



延長石油國際有限公司

YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 00346



Interim Report
2015

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Zhang Kaiyong (*Chairman*)
Mr. Ren Yansheng (*Chief Executive Officer*)
Mr. Hui Bo (*Vice President*)
Mr. Shen Hao
Mr. Feng Dawei
Mr. Zhao Jie
Mr. Andres Pena Salceda

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Mr. Law Hing Lam

AUDIT COMMITTEE

Mr. Leung Ting Yuk (*Chairman*)
Mr. Ng Wing Ka
Mr. Sun Liming

REMUNERATION COMMITTEE

Mr. Sun Liming (*Chairman*)
Mr. Leung Ting Yuk
Mr. Hui Bo

NOMINATION COMMITTEE

Mr. Ng Wing Ka (*Chairman*)
Mr. Sun Liming
Mr. Hui Bo

AUTHORISED REPRESENTATIVES

Mr. Hui Bo
Mr. Law Hing Lam

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants
31/F., Gloucester Tower
The Landmark, 11 Pedder Street
Central
Hong Kong



REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 22 Hopewell Center
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
Industrial and Commercial Bank of China (Asia)
Limited
Shanghai Pudong Development Bank Co., Ltd.
China Minsheng Bank Corporation Limited
Bank of China Limited
National Bank of Canada

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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STOCK CODE

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WEBSITE

www.yanchangpetroleum.com



The board (the "Board") of directors (the "Directors") 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 2015 together with the unaudited comparative figures for the six months ended 30 June 2014 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2015

		Six months ended 30 June	
		2015	2014
	<i>Notes</i>	(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Revenue			
Turnover	4	10,577,024	9,396,499
Other revenue	4	7,679	7,410
		10,584,703	9,403,909
Expenses			
Purchases		(10,259,153)	(8,914,631)
Royalties		(25,963)	(46,838)
Field operation		(45,210)	(58,356)
Exploration and evaluation expenses		(1,401)	(1,977)
Selling and distribution expenses		(21,726)	(24,937)
Administrative expenses		(41,769)	(78,768)
Depreciation, depletion and amortisation		(152,003)	(139,467)
Other gains and losses	5	(29,270)	(15,630)
		(10,576,495)	(9,280,604)
Profit from operating activities		8,208	123,305
Finance costs	6	(17,579)	(24,902)
(Loss)/profit before taxation	7	(9,371)	98,403
Taxation	8	(2,768)	(29,237)
(Loss)/profit for the period		(12,139)	69,166

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2015

	Notes	Six months ended 30 June	
		2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
Other comprehensive loss			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(113,054)	(1,717)
Other comprehensive loss for the period, net of tax		(113,054)	(1,717)
Total comprehensive (loss)/income for the period		(125,193)	67,449
(Loss)/profit attributable to			
– Owners of the Company		(23,648)	62,866
– Non-controlling interests		11,509	6,300
		(12,139)	69,166
Total comprehensive (loss)/income attributable to			
– Owners of the Company		(136,816)	64,641
– Non-controlling interests		11,623	2,808
		(125,193)	67,449
(Loss)/earnings per share attributable to owners of the Company			
– Basic, HK cents	10	(0.19)	0.54
– Diluted, HK cents	10	(0.19)	0.54

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2015

	Notes	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	2,692,624	2,927,654
Prepaid lease payments		19,693	19,935
Investment properties	12	29,685	29,663
Intangible assets	13	78,625	78,543
Exploration and evaluation assets	14	4,154,818	4,165,163
Goodwill		51,418	51,418
		7,026,863	7,272,376
Current assets			
Inventories	15	32,125	60,859
Trade receivables	16	48,724	209,399
Prepayments, deposits and other receivables	17	46,436	151,795
Derivative financial instruments		–	18,687
Tax recoverable		2,805	2,068
Cash and bank balances	18	621,028	575,602
		751,118	1,018,410
Total assets		7,777,981	8,290,786
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	19	242,911	242,911
Reserves		6,099,987	6,236,050
Equity attributable to owners of the Company		6,342,898	6,478,961
Non-controlling interests		118,895	106,949
Total equity		6,461,793	6,585,910

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2015

	Notes	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
LIABILITIES			
Current liabilities			
Trade and other payables	20	199,250	474,057
Derivative financial instruments		21,479	–
Bank borrowings	21	826,639	928,118
		1,047,368	1,402,175
Non-current liabilities			
Decommissioning liabilities		101,487	111,227
Deferred tax liabilities		167,333	191,474
		268,820	302,701
Total liabilities		1,316,188	1,704,876
Total equity and liabilities		7,777,981	8,290,786
Net current liabilities		(296,250)	(383,765)
Total assets less current liabilities		6,730,613	6,888,611

