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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 2024

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 2024 together with the unaudited comparative figures for the six months ended 30 June 2023 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2024

		Six months ended 30 June	
		2024	2023
	Notes	**(Unaudited)**	(Unaudited)
		HK$'000	*HK$'000*
Revenue	4	**16,771,559**	11,467,941
Other revenue	4	**5,482**	10,166
		16,777,041	11,478,107
Expenses			
Purchases		**(16,547,797)**	(11,201,659)
Royalties		**(21,792)**	(29,458)
Field operation expenses		**(48,988)**	(55,855)
Exploration and evaluation expenses		**(1,243)**	(1,137)
Selling and distribution expenses		**(18,080)**	(7,883)
Administrative expenses		**(37,425)**	(41,707)
Depreciation, depletion and amortisation		**(96,649)**	(115,790)
Other gains and losses	5	**(15,247)**	18,147
		(16,787,221)	(11,435,342)

	Notes	Six months ended 30 June **2024** **(Unaudited)** ***HK$'000***	 2023 (Unaudited) *HK$'000*
(Loss)/profit from operating activities	6	**(10,180)**	42,765
Finance costs	7	**(17,949)**	(25,193)
(Loss)/profit before taxation		**(28,129)**	17,572
Taxation	8	**863**	(4,766)
(Loss)/profit for the period		**(27,266)**	12,806
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong		**(37,621)**	46,952
Other comprehensive income for the period, with nil tax effect		**(37,621)**	46,952
Total comprehensive income for the period		**(64,887)**	59,758
(Loss)/profit for the period attributable to:			
Owners of the Company		**(27,018)**	15,209
Non-controlling interests		**(248)**	(2,403)
		(27,266)	12,806
Total comprehensive income for the period attributable to:			
Owners of the Company		**(63,481)**	48,758
Non-controlling interests		**(1,406)**	11,000
		(64,887)	59,758
(Loss)/earnings per share attributable to the owners of the Company			
Basic and diluted, HK cents	10	**(2.46)**	1.40

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2024

	Notes	30 June 2024 (Unaudited) HK$'000	31 December 2023 (Audited) HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**1,735,346**	1,859,533
Investment properties		**12,335**	12,590
Exploration and evaluation assets		**11,264**	11,384
Right-of-use assets		**94,041**	99,349
Goodwill and intangible asset		**58,149**	58,149
		1,911,135	2,041,005
Current assets			
Inventories		**364,626**	346,580
Trade receivables	11	**809,369**	1,014,916
Prepayments, deposits and other receivables		**422,663**	55,853
Tax recoverable		**1,646**	–
Cash and bank balances		**256,887**	226,188
		1,855,191	1,643,537
Total assets		**3,766,326**	3,684,542
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital		**440,041**	440,041
Reserves		**787,391**	850,872
Total equity attributable to the owners of the Company		**1,227,432**	1,290,913
Non-controlling interests		**55,847**	57,253
Total equity		**1,283,279**	1,348,166

	Notes	30 June 2024 (Unaudited) HK$'000	31 December 2023 (Audited) HK$'000
LIABILITIES			
Current liabilities			
Trade and other payables	12	**1,498,781**	1,208,394
Lease liabilities		**7,421**	7,838
Bank borrowings and other loans		**268,500**	405,594
Secured term loans		**446,235**	445,355
Tax payables		**86**	316
		2,221,023	2,067,497
Non-current liabilities			
Decommissioning liabilities		**168,836**	171,349
Lease liabilities		**82,727**	86,815
Deferred tax liabilities		**10,461**	10,715
		262,024	268,879
Total liabilities		**2,483,047**	2,336,376
Total equity and liabilities		**3,766,326**	3,684,542
Net current liabilities		**(365,832)**	(423,960)
Total assets less current liabilities		**1,545,303**	1,617,045

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 2023 as contained in the Company's annual report 2023 (the "Annual Report 2023"), 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 2024.

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 2024 are consistent with those followed in the preparation of the Annual Report 2023 except for the impact of the adoption of the new or amended HKFRSs.

In the current period, the Group has applied, for the first time, a number of the new or amended HKFRSs issued by the HKICPA which are effective for the Group's financial period beginning 1 January 2024. A summary of the new or amended HKFRSs are set out as below:

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

- Amendments to HKAS 1 – Non-current Liabilities with Covenants

- Amendments to HKAS 7 and HKFRS 7 – Supplier Finance Arrangements

- Amendments to HKFRS 16 – Lease Liability in a Sale and Leaseback

The application of the above new or amended 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 21 – Lack of Exchangeability[1]
- Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]

[1] Effective for annual periods beginning on or after 1 January 2025.

[2] The amendment 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 For the six months ended 30 June		Consolidated	
	2024 (Unaudited) ***HK$'000***	2023 (Unaudited) *HK$'000*	**2024 (Unaudited)** ***HK$'000***	2023 (Unaudited) *HK$'000*	**2024 (Unaudited)** ***HK$'000***	2023 (Unaudited) *HK$'000*
Segment revenue:						
Sales to external customers	**189,103**	231,445	**16,582,456**	11,236,496	**16,771,559**	11,467,941
Segment profit/(loss)	**7,932**	20,068	**(1,597)**	2,587	**6,335**	22,655
Other revenue					**5,482**	10,166
Reversal of written down of inventories					**–**	5,033
Net foreign exchange (loss)/gain					**(15,219)**	13,114
Unallocated corporate expenses					**(6,778)**	(8,203)
(Loss)/profit from operating activities					**(10,180)**	42,765
Finance costs					**(17,949)**	(25,193)
(Loss)/profit before taxation					**(28,129)**	17,572
Taxation					**863**	(4,766)
(Loss)/profit for the period					**(27,266)**	12,806

Revenue reported was generated from external customers. There were no inter-segment sales during the six months ended 30 June 2024 and 2023.

Segment profit/(loss) represents the profit earned/loss incurred by each segment without allocation of other revenue, reversal of written down of inventories, net foreign exchange (loss)/gain, 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 2024 (Unaudited)	31 December 2023 (Audited)	**30 June 2024 (Unaudited)**	31 December 2023 (Audited)	**30 June 2024 (Unaudited)**	31 December 2023 (Audited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**1,736,404**	1,872,385	**2,011,261**	1,788,570	**3,747,665**	3,660,955
Unallocated assets					**18,661**	23,587
Total assets					**3,766,326**	3,684,542
Segment liabilities	**520,415**	596,601	**1,783,526**	1,556,645	**2,303,941**	2,153,246
Unallocated liabilities					**179,106**	183,130
Total liabilities					**2,483,047**	2,336,376

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$16,582,456,000 (six months ended 30 June 2023: HK$11,236,496,000) are revenue of HK$12,452,145,000 (six months ended 30 June 2023: HK$7,278,011,000) which arose from two customers (six months ended 30 June 2023: 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	
	2024 (Unaudited)	2023 (Unaudited)
	HK$'000	*HK$'000*
Customer A	**8,679,176**	4,836,425
Customer B	**3,772,969**	2,441,586

4. **REVENUE AND OTHER REVENUE**

Revenue represents the consideration expected to be entitled from the goods sold which are recognised under point in time under HKFRS 15. All significant intra-group transactions have been eliminated on consolidation.

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

	Six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue		
Sales of crude oil and gas	**189,103**	231,445
Trading and distribution of oil related products	**16,582,456**	11,236,496
	16,771,559	11,467,941
Other revenue		
Bank interest income	**3,124**	8,605
Rental income	**698**	658
Others	**1,660**	903
	5,482	10,166

5. **OTHER GAINS AND LOSSES**

	Six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Net foreign exchange (loss)/gain	**(15,219)**	13,114
Others	**(28)**	5,033
	(15,247)	18,147

6. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

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

	Six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**16,547,797**	11,201,659
Depreciation and depletion charge:		
– property, plant and equipment	**92,358**	111,816
– right-of-use assets	**4,291**	3,974
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	**632**	1,495
Staff costs (including Directors' remuneration):		
– Salaries and wages	**33,088**	35,173
– Pension scheme contributions	**2,180**	2,441

7. FINANCE COSTS

	Six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest expenses on bank borrowings and secured term loans wholly repayable within five years	**14,323**	20,177
Interest expenses on lease liabilities	**2,262**	2,425
Interest expenses on other loans	**–**	1,236
Accretion expenses of decommissioning liabilities	**1,364**	1,355
	17,949	25,193

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 2024 is calculated at 16.5% of estimated assessable profits (six months ended 30 June 2023: 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 2024 and 2023 respectively.

	Six months ended 30 June	
	2024	2023
	(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	**(863)**	4,766
Deferred tax		
Origination of temporary differences	**–**	–
	(863)	4,766

9. INTERIM DIVIDENDS

The Directors do not recommend the payment of any interim dividends in respect of the six months ended 30 June 2024 (six months ended 30 June 2023: Nil).

10. (LOSS)/EARNINGS PER SHARE

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

	Six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
(Loss)/profit		
(Loss)/profit for the period attributable to the owners of the Company for the purpose of basic and diluted (loss)/earnings per share	**(27,018)**	15,209

	Six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted (loss)/earnings per share	**1,100,103**	1,087,947

Diluted (loss)/earnings per share for the six months ended 30 June 2024 and 2023 were the same as the basic (loss)/earnings per share as the Company had no dilutive potential ordinary shares in existence during the six months ended 30 June 2024 and 2023.

11. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of up to 90 days (31 December 2023: up to 90 days), are recognised and carried at the original invoiced amount less allowance for doubtful debt. Trade receivables are non-interest bearing.

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

	30 June 2024 (Unaudited)	31 December 2023 (Audited)
	HK$'000	*HK$'000*
0 to 30 days	**787,741**	992,263
31 to 60 days	**196**	215
61 to 90 days	**130**	482
Over 90 days	**21,302**	21,956
	809,369	1,014,916

12. TRADE AND OTHER PAYABLES

	30 June 2024 (Unaudited)	31 December 2023 (Audited)
	HK$'000	*HK$'000*
Trade payables	**968,833**	938,645
Contract liabilities *(note)*	**376,666**	39,495
Valued added tax payables	**48,898**	98,034
Other payables	**104,384**	132,220
	1,498,781	1,208,394

Note: Contract liabilities as at 30 June 2024 and 31 December 2023 mainly represented the advance received from customers upon order placement, and were fully recognised as revenue during the period 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$376,666,000 were recognised as at 30 June 2024 (31 December 2023: HK$39,495,000) as a result of the receipt of payment during the period in advance of the satisfaction of performance obligation, and are expected to be fully recognised as revenue within one year.

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

	30 June 2024 (Unaudited) ***HK$'000***	31 December 2023 (Audited) *HK$'000*
0 to 30 days	**963,981**	890,855
31 to 60 days	**793**	3,177
61 to 90 days	**15**	38
Over 90 days	**4,044**	44,575
	968,833	938,645

As at 30 June 2024 and 31 December 2023, the trade payables are non-interest bearing and have an average credit period on purchases of up to 90 days.

13. CONTINGENT LIABILITIES

As at 30 June 2024, the Group had no material contingent liabilities (31 December 2023: Nil).

14. MATERIAL RELATED PARTIES TRANSACTIONS

Save as disclosed elsewhere in the unaudited condensed consolidated financial statements, during the six months ended 30 June 2024, the Group had the following transactions with related parties.

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

Key management personnel

	Six months ended 30 June	
	2024 (Unaudited) ***HK$'000***	2023 (Unaudited) *HK$'000*
Salaries, bonus and allowance	**7,360**	7,093
Pension Scheme contributions	**116**	111
	7,476	7,204

Related party transactions

Relationship	Nature of transactions	Six months ended 30 June 2024 (Unaudited) *HK$'000*	2023 (Unaudited) *HK$'000*
Ultimate holding company	Purchases of refined oil *(note 1)*	**7,479,608**	3,561,849
Fellow associates	Sales of refined oil and by-products *(note 2)*	**28,742**	9,860
Immediate holding company	Secured term loan interest expenses	**11,182**	10,849
Ultimate holding company	Other loan interest expenses	**2,992**	3,639

Notes:

(1) During the six months ended 30 June 2024, the Group had connected transactions with ultimate holding company arising from the purchases of refined oil. Henan Yanchang Sales Co., Limited ("Henan Yanchang") entered into the supply agreement dated 18 November 2022 and the supplemental supply agreement dated 27 November 2023 with Shaanxi Yanchang Petroleum (Group) Co., Limited ("Yanchang Petroleum Group") in respect of the purchases of refined oil from Yanchang Petroleum Group with effect from 1 January 2023 for the three years ending 31 December 2025.

(2) During the six months ended 30 June 2024, the Group had connected transactions with fellow associates arising from the sales of refined oil and by-products. Henan Yanchang entered into the sales agreements with China Petroleum Yanchang Petroleum Trading Stock Limited Company* (中油延長石油銷售股份有限公司, "China Petroleum Yanchang") and Yanchang Shell Henan Petroleum Limited* (延長殼牌河南石油有限公司, "Yanchang Shell Henan") respectively on 27 November 2023 and with effect from 1 January 2024, in respect of the sales of refined oil and by-products for the three years ending 31 December 2026.

(3) The above transactions constitute continuing connected transactions under Chapter 14A of the Listing Rules. The Company has complied with the requirements under Chapter 14A of the Listing Rules.

15. EVENT AFTER THE REPORTING PERIOD

On 8 August 2024, the Company entered into a supplemental loan agreement with Yanchang Petroleum Group (Hong Kong) Co. Limited ("Yanchang Petroleum HK"), pursuant to which Yanchang Petroleum HK conditionally agreed to renew the loan of US$22,000,000 for a term of three years and the loan is secured by the new share charge. Further details of the loan renewal are set out in the announcement of the Company dated 8 August 2024.

Save as aforesaid, there is no other significant event after the reporting period.

* *For identification purposes only*

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

In the first half of 2024, global economic growth recovered but remained at a medium-low-speed growth track and the performance across major economies varied. The competition between China and the United States had intensified and geopolitical conflicts continued, which led to economic fragmentation and supply chain restructuring with global markets becoming more fragmented and regionalized. Affected by the intertwined impact of geopolitical tensions, supply and demand fluctuations, and OPEC+'s policy of maintaining a production cut, international oil prices had been oscillating in a wide range. Facing such a situation, the Company responded proactively through timely adjustments to its investment plans for new drilling wells to ensure stable oil and gas production.

Upstream oil and gas production business in Canada

In the first half of 2024, Novus Energy Inc. ("Novus") overcame unfavourable factors such as extreme cold weather and snowstorms and a "road closure order" during the snowmelt period by focusing closely on its objectives and tasks and make the most of its operating cash flow to efficiently organize production operations to fully unleash the production capacity of wells. For the six months ended 30 June 2024, cumulative capital expenditures were CAD3,340,000, with 1 well drilled and 3 wells placed on production, and a total of 417,900 barrels of oil equivalent ("BOE") were produced. Novus sold a total of 457,000 barrels of oil equivalent with a revenue of CAD33,180,000 and a loss of CAD4,260,000 (including an unrealized foreign exchange loss of CAD2,620,000) was incurred.

(I) Continuous control of production and operating costs

In the first half of 2024, Novus managed its budget stringently in controlling costs and enhancing efficiency. Against the backdrop of rising costs on road transportation and on-site maintenance and handling due to extreme cold weather in the second quarter, the on-site operating costs of Novus were controlled at CAD18.81/barrel, a year-on-year decrease of 0.84%. The relative controllable cost was CAD34.18 per barrel, representing a year-on-year increase of 14.58%. The full composite cost per barrel stood at CAD76.19/barrel, up by 0.33% year-on-year. The rigid expenses including management costs per barrel and interests were jacked up due to a drop in production volume. Nevertheless, the decline in production was broadly in line with the increase in relative controllable costs. It is encouraging to note that while production was down 15.53% year-on-year, our on-site operating costs dropped year-on-year, with only a slight growth in full composite cost per barrel.

(II) Exerting efforts in ramping up scientific and technological capability

Novus adhered to the problem-oriented, demand-oriented and efficiency-oriented approaches, and launched a comprehensive study on the Novus oilfield from a sustainable development perspective. Novus stepped up its scientific cooperation with scientific research institutes, as evidenced by our project "Comprehensive Geological Study of Novus Oilfield" (《諾瓦斯油田綜合地質研究》) collaborated with a team of professors that entered its final stage. Fully leveraging on the technical prowess of our internal and upper-level units, Novus is carrying out the project research of "Innovative Understanding of Sedimentary Reservoirs and Key Technologies for Efficient Development of Thin Oil Reservoirs in Novus Oilfield of Canada" (《加拿大諾瓦斯油田沉積儲層認識創新及薄油層高效開發關鍵技術》). Novus went full swing to tackle technical problems, including fine description of reservoirs, geological foundation research, distribution of residual oil, and high efficient development of horizontal wells, among others.

(III) Upholding safety and environmental compliance

Novus has always been committed to safety and environmental management, stringently complied with laws and regulations in Canada, and conscientiously fulfilled its obligations of emissions reduction and abandonment of oil and gas wells according to the requirements of the federal and provincial governments. For the six months ended 30 June 2024, there were no safety, environmental protection and engineering quality incidents at Novus Oilfield, and Novus did not receive any emission reduction penalty from the government.

Downstream oil sales business in China

In the first half of 2024, Henan Yanchang recorded a cumulative oil sales volume of 2,129,300 tonnes with an operating revenue of RMB15.408 billion and a loss of RMB769,600 recorded. While implementing organisational structure adjustment and process reengineering in all respects, constantly optimising its business structure and cultivating its core business competence, Henan Yanchang increased the proportion of market-based businesses and focused its efforts on the fixed regions, inventory sales, external sourcing exposure and terminal retail business on the premise of ensuring stable income and business compliance, and worked full steam ahead to achieve the annual target.

(I) Promoting our business in steady and orderly progress

(1) Railway distribution. While keeping abreast of market demand and price changes, in consolidating the markets in the southwest and northwest regions, we gradually put more effort into developing other areas, including Central China and North China. As a result, the number of customers was expanded to 24 and sales volume reached 400,800 tonnes in the first half of 2024, representing a year-on-year increase of 39.02%, further expanding our market influence. (2) External sourcing. We continuously optimized the business processes and service quality of our major customers, such as Sinopec Marketing Company Limited Northwest Branch* (中國石化銷售股份有限公司西北分公司), Sinopec Marketing Company Limited Central China Branch* (中國石化銷售股份有限公司華中分公司), Beijing Zhonglin Lihe Petrochemical Co., Limited* (北京中林力合石油化工有限公司) to promote business growth steadily. We established a tracking and handling mechanism for operational issues to monitor the entire business execution process and strengthened our rapid response and contingency handling capability after the occurrence of problems, ensuring the safe and stable operation of the business. (3) Terminal retailing. We actively promoted a membership system covering all online customers and launched diversified new recruitment and membership activities, with a total of 317,700 members in the entire network and 56,900 members following our official accounts. In particular, after launching membership activities in June 2024, we had 8,135 new members following our official accounts, with an average daily growth rate of 288, which resulted in a rapid increase in the number of members, laying the foundation for the launch of subsequent marketing activities.

(II) Remarkable achievements in business expansion

Firstly, Henan Yanchang actively pushed forward the fixed investment business in the Sanmenxia and accomplished the first shipment on 4 April 2024, providing guaranteed delivery service to 24 self-operated gas stations under Sinopec Marketing Co., Limited Henan Petroleum Branch, with a total of 327 deliveries without any oil product backflow or quality disputes. From April to June 2024, the cumulative sales volume of fixed regions was 17,800 tonnes. Secondly, Henan Yanchang vigorously developed markets in Hunan and Hubei. For the first half year, we reached cooperation with Hubei State Oil Reserve Petrochemical Co., Limited* (湖北國儲石化有限公司), and successfully opened up the integrated pipeline of procurement, transportation, warehousing and sales along the river. For the six months ended 30 June 2024, sales volume in Hunan and Hubei reached 68,000 tonnes, achieving a price difference of RMB4,708,300. Thirdly, Henan Yanchang was enlisted as a supplier of China Petroleum and Natural Gas Co., Limited Hubei Sales Branch and CNOOC Huadong Sales Co., Limited, supplying 22,700 tonnes of oil during the first half year.

* *For identification purposes only*

(III) Further strengthening of business assurance

Firstly, we organized the business teams of each segment to recalibrate business processes and forms comprehensively. With the help of third-party data governance organizations, the diagnosis of existing business process and procedure re-structuring was completed during the first half year and is being implemented steadily. Secondly, we actively created a digital quality management system for various business scenarios. In the first half year, we recalibrated and developed key business scenarios involving oil depots, gas stations and fixed investment businesses, and came up with an initial digital quality control program. Thirdly, we further improved the budget management system. During the first half year, the fee quota standard of Henan Yanchang was sorted out and fixed to solidify the foundation for implementing comprehensive budget management. Fourthly, we steadily facilitated the informatization construction and completed the first phase of system development of the direct connection between banks and enterprises, a direct connection between tax authorities and enterprises and CRM in the first half year. Currently, we are promoting the research and development of a fee control system, basically forming the digital system support for fixed investment business. Fifthly, we pushed forward the organization structure optimization in an orderly manner. During the first half year, we completed the organization structure adjustment and the proposal for the job position setup. We also formulated the relevant bidding plans to lay a healthy foundation for subsequent organization construction. Sixthly, the reform of retail remuneration performance was completed. During the first half year, we organized relevant personnel to visit enterprises including Sinopec, CNPC, Yanchang Shell and Yanchang Petroleum for benchmark learning. We compared the remuneration standard and structure of the same industry and optimized and developed a close-to-market remuneration system for gas stations.

(IV) Further consolidation of the safety management

Firstly, Henan Yanchang conducted intense special activities such as “Holistic Investigation, Inspection and Remediation”, “Identification and Assessment of Safety Risks by Experts”, “Cross-checking of Safety in Enterprises with Major Hazardous Sources in Zhengzhou”, and “In-Depth Assessment of Safety Risk in Oil and Gas Storage Enterprises in Henan”. In the first half of 2024, Henan Yanchang self-inspected a total of 94 issues with sales companies under Yanchang Petroleum Group inspected 8 issues and 24 issues were inspected by experts, and all the issues and hidden dangers have been rectified as required. Secondly, Henan Yanchang carried out fire safety publicity and training using the Safety Intelligent Risk Management Platform and electronic screens and conducted quarterly joint fire emergency drills with local fire departments to enhance the emergency response capability of its employees. Thirdly, according to the requirements of the “Three-Year Implementation Plan (2024–2026) to Address the Fundamentals Causes of Safety Production” program, Henan Yanchang organized special training courses for general managers on safety issues, special training on the facilitation of OPL application, and education on accidents to further enhance the awareness of its employees on safety production. In March 2024, Henan Yanchang was awarded by the Emergency Management Department of Henan Province as a paired poverty alleviation group with outstanding achievements in safety production.

Outlook

Looking ahead into the second half of 2024, the global economy is expected to recover moderately, although the growth rate may slow down. Geopolitical conflicts, inflationary pressures and monetary policy adjustments will continue to have significant impact on the global economy. Against this backdrop, the trend of oil prices will also be affected by multiple factors, including accelerated energy transformation, competition from renewable energy sources, OPEC+ production cut policy and fluctuations in global economic growth. It is expected that international oil prices range fluctuation may be widened.

In facing this expectation, the Company will maintain a prudent business strategy, actively respond to market changes, and effectively prevent and mitigate various risks. The Company will focus on optimizing our asset portfolio and seizing market opportunities and strive to enhance our operational efficiency to create long-term stable value returns for our shareholders.

FINANCIAL REVIEW

Segment 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 2024, the Group's turnover was mainly derived from the production of oil and natural gas in Canada as well as the trading business of oil and by-products in the PRC.

Novus is engaged in the business of exploration, exploitation and production of oil and natural gas in Western Canada. Novus achieved sale volume of oil and gas of 456,989 BOE and contributed revenue of HK$189,103,000 during the period under review, as compared to sale volume of 499,885 BOE and income of HK$231,445,000 of the previous period. Novus contributed an operating profit of HK$7,932,000 for the six months ended 30 June 2024, as compared to an operating profit of HK$20,068,000 for the previous period.

During the six months ended 30 June 2024, the sales volume of oil and by-products trading business in the PRC increased from the previous period of 1.41 million tonnes to the current period of 2.13 million tonnes, the revenue increased to HK$16,582,456,000 of the current period from HK$11,236,496,000 of the previous period. The supply and procurement business recorded an operating loss of HK$1,597,000, as compared to an operating profit of HK$2,587,000 of the previous period.

Other revenue

Apart from the aforesaid segment results, other revenue of HK$5,482,000 which mainly represented interest income from bank deposits and rental income from the PRC for the period under review, decreased by HK$4,684,000 from HK$10,166,000 of the previous period.

Purchases

Purchases increased from the previous period of HK$11,201,659,000 to this period of HK$16,547,797,000 and the increase was consistent with the growth in sales.

Royalties

Royalties, including crown, freehold and overriding royalties incurred by Novus for oil and natural gas production business in Canada, decreased from the previous period of HK$29,458,000 to the current period of HK$21,792,000 as a result of lower revenue of Novus.

Field operation expenses

Field operation expenses decreased to HK$48,988,000 this period from the previous period of HK$55,855,000. The decrease in expenses was mainly due to the decrease in production of Novus. 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 oil and natural gas.

Exploration and evaluation expenses

Exploration and evaluation expenses amounted to HK$1,243,000 represented the holding costs, mainly lease rentals, on the interests of non-producing lands held by Novus.

Selling and distribution expenses

Selling and distribution expenses, increased from the previous period of HK$7,883,000 to current period of HK$18,080,000, were mainly incurred by Henan Yanchang for the oil and by-products trading business in the PRC.

Administrative expenses

Administrative expenses included directors' remuneration, staff costs, office rentals, professional fees and listing fee etc, decreased by HK$4,282,000 to HK$37,425,000 for the period under review.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation expenses decreased from the previous period of HK$115,790,000 to the current period of HK$96,649,000. The decrease was mainly due to the decrease in depletion of oil and gas assets of Novus in Canada resulting from the decrease in production during the period under review.

Other gains and losses

Other loss of HK$15,247,000 mainly represented the net foreign exchange loss of HK$15,219,000.

Finance costs

Finance costs amounted to HK$17,949,000 comprised (i) bank borrowing costs of HK$3,141,000 related to the businesses of Henan Yanchang and interest of the secured term loans drawn down by Novus and the Company of HK$11,182,000; (ii) accretion of HK$1,364,000 related to the provision of the decommissioning liabilities incurred by Novus; and (iii) imputed interest of lease liabilities of HK$2,262,000 related to the leases of the Group.

Taxation

Taxation of HK$863,000 represented the over-provision for the PRC corporate income tax on the profit earned from oil and by-products trading business in the PRC.

(Loss)/profit for the period

Compared to a profit for the last period of HK$12,806,000, a loss of HK$27,266,000 was recorded for the period under review, including the loss of HK$24,277,000 recorded by Novus.

LIQUIDITY AND FINANCIAL RESOURCES

The Group funded its operation mainly by its internal resources together with bank borrowings and secured term loans for the six months ended 30 June 2024.

The Group had no variable interest rates bank borrowings as at 30 June 2024 (31 December 2023: HK$131,544,000) under Henan Yanchang. The Group has obtained bank facilities of HK$531,630,000 (equivalent to RMB495,000,000) from various banks in the PRC.

A 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. On 6 December 2022, Novus entered into a supplemental facility agreement with Yanchang Petroleum HK, pursuant to which Novus has renewed the secured term loan of US$35,000,000 on 18 January 2023 which bears interest rate at 4.8% per annum and repayable in three years. The principal amount of the secured term loan was still outstanding as at 30 June 2024.

On 3 September 2021, the Company drew down a secured term loan of US$22,000,000, granted by Yanchang Petroleum HK which bears interest rate at 4.8% per annum and repayable in three years. The secured term loan granted to the Company by Yanchang Petroleum HK as general working capital for operation. The principal amount of the secured term loans was still outstanding as at 30 June 2024.

As at 30 June 2024, the Group had cash and bank balances of HK$256,887,000 (31 December 2023: HK$226,188,000). In view of the cash on hand together with the available bank facilities, the Group has sufficient 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 193.5% (31 December 2023: 173.3%). The current ratio of the Group, measured on the basis of current assets as a percentage of current liabilities stood at 83.5% as at 30 June 2024 (31 December 2023: 79.5%).

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 2024.

SIGNIFICANT INVESTMENT

The Group did not hold any significant investments as at 30 June 2024.

CAPITAL COMMITMENT

The Group had capital commitments for purchase of property, plant and equipment amounting to HK$776,000 (31 December 2023: HK$275,000) which were contracted but not provided for as at 30 June 2024.

PLEDGE OF ASSETS

The loan amount of US$35,000,000 lent by Yanchang Petroleum HK 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 the loan agreement dated 30 June 2021 entered into between Yanchang Petroleum HK and the Company, the loan amount of US$22,000,000 (the "Loan") was drawn down by the Company on 3 September 2021 and is due on 2 September 2024. The Loan is secured by 350 ordinary shares of Sino Union Energy International Limited ("Sino Union Energy") (representing 35% of the issued share capital of Sino Union Energy which is a direct wholly-owned subsidiary of the Company) under the share charge deed, pursuant to which the Company agreed to provide a guarantee in favour of Yanchang Petroleum HK that the Company shall procure on the best effort basis the carrying valuation of Henan Yanchang will be not less than US$104,800,000 (the "Old Share Charge"). The Old Share Charge was released, pursuant to a deed of release entered into between the Company and Yanchang Petroleum HK on 8 August 2024.

As the Loan becomes due on 2 September 2024, the Company entered into the supplemental loan agreement on 8 August 2024 with Yanchang Petroleum HK to conditionally renew the Loan for a term of three years. The Loan is secured by 70% of the issued share capital of Henan Yanchang indirectly held by the Company under the new share charge deed, pursuant to which the Company agreed to provided a guarantee in favour of Yanchang Petroleum HK that the Company shall procure on the best effort basis the carrying valuation of Henan Yanchang will be not less than US$31,430,000.

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

CONTINGENT LIABILITY

As at 30 June 2024, the Group did not have any significant contingent liabilities (31 December 2023: HK$ Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2024, the Group's total number of staff was 211 (31 December 2023: 207). Salaries of employees are maintained at a competitive level with total staff costs for the six months ended 30 June 2024 amounted to HK$35,268,000 (six months ended 30 June 2023: HK$37,614,000). 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 etc. There is also a share option scheme offered to employees and eligible participants. No share options was granted under the Company's share option scheme during the six months ended 30 June 2024 and 2023.

INTERIM DIVIDENDS

The Board does not recommend the payment of interim dividends for the six months ended 30 June 2024 (six months ended 30 June 2023: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2024, 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 long-term value 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 2024, except for the following deviation:

1. code provision B.2.4(b) of the CG Code provides that all the independent non-executive Directors have served more than nine years on the Board, the Company should appoint a new independent non-executive Director on the Board. Mr. Ng Wing Ka, Mr. Leung Ting Yuk, Mr. Sun Liming and Dr. Mu Guodong have served as the independent non-executive Directors for more than nine years. The Company would appoint an additional new independent non-executive Director as soon as practicable as the Company needs time to identify a qualified and suitable candidate. As at the date of this results, the Company has not yet identified a suitable candidate to assume the role of the new independent non-executive Director as provided by the code provision B.2.4(b).

2. code provision C.1.6 of the CG Code provides that the independent non-executive Directors and other non-executive Directors should also attend general meetings and develop a balanced understanding of the views of shareholders. The non-executive Director, Mr. Sun Jian and one of the independent non-executive Directors Mr. Ng Wing Ka were unable to attend the annual general meeting of the Company held on 31 May 2024 due to other ad hoc engagements.

3. code provision C.2.1 of the CG Code provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The position of the chief executive officer of the Company was vacant following the resignation of Mr. Bruno Guy Charles Deruyck as an executive Director and chief executive officer on 1 June 2019. In addition, the Board considers that the balance of power and authority, accountability and independent decision making under present arrangement is not impaired because of the diverse background and experience of the executive Directors, non-executive Director and independent non-executive Directors. The audit committee of the Company has free and direct access to the Company's senior management, external auditors and independent professional advisers when it considers necessary. Therefore, the Board considers that the deviation from code provision C.2.1 of the CG Code is not significant in such circumstance.

4. code provision F.2.2 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 held on 31 May 2024 due to other ad hoc engagements.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") currently comprises the three independent non-executive Directors, namely Mr. Leung Ting Yuk, Mr. Ng Wing Ka and Mr. Sun Liming. Mr. Leung Ting Yuk is the chairman of the Audit Committee. The Audit Committee has reviewed the accounting principles and policies adopted by the Company and discussed with management the risk management, internal control systems and financial reporting matters. The Audit Committee has reviewed the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2024.

CONTINUING CONNECTED TRANSACTIONS

Yanchang Petroleum Group and Henan Yanchang (an indirect non-wholly owned subsidiary of the Company) renewed and entered into the new supply agreement dated 18 November 2022 and the supplemental supply agreement to revise annual caps dated 27 November 2023, pursuant to which with effect from 1 January 2023 Yanchang Petroleum Group agreed to supply and Henan Yanchang agreed to purchase refined oil for the three years ending 31 December 2025.

Besides, Henan Yanchang had connected transactions with fellow associates arising from the sale of refined oil and by-products. On 27 November 2023, Henan Yanchang entered into the sales agreements with China Petroleum Yanchang and Yanchang Shell Henan, respectively and with effect from 1 January 2024, in respect of the sales of refined oil and by-products from Henan Yanchang to China Petroleum Yanchang and Yanchang Shell Henan, respectively for the three years ending 31 December 2026.

Further details of the transactions are included in note 14 to the unaudited condensed consolidated financial statements.

The independent non-executive Directors of the Company have reviewed the continuing connected transactions disclosed in note 14 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.

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 2024.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement for the six months ended 30 June 2024 is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.yanchanginternational.com). The Company's interim report for 2024 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 2024

Executive Directors:
Mr. Feng Yinguo *(Chairman)*
Ms. Wang Haining
Mr. Ding Jiasheng

Non-executive Director:
Mr. Sun Jian

Independent Non-Executive Directors:
Mr. Ng Wing Ka
Mr. Leung Ting Yuk
Mr. Sun Liming
Dr. Mu Guodong