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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 2018

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 2018 together with the unaudited comparative figures for the six months ended 30 June 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

| | | Six months ended 30 June | |
|--|-------|--------------------------|---------------------------|
| | | 2018 | 2017 |
| | Notes | HK\$'000 | HK\$'000 |
| | | (Unaudited) | (Unaudited) (Restated) |
| Revenue | 4 | 2,288,147 | 2,308,928 |
| Other revenue | 4 | 9,832 | 7,292 |
| | | 2,297,979 | 2,316,220 |
| Expenses | | | |
| Purchases | | (2,114,661) | (2,139,279) |
| Royalties | | (15,680) | (14,381) |
| Field operation expenses | | (37,665) | (37,313) |
| Exploration and evaluation expenses | | (1,149) | (1,698) |
| Selling and distribution expenses | | (3,325) | (2,625) |
| Administrative expenses | | (44,158) | (34,833) |
| Depreciation, depletion and amortisation | | (63,913) | (75,954) |
| Other (losses)/gains | 5 | (4,288) | 578 |
| | | (2,284,839) | (2,305,505) |

| | Notes | Six months ended 30 June | |
|---|-------|---------------------------------|---|
| | | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) (Restated) |
| Profit from operating activities | 6 | 13,140 | 10,715 |
| Finance costs | 7 | <u>(26,127)</u> | <u>(26,062)</u> |
| Loss before taxation | | (12,987) | (15,347) |
| Taxation | 8 | <u>(8,799)</u> | <u>(6,608)</u> |
| Loss for the period | | <u>(21,786)</u> | <u>(21,955)</u> |
| Other comprehensive income | | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| Exchange differences on translating foreign operations | | <u>(66,460)</u> | <u>67,639</u> |
| Other comprehensive income for the period, net of tax | | <u>(66,460)</u> | <u>67,639</u> |
| Total comprehensive income for the period | | <u>(88,246)</u> | <u>45,684</u> |
| (Loss)/profit for the period attributable to: | | | |
| Owners of the Company | | <u>(24,991)</u> | (24,852) |
| Non-controlling interests | | <u>3,205</u> | <u>2,897</u> |
| | | <u>(21,786)</u> | <u>(21,955)</u> |
| Total comprehensive income for the period attributable to: | | | |
| Owners of the Company | | <u>(90,085)</u> | 38,682 |
| Non-controlling interests | | <u>1,839</u> | <u>7,002</u> |
| | | <u>(88,246)</u> | <u>45,684</u> |
| Loss per share attributable to the owners of the Company | | | |
| Basic and diluted, HK cents | 10 | <u>(0.21)</u> | <u>(0.20)</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

| | 30 June | 31 December |
|---|-------------------------|--------------------|
| | 2018 | 2017 |
| <i>Notes</i> | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Audited) |
| ASSETS | | |
| Non-current assets | | |
| Property, plant and equipment | 1,874,515 | 1,916,629 |
| Prepaid lease payments | 16,438 | 16,911 |
| Investment properties | 21,457 | 21,760 |
| Exploration and evaluation assets | 27,877 | 31,108 |
| Goodwill and intangible asset | 58,149 | 58,149 |
| Deferred tax assets | 69,508 | 75,623 |
| | 2,067,944 | 2,120,180 |
| Current assets | | |
| Inventories | 52,933 | 54,214 |
| Trade receivables | <i>11</i> 27,869 | 127,657 |
| Prepayments, deposits and other receivables | 983,094 | 353,859 |
| Tax recoverable | 76 | – |
| Cash and bank balances | 195,250 | 207,998 |
| | 1,259,222 | 743,728 |
| Total assets | 3,327,166 | 2,863,908 |
| EQUITY | | |
| Capital and reserves attributable to the owners of the Company | | |
| Share capital | 242,911 | 242,911 |
| Reserves | 1,146,869 | 1,235,072 |
| Total equity attributable to the owners of the Company | 1,389,780 | 1,477,983 |
| Non-controlling interests | 118,502 | 116,663 |
| Total equity | 1,508,282 | 1,594,646 |

| | | 30 June | 31 December |
|--|--------------|------------------------|------------------------|
| | | 2018 | 2017 |
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | (Unaudited) | (Audited) |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 12 | 999,127 | 445,583 |
| Convertible bonds | | 379,708 | 376,553 |
| Derivative financial liabilities | | 1,216 | – |
| Tax payables | | – | 677 |
| Bank borrowings | | 296,417 | 295,527 |
| | | <u>1,676,468</u> | <u>1,118,340</u> |
| Non-current liabilities | | | |
| Decommissioning liabilities | | 133,490 | 139,575 |
| Deferred tax liabilities | | 8,926 | 11,347 |
| | | <u>142,416</u> | <u>150,922</u> |
| Total liabilities | | <u>1,818,884</u> | <u>1,269,262</u> |
| Total equity and liabilities | | <u>3,327,166</u> | <u>2,863,908</u> |
| Net current liabilities | | <u>(417,246)</u> | <u>(374,612)</u> |
| Total assets less current liabilities | | <u>1,650,698</u> | <u>1,745,568</u> |

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 2017 as contained in the Company’s annual report 2017 (the “Annual Report 2017”), 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 28 August 2018.

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 2018 are consistent with those followed in the preparation of the Annual Report 2017 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 amendments to HKFRSs issued by the HKICPA which are effective for the Group’s financial period beginning 1 January 2018. A summary of the new and amendments to HKFRSs are set out as below:

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

The Group has not early applied the following new and amendments to HKFRS that have been issued but are not yet effective.

| | |
|----------|---------------------|
| HKFRS 16 | Leases ¹ |
|----------|---------------------|

¹ Effective for annual periods beginning on or after 1 January 2019

HKFRS 9, Financial Instruments

HKFRS 9 replaces HKAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements.

Further details of the nature and effect of the change to previous accounting policies and the transition approach are set out below:

Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;
- FVOCI (recycling), if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or
- FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or not.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The adoption of HKFRS 9 has not had a significant impact on the Group's financial statements in this regard.

The carrying amounts for all financial assets and financial liabilities as at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognizing revenue from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, construction contracts, which specifies the accounting for revenue from construction contracts.

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

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

Principal versus agent considerations in revenue recognition

Determining whether the Group is acting as an agent or a principal under HKFRS 15 differs from HKAS 18 as a result of the shift from the risk-and-reward approach to transfer-of-control approach. Under the HKAS 18, the Group is a principal in the transaction when it has exposure to the significant risks, including credit risk, and rewards associated with the sales of goods. The Group considers several indicators under the transfer-of-control approach under HKFRS 15 and determines that the Group is acting as an agent in certain sales transactions of oil related products, although the Group still exposes to credit risk in these sales transactions. As a result of this change in presentation, the Group has restated comparatives by decreasing both revenue and purchases to HK\$2,162,428,000 and HK\$2,139,279,000 respectively for the supply and procurement business segment for the six months ended 30 June 2017.

HK(IFRIC) 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining “the date of the transaction” for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that “the date of the transaction” is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position.

HKFRS 16, Lease

As discussed in 2017 annual financial statements, currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding “right-of-use” asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt the standard retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment. The Group has not yet decided whether it will choose to take advantage of this practical expedient, and which transition approach to be taken.

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 | |
|----------------------------------|---|---------------------------------|---------------------------------|---|---------------------------------|---|
| | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) (Restated) | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) (Restated) |
| | For the six months ended 30 June | | | | | |
| Segment revenue: | | | | | | |
| Sales to external customers | <u>146,521</u> | <u>146,500</u> | <u>2,141,626</u> | <u>2,162,428</u> | <u>2,288,147</u> | <u>2,308,928</u> |
| Segment profit | <u>12,980</u> | <u>11,034</u> | <u>8,111</u> | <u>7,271</u> | <u>21,091</u> | <u>18,305</u> |
| Other revenue | | | | | 9,832 | 7,292 |
| Net foreign exchange (loss)/gain | | | | | (18) | 105 |
| Unallocated corporate expenses | | | | | <u>(17,765)</u> | <u>(14,987)</u> |
| Profit from operating activities | | | | | <u>13,140</u> | <u>10,715</u> |
| Finance costs | | | | | <u>(26,127)</u> | <u>(26,062)</u> |
| Loss before taxation | | | | | <u>(12,987)</u> | <u>(15,347)</u> |
| Taxation | | | | | <u>(8,799)</u> | <u>(6,608)</u> |
| Loss for the period | | | | | <u><u>(21,786)</u></u> | <u><u>(21,955)</u></u> |

Revenue reported was generated from external customers. There were no inter-segment sales during the six months ended 30 June 2018 and 2017.