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

	Attributable to owners of the Company												
	Reserves											Non-controlling interests	Total
	Share capital	Share premium	Contributed surplus	Exchange reserve	Revaluation reserve	Reserve on acquisition of additional interests in a subsidiary	Statutory reserve	Convertible bond reserve	Other reserve	Retained profits/(accumulated losses)	Sub-total		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2014 (Audited)	162,911	6,639,269	3,156	17,200	385,259	2,285,265	8,526	-	1,541	143,549	9,483,765	139,674	9,786,350
Profit for the period	-	-	-	-	-	-	-	-	-	62,866	62,866	6,300	69,166
Other comprehensive (loss)/income for the period	-	-	-	1,775	-	-	-	-	-	-	1,775	(3,492)	(1,717)
Total comprehensive income for the period	-	-	-	1,775	-	-	-	-	-	62,866	64,641	2,808	67,449
Dividend paid to non-controlling interests of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	(6,238)	(6,238)
Issuance of convertible bond	-	-	-	-	-	-	323,029	-	-	-	323,029	-	323,029
Deferred tax of convertible bond	-	-	-	-	-	-	(53,300)	-	-	-	(53,300)	-	(53,300)
Issuance of ordinary shares upon conversion of convertible bond	80,000	1,524,789	-	-	-	-	(269,729)	-	-	1,255,060	-	-	1,335,060
Net increase in other reserve (Note 1)	-	-	-	-	-	-	-	962	-	962	962	413	1,375
At 30 June 2014 (Unaudited)	242,911	8,164,058	3,156	18,975	385,259	2,285,265	8,526	-	2,503	206,415	11,074,157	136,657	11,453,725
At 1 January 2015 (Audited)	242,911	8,163,833	3,156	(121,578)	385,259	2,285,265	16,172	-	2,857	(4,498,914)	6,236,050	106,949	6,585,910
(Loss)/profit for the period	-	-	-	-	-	-	-	-	-	(23,648)	(23,648)	11,509	(12,139)
Other comprehensive (loss)/income for the period	-	-	-	(113,168)	-	-	-	-	-	-	(113,168)	114	(113,054)
Total comprehensive (loss)/income for the period	-	-	-	(113,168)	-	-	-	-	-	(23,648)	(136,816)	11,623	(125,193)
Share premium reduction (Note 2)	-	(6,400,773)	6,400,773	-	-	-	-	-	-	-	-	-	-
Net increase in other reserve (Note 1)	-	-	-	-	-	-	-	-	753	-	753	323	1,076
At 30 June 2015 (Unaudited)	242,911	1,763,060	6,403,929	(234,746)	385,259	2,285,265	16,172	-	3,610	(4,522,562)	6,099,987	118,895	6,461,793

Notes:

- According to relevant regulations of the People's Republic of China (the "PRC"), the Group is required to transfer an amount to other reserve for the safety production fund based on the turnover of trading and distribution of oil related products. During the six months ended 30 June 2015, the Group contributed HK\$753,000 (six months ended 30 June 2014: HK\$962,000) to other reserve for the safety production fund.
- At the annual general meeting of the Company held on 27 May 2015, resolution was passed by the shareholders to reduce the credit standing of the share premium account of the Company by an amount of HK\$6,400,773,000 (the "Share Premium Reduction") and the entire amount of the Share Premium Reduction was transferred and credited to the contributed surplus account of the Company.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2015

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cash flows from operating activities		
Cash generated from operations	268,613	242,071
Tax paid	(17,466)	(17,882)
Net cash generated from operating activities	251,147	224,189
Cash flows from investing activities		
Net cash outflow on acquisition of a subsidiary	–	(1,643,492)
Purchase of property, plant and equipment	(130,157)	(260,566)
Purchase of exploration and evaluation assets	(1,761)	(12,489)
Net cash used in investing activities	(131,918)	(1,916,547)
Cash flows from financing activities		
Net cash flows from bank borrowings	(54,713)	(83,272)
Proceeds from issue of convertible bonds	–	1,600,000
Dividend paid to a non-controlling shareholder	–	(3,119)
Other cash flows arising from financing activities	(15,981)	(20,750)
Net cash (used in)/generated from financing activities	(70,694)	1,492,859
Net increase/(decrease) in cash and cash equivalents	48,535	(199,499)
Cash and cash equivalents at the beginning of the period	575,602	848,460
Effect of foreign exchange rate changes	(3,109)	(44,908)
Cash and cash equivalents at the end of the period	621,028	604,053
Analysis of balances of cash and cash equivalents		
Cash and bank balances	621,028	604,053

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

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 2014 as contained in the Company's annual report 2014 (the "Annual Report 2014"), 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, unless otherwise stated. These unaