfs, it selects Zhoushan Dading, Nantong Yanghong for imported raw materials storage and entered into long-term lease agreements on oil tanks to ensure sufficient storage capacity of tanks for the international trade business of Yanchang Zhejiang.

Outlook

Despite the reoccurrence of the global pandemic in the first half of 2021, the impact of the pandemic on the economy is gradually weakening with the gradual improvement of the vaccination rate. In the second half of 2021, major economies will maintain their easing monetary policies to stimulate the economy and the global geographical situation will improve to a certain extent, which will drive global economic rebound and resumption of oil demands. The Company will seize the favourable environment of the structural recovery of the international oil and gas industry and coordinate and propel production and operation, business expansion, quality and efficiency improvement, introduce strategic investors and other works to lay a solid foundation for the long-term development of the Company in future so as to maximize the returns for the shareholders of the Company.

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 2021, 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 and by-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 sale volume of oil and gas of 202,530 BOE and contributed income of HK\$75,287,000 during the period under review, as compared to sale volume of 222,019 BOE and income of HK\$38,746,000 of the previous period. As a result of increase in oil prices and profit margin, Novus managed to turnaround into an operating profit of HK\$1,055,000 for the six months ended 30 June 2021, as compared to an operating loss of HK\$40,116,000 for the previous period.

During the six months ended 30 June 2021, the revenue of oil and by-products trading business in the PRC was HK\$10,132,979,000 as compared to HK\$8,122,552,000 of the previous period. Resulting from the increase in oil price and gross profit, together with higher sales volume from the previous period of 2.57 million tonnes to the current period of 2.71 million tonnes, that contributed an operating profit of HK\$55,670,000 to the supply and procurement business, as compared to an operating profit of HK\$35,918,000 of the previous period.

Other revenue

Apart from the aforesaid segment results, other revenue of HK\$5,128,000 which mainly represented interest income from bank deposits, rental income and tax refund from the PRC for the period under review, increased by HK\$3,584,000 from HK\$1,544,000 of the previous period.

Purchases

Purchases increased from the previous period of HK\$8,063,522,000 to this period of HK\$10,007,551,000, which were mainly derived from the refined oil trading business of Henan Yanchang. The increase of purchases was mainly 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, increased from the previous period of HK\$5,332,000 to the current period of HK\$7,862,000 due to the increase in oil price.

Field operation expenses

Field operation expenses increased to HK\$30,086,000 this period from the previous period of HK\$27,001,000. 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

Exploration and evaluation expenses amounted to HK\$1,186,000 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 and Yanchang Zhejiang for the oil and by-products trading business in the PRC, and the substantial increase in expenses in this period mainly came from the storage charge and transportation fee of Yanchang Zhejiang.

Administrative expenses

Administrative expenses including Directors' remuneration, staff costs, office rentals, professional fees and listing fee etc, increased by HK\$12,085,000 to HK\$38,578,000 for the period under review, such increase was mainly due to increase in manpower to cope with business expansion of Henan Yanchang and Yanchang Zhejiang and increase in repair and maintenance expenses of Henan Yanchang.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation expenses decreased from the previous period of HK\$41,730,000 to the current period of HK\$36,417,000. 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 gains and losses

Other gain of HK\$5,917,000 represented the aggregate of (i) net foreign exchange gain of HK\$7,612,000; after offsetting (ii) other loss of HK\$1,695,000.

Finance costs

Finance costs amounted to HK\$37,473,000 comprised (i) bank borrowing costs of HK\$14,159,000 related to the businesses of Henan Yanchang and interest of the secured term loan drawn down by Novus of HK\$19,913,000; (ii) accretion of HK\$1,197,000 related to the provision of the decommissioning liabilities incurred by Novus; and (iii) imputed interest of lease liabilities of HK\$2,204,000 related to the leases of the Group.

Taxation

Taxation of HK\$9,856,000 represented the provision for the PRC corporate income tax on the profit earned from oil products trading business in the PRC.

Profit/(loss) for the period

The oil and gas producing business in Canada as well as the oil and by-products trading business in the PRC performed well amid the rebound of international crude oil prices as vaccinations have been already rollout all over the world. The Group had successfully achieved a turnaround and recorded a profit of HK\$12,083,000 for the period under review, as compared to a loss of HK\$61,530,000 in the previous period.

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 2021.

The Group had outstanding variable interest rates bank borrowings amounted to HK\$613,530,000 as at 30 June 2021 (31 December 2020: HK\$572,112,000) under Henan Yanchang. The Group has obtained bank facilities of HK\$757,890,000 (equivalent to RMB630,000,000) 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 2021, the Group had cash and bank balances of HK\$251,116,000 (31 December 2020: HK\$436,084,000). 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 462.9% (31 December 2020: 229.0%). The current ratio of the Group, measured on the basis of current assets as a percentage of current liabilities stood at 105.7% as at 30 June 2021 (31 December 2020: 113.2%).

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 2021.

SIGNIFICANT INVESTMENT

The Group did not hold any significant investments as at 30 June 2021.

CAPITAL COMMITMENT

The Group had capital commitments to property, plant and equipment amounted to HK\$7,294,000 (31 December 2020: HK\$8,585,000) which were contracted but not provided for as at 30 June 2021.

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.

Pursuant to a loan agreement dated 30 June 2021 entered into between Yanchang Petroleum HK and the Company, US\$22,000,000 secured term loan granted by Yanchang Petroleum HK available to the Company, is secured by 350 ordinary shares (representing 35% of the issued share capital) of Sino Union Energy International Limited, a wholly owned subsidiary of the Company. The loan agreement is subject to approval of independent shareholders of the Company in the special general meeting to be held on 31 August 2021. Please refer to the announcement and the circular of the Company dated 30 June 2021 and 29 July 2021, respectively, for further details.

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

CONTINGENT LIABILITY

As at 30 June 2021, the Group had no material contingent liabilities (31 December 2020: Nil).

LITIGATION

As at 30 June 2021, the Group had no material litigations (31 December 2020: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2021, the Group's total number of staff was 220 (31 December 2020: 218). Salaries of employees are maintained at a competitive level with total staff costs for the six months ended 30 June 2021 amounted to HK\$35,951,000 (six months ended 30 June 2020: HK\$24,658,000). 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 2021 and 2020.

INTERIM DIVIDENDS

The Board does not recommend the payment of interim dividends for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2021, 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 2021, 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 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. Feng Yinguo was unable to attend the annual general meeting of the Company held on 28 May 2021 due to the impact of the COVID-19 pandemic.

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 2021.

AUDITORS

With effect from 8 October 2020, KPMG (“KPMG”) resigned as the auditors of the Company. Following the resignation of KPMG, BDO Limited (“BDO”) was appointed as the new auditors of the Company with the recommendation of the Audit Committee on 9 October 2020. Considering that BDO had been the auditors of the Company since 2020, 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 and the supplemental agreement to the supply agreement dated 30 September 2020, 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.

Besides, Henan Yanchang had connected transactions with a fellow subsidiary and related parties arising from the sale of refined oil and by-products. On 13 May 2021, Henan Yanchang entered into sales agreements with Yanan Energy Chemical and Yanchang Shell Henan respectively and with effect from 1 July 2021 in respect of the sales of refined oil and by-products from Henan Yanchang to Yanan Energy Chemical and Yanchang Shell Henan, respectively for the three years ending 31 December 2023. Please refer to the announcement dated 13 May 2021 and the circular dated 7 June 2021 of the Company for further details.

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 disclosed in note 13 to the unaudited condensed consolidated financial statements 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 2021.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement for the six months ended 30 June 2021 is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.yanchanginternational.com). The Company's interim report for 2021 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. Feng Yinguo
Chairman

Hong Kong, 27 August 2021

Executive Directors:

Mr. Feng Yinguo (*Chairman*)
Mr. Zhang Jianmin
Mr. Ding Jiasheng

Independent Non-Executive Directors:

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