Segment results represent the profit earned by each segment without allocation of other revenue, change in fair value on derivative components of convertible bonds, net foreign exchange (loss)/gain, 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 2018 HK\$'000 (Unaudited) | 31 December 2017 HK\$'000 (Audited) | 30 June 2018 HK\$'000 (Unaudited) | 31 December 2017 HK\$'000 (Audited) | 30 June 2018 HK\$'000 (Unaudited) | 31 December 2017 HK\$'000 (Audited) |
| Segment assets | 1,768,379 | 1,822,084 | 1,444,448 | 901,182 | 3,212,827 | 2,723,266 |
| Unallocated assets | | | | | 114,339 | 140,642 |
| Total assets | | | | | 3,327,166 | 2,863,908 |
| Segment liabilities | 432,812 | 432,010 | 963,834 | 426,429 | 1,396,646 | 858,439 |
| Unallocated liabilities | | | | | 422,238 | 410,823 |
| Total liabilities | | | | | 1,818,884 | 1,269,262 |

For the purpose of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than unallocated corporate financial assets;
- all liabilities are allocated to reportable segments other than unallocated corporate financial liabilities.

Information about major customers

Included in revenue arising from supply and procurement business segment of HK\$2,141,626,000 (30 June 2017: HK\$2,162,428,000) are revenue of HK\$1,248,350,000 (30 June 2017: HK\$562,877,000) which arose from four customers (30 June 2017: one customer) 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 | |
|------------|---------------------------------|---------------------------|
| | 2018 | 2017 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) (Restated) |
| Customer A | 336,199 | 562,877 |
| Customer B | 364,041 | – |
| Customer C | 288,913 | – |
| Customer D | 259,197 | – |
| | <u><u>3,248,340</u></u> | <u><u>3,248,340</u></u> |

4. REVENUE AND OTHER REVENUE

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

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

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------|
| | 2018 | 2017 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) (Restated) |
| Revenue | | |
| Sales of crude oil and gas | 146,521 | 146,500 |
| Trading and distribution of oil related products | 2,141,626 | 2,162,428 |
| | <u><u>2,288,147</u></u> | <u><u>2,308,928</u></u> |
| Other revenue | | |
| Bank interest income | 1,317 | 1,475 |
| Rental income | 967 | 772 |
| Storage fee income | 7,408 | 5,016 |
| Others | 140 | 29 |
| | <u><u>9,832</u></u> | <u><u>7,292</u></u> |

5. OTHER (LOSSES)/GAINS

| | Six months ended 30 June | |
|--|--------------------------|-------------|
| | 2018 | 2017 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Net foreign exchange (loss)/gain | (18) | 105 |
| Gain on disposal of property, plant and equipment | 1,871 | 3,411 |
| Written off of expired exploration and evaluation assets | (4,527) | (2,809) |
| Fair value change on derivative financial instruments | (1,614) | (129) |
| | <u>(4,288)</u> | <u>578</u> |

6. PROFIT FROM OPERATING ACTIVITIES

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

| | Six months ended 30 June | |
|--|--------------------------|------------------|
| | 2018 | 2017 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| | | (Restated) |
| Cost of inventories sold | 2,114,661 | 2,139,279 |
| Depreciation and depletion of property, plant and equipment | 63,668 | 75,723 |
| Amortisation of prepaid lease payments | 245 | 231 |
| Minimum lease payments under operating leases of rented premises | 4,095 | 4,114 |
| Staff costs (including Directors' remuneration): | | |
| – Salaries and wages | 32,735 | 28,815 |
| – Share-based payment expenses | 1,072 | 1,002 |
| – Pension scheme contributions | 325 | 331 |
| | <u>2,196,831</u> | <u>2,252,575</u> |

7. FINANCE COSTS

| | Six months ended 30 June | |
|---|--------------------------|---------------|
| | 2018 | 2017 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Interest expenses on bank borrowings wholly repayable within five years | 7,891 | 6,694 |
| Interest expenses on convertible bonds | 16,663 | 18,226 |
| Accretion of decommissioning liabilities | 1,573 | 1,142 |
| | <u>26,127</u> | <u>26,062</u> |

Diluted loss per share for the six months ended 30 June 2018 and 2017 were the same as the basic loss per share. The computation of diluted loss per share for the six months ended 30 June 2018 and 2017 does not assume the Company's outstanding convertible bonds and the outstanding share options since the assumed conversion of convertible bonds and the assumed exercise of share options would result in a decrease in loss per share.

11. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 90 days (31 December 2017: 90 days), are recognised and carried at the original invoiced amount less allowance for doubtful debt. Trade receivables are non-interest bearing.

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

| | 30 June 2018 | 31 December 2017 |
|---------------|-------------------------|-----------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Audited) |
| 0 to 30 days | 25,146 | 124,549 |
| 31 to 60 days | 381 | 458 |
| 61 to 90 days | 25 | 131 |
| Over 90 days | <u>2,317</u> | <u>2,519</u> |
| | <u>27,869</u> | <u>127,657</u> |

The Directors believe that no impairment loss is necessary in respect of these balances as there has not been a significant change in credit quality of these debtors and the balances are still considered fully recoverable. The amount of HK\$2,317,000 (31 December 2017: HK\$2,519,000) was past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collaterals or other credit enhancements over these balances.

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

| | 30 June 2018 | 31 December 2017 |
|--------------|-------------------------|---------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Audited) |
| Over 90 days | <u>2,317</u> | <u>2,519</u> |

12. TRADE AND OTHER PAYABLES

| | 30 June 2018 | 31 December 2017 |
|--|-------------------------|-----------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Audited) |
| Trade payables | 45,292 | 53,909 |
| Deposit received in advance from customers | 820,768 | 257,128 |
| Other payables | <u>133,067</u> | <u>134,546</u> |
| | <u>999,127</u> | <u>445,583</u> |

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

| | 30 June 2018 HK\$'000 (Unaudited) | 31 December 2017 HK\$'000 (Audited) |
|---------------|--|--|
| 0 to 30 days | 41,119 | 46,787 |
| 31 to 60 days | 847 | 5,999 |
| 61 to 90 days | 2,516 | 429 |
| Over 90 days | 810 | 694 |
| | <u>45,292</u> | <u>53,909</u> |

As at 30 June 2018 and 31 December 2017, the trade payables are non-interest bearing and have an average credit period on purchases of one to three months.

13. MATERIAL RELATED PARTIES TRANSACTIONS

Save as disclosed elsewhere in the unaudited condensed consolidated financial statements, during the six months ended 30 June 2018, 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 | |
|--|--|---------------------------------|
| | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) |
| Salaries and allowance | 3,410 | 4,252 |
| Share-based payment expenses | 1,072 | 1,002 |
| Mandatory provident fund contributions | 18 | 9 |
| | <u>4,500</u> | <u>5,263</u> |

During the six months ended 30 June 2018, the Group had the following connected transactions with a related party arising from the refined oil supply agreement dated 30 December 2016 entered into between Henan Yanchang Petroleum Sales Co., Limited ("Henan Yanchang") and Shaanxi Yanchang Petroleum (Group) Co., Limited ("Yanchang Petroleum Group") in respect of the purchase of refined oil from Yanchang Petroleum Group by Henan Yanchang for the three years ending 31 December 2019:

| Name of related party | Relationship | Nature of transaction | Six months ended 30 June | |
|--------------------------|---------------------------|-------------------------|--|---------------------------------|
| | | | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) |
| Yanchang Petroleum Group | A substantial shareholder | Purchase of refined oil | <u>1,152,116</u> | <u>378,669</u> |

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

In the first half of 2018, the management of the Company had unceasingly implemented measures for cost reduction and operational efficiency enhancement to proactively meet the market challenges. The upstream oil and gas producing business of Novus in Canada and the downstream refined oil trading business of Henan Yanchang in the PRC had been recorded to profits on oil price rebound. For the six months ended 30 June 2018, production volume of crude oil of Novus was 405 thousand barrels of equivalent (“BOE”) and the sales volume of refined oil of Henan Yanchang was 1.33 million tonnes. Upon consolidation of the financial statements, the Company recorded a net loss of HK\$21.79 million as compared to a loss of HK\$21.95 million for the corresponding period in 2017.

I. Upstream oil and gas producing business in Canada

In the first half of 2018, Novus achieved an average daily production of 2,239 BOE as compared to an average daily production of 2,834 BOE for the corresponding period in 2017, principally due to interruption of Novus’s scheduled drillings by extreme bad weather. Novus recorded sales of CAD24.46 million as a result of oil price rebound with a net profit of CAD610,000, as compared to sales of CAD25 million with a net profit of CAD480,000 for the corresponding period in 2017. As affected by adverse weather, field operating and transportation costs per BOE was CAD15.6 as compared to CAD12.5 for the corresponding period in 2017; however netback per BOE was CAD38.2 better than CAD31.4 for the corresponding period in 2017.

Given the weather back to normal, drilling works were in full swing since the beginning of June and drilling of 10 wells was completed in the first six months. The adoption of new steerable drilling facilities by Novus together with extensive drilling experience in Viking oil play, Novus has increased the drilling accuracy of horizontal wells to 100%.

II. Refined oil trading business of Henan Yanchang

In the first half of 2018, sales volume of refined oil by Henan Yanchang increased to 1.33 million tonnes from 1.22 million tonnes for the corresponding period in 2017. The revenue amounted to RMB1.76 billion with profit of RMB9.29 million for the period under review, as compared to the revenue of RMB1.88 billion with profit of RMB8.93 million for the corresponding period in 2017. With the strict implementation of sales strategy of “cash before delivery”, 100% recovery of receivables had been achieved. Integrated controls on production and financial operations had been conducted in a safe and efficient manner with no accidents reported.

III. Outlook

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

As the drilling season started in June, the knowledge obtained from the process optimisation of drilling and refrac technique in the past and the successful experience in developing new region together with new steerable drilling facilities will be applied to the drilling activities in the second half of 2018, aiming to increase overall market value of Novus by further enhancing both production volume and reserves. Average daily production is targeted to hit 3,000 BOE by the end of 2018.

2. Striving for fulfilling business objectives of refined oil trading in Henan

By keeping up its sales spirit of “market-oriented, efficiency-centred and service-focused”, Henan Yanchang will sustain the development of the existing business and extensively explore potential business in the second half of 2018 through target marketing as well as reforms and innovation under the core development directions of Yanchang Petroleum Group towards supply stability, efficiency enhancement of depot storage and sales as well as trading innovation and revenue maximization, with the goal of fulfilling all business objectives of the year.

3. Seeking to make a leap towards overseas merger and acquisition

Confidence revival has been showed in both sellers and buyers of oil and gas assets with rising international oil price. Asset restructuring has become more prevalent among oil and gas companies. Alongside the opportunities so arisen, the Company is focusing on those offering attractive prospects and producing projects with potentials for re-development and value appreciation, with an aim to make a leap towards overseas merger and acquisition.

4. Obtaining financing sources in the market

While selecting suitable projects for acquisition, the Company maintains close contact with funds, banks and potential investors abroad and at home to exploit opportunity for financing sources to fund the project acquisition.

With the support of Yanchang Petroleum Group and relevant departments, the Company will exploit financing sources in an omni-channel approach and pursue opportunity for restructuring in addition to cost reduction and operational stability. The general stability of oil price will elevate the value of the Company’s overseas assets, and the Company remains keen on exploiting opportunity for business expansion and fully capitalize on its advantages as the overseas financing platform of Yanchang Petroleum Group.

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 2018, the Group's turnover was mainly derived from the production of crude oil and natural gas in Canada as well as the trading of refined oil in the PRC.

Novus is engaged in the business of exploration, exploitation and production of crude oil and natural gas in Western Canada. Novus achieved production of oil and gas of 405,300 BOE and contributed production income of HK\$146,521,000 during the period under review as compared to production of 512,800 BOE and production income of HK\$146,500,000 of the previous period. As a result of increase in profit brought along by efficiency enhancement and cost reduction measures, operating profit of HK\$12,980,000 was recorded for the six months ended 30 June 2018, as compared to operating profit of HK\$11,034,000 for the previous period.

During the six months ended 30 June 2018, the revenue of refined oil trading business of Henan Yanchang of the current period was HK\$2,141,626,000 as compared to HK\$2,162,428,000 of the previous period. Resulting from the higher gross profit and higher sales volume from the previous period of 1.22 million tonnes to the current period of 1.33 million tonnes, Henan Yanchang contributed operating profit of HK\$8,111,000 to the supply and procurement business, as compared to operating profit of HK\$7,271,000 of the previous period.

Other revenue

Apart from the aforesaid segment results, other revenue of HK\$9,832,000 which mainly represented interest income from bank deposits, rental income and storage fee income recorded from the PRC for the period under review, increased by HK\$2,540,000 from HK\$7,292,000 of the previous period.

Purchases

Purchases decreased from the previous period of HK\$2,139,279,000 to this period of HK\$2,114,661,000, which were wholly derived from the refined oil trading business of Henan Yanchang. The decrease of purchases was consistent with the drop 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\$14,381,000 to the current period of HK\$15,680,000 due to increase in sales.

Field operation expenses

Field operation expenses increased to HK\$37,665,000 this period due to the impact of extreme bad and cold weather in Canada from the previous period of HK\$37,313,000. Such expenses including labour costs, repairs and maintenance, processing costs, fluid hauling, lease rentals and workovers etc were incurred by Novus in the production of crude oil and natural gas.

Exploration and evaluation expenses

The exploration and evaluation expenses amounted to HK\$1,149,000 represented the holding costs, mainly lease rentals, on the interests of non-producing lands incurred by Novus.

Selling and distribution expenses

Selling and distribution expenses, increased from the previous period of HK\$2,625,000 to the current period of HK\$3,325,000, were mainly incurred by Henan Yanchang for the refined oil trading business in the PRC.

Administrative expenses

Administrative expenses including Directors' remuneration, staff costs, office rentals, professional fees, business development expenses and listing fee etc, increased by HK\$9,325,000 to HK\$44,158,000 for the period under review.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation expenses decreased from the previous period of HK\$75,954,000 to the current period of HK\$63,913,000 which was mainly due to the decrease in depletion of petroleum and natural gas properties incurred by Novus as a result of decrease in production affected by the extreme bad and cold weather in Canada during the period under review.

Other losses and gains

Other losses of HK\$4,288,000 represented the aggregate of (i) written off of expired exploration and evaluation assets of HK\$4,527,000; (ii) loss on hedging of oil and gas commodity contracts of HK\$1,614,000; and (iii) net foreign exchange loss of HK\$18,000; and offsetting (iv) gain on disposal of properties, plant and equipment of HK\$1,871,000.

Finance costs

Finance costs amounted to HK\$26,127,000 comprised (i) bank borrowing costs of HK\$7,891,000 included interests, commitment fees, standby charges, and other expenses related to the businesses of Novus and Henan Yanchang, (ii) accretion of HK\$1,573,000

related to the provision of the decommissioning liabilities incurred by Novus; and (iii) imputed interest on convertible bonds of HK\$16,663,000 arisen from the issue of 3-year convertible bonds with a principal amount of US\$46,300,000.

Taxation

Tax expense of HK\$8,799,000 represented the aggregate of (i) provision for Canada resource surcharge on Novus' production revenue of oil and natural gas amounted to HK\$2,379,000; (ii) provision for the PRC enterprise income tax on the profit earned from refined oil trading business of Henan Yanchang amounted to HK\$5,596,000; and (iii) net deferred tax expense amounted to HK\$824,000.

Loss for the period

The Group achieved profits for both the oil and gas producing business in Canada and the refined oil trading business in the PRC through remarkable operational efficiency enhancement as well as various cost reduction measures. The interim loss of HK\$21,786,000 for the Group was mainly attributable to the convertible bonds interest of HK\$16,663,000 and business development expense of HK\$4,519,000 incurred for positioning the future growth of the Group for the six months ended 30 June 2018 as compared to the previous period loss of HK\$21,955,000.

LIQUIDITY AND FINANCIAL RESOURCES

The Group funded its operation mainly by its internal resources together with bank borrowings for the six months ended 30 June 2018.

The Group had outstanding variable interest rates bank borrowings amounted to HK\$296,417,000 as at 30 June 2018 (31 December 2017: HK\$295,527,000) comprised (i) HK\$59,110,000 (equivalent to RMB50,000,000) under Henan Yanchang and (ii) HK\$237,307,000 (equivalent to CAD39,750,000) under Novus. The Group has obtained bank facilities of HK\$591,100,000 (equivalent to RMB500,000,000) from various banks in the PRC and of HK\$286,560,000 (equivalent to CAD48,000,000) from a bank in Canada.

On 23 December 2015, the Company raised fund from the issue of convertible bonds to China Construction Bank Corporation in the principal amount of US\$46,300,000 (equivalent to HK\$358,825,000) which carries coupon interest with 7% and matures on the third anniversary date from the date of issue. The fund raised had been used for the Group's general working capital. The whole principal amount of convertible bonds was still outstanding as at 30 June 2018.

As at 30 June 2018, the Group had cash and bank balances of HK\$195,250,000 (31 December 2017: HK\$207,998,000). In view of existing cash on hand together with the available bank facilities, the Group has enough working capital to finance its business operation.

At the period end, the gearing ratio of the Group, measured on the basis of bank borrowings together with convertible bonds as a percentage of total equity, was 44.8% (31 December 2017: 42.1%). The current ratio of the Group, measured on the basis of current assets as a percentage of current liabilities stood at 75.1% as at 30 June 2018 (31 December 2017: 66.5%).

COMMODITY PRICE MANAGEMENT

Novus is engaged in crude oil and gas development, production and selling activities in Canada. Prices of crude oil and gas are affected by both domestic and global factors which are beyond the control of Novus. The fluctuations in such prices may have favourable or unfavourable impacts to the Group. Therefore the Group was exposed to general price fluctuations of crude oil and gas. During the six months ended 30 June 2018, Novus has entered fourteen commodity contracts for crude oil and gas business to manage price risk.

TREASURY MANAGEMENT AND POLICIES

The Group adopts a prudent approach for its cash management and risk control. The objective of the Group's treasury policies is to minimise risks and exposures due to fluctuation in foreign currency exchange rates and interest rates.

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

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

MATERIAL ACQUISITION AND DISPOSAL

The Group had no material acquisitions and disposals for the six months ended 30 June 2018.

SIGNIFICANT INVESTMENT

The Group did not hold any significant investments as at 30 June 2018.

CAPITAL COMMITMENT

As at 30 June 2018, the Group had no commitments to property, plant and equipment (31 December 2017: HK\$29,161,000).

Save as aforesaid, the Group did not have any other material commitments as at 30 June 2018.

PLEDGE OF ASSETS

The Group's CAD48,000,000 (31 December 2017: CAD42,000,000) banking facility, granted by a bank in Canada to Novus by way of prime rate based loans, bankers' acceptances and letters of credit/guarantee, is secured in favour of the bank by a general assignment of book debts and a CAD200 million debenture with a floating charge over all assets of Novus, with a negative pledge and undertaking to provide fixed charges upon request.

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

CONTINGENT LIABILITY

As at 30 June 2018, the Group did not have any significant contingent liabilities (31 December 2017: Nil).

LITIGATION

As at 30 June 2018, the Group had no material litigations (31 December 2017: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2018, the Group's total number of staff was 146 (31 December 2017: 142). Salaries of employees are maintained at a competitive level with total staff costs for the six months ended 30 June 2018 amounted to HK\$34,132,000 (six months ended 30 June 2017: HK\$30,148,000). 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 2018 (six months ended 30 June 2017: 63,000,000 share options).

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2018, 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 in Appendix 14 of the Listing Rules during the six months ended 30 June 2018.

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 2018.

CONTINUING CONNECTED TRANSACTIONS

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code regarding its Directors’ securities transactions on the Company’s Shares. Having made specific enquiry of all Directors of the Company, they confirmed that they have complied with the required standards as set out in the Model Code as its code of conduct regarding Directors’ securities transactions dealing with the Company for the six months ended 30 June 2018.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement for the six months ended 30 June 2018 is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.yanchanginternational.com). The Company's interim report for 2018 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
Li Yi
Chairman

Hong Kong, 28 August 2018

Executive Directors:

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

Independent Non-Executive Directors:

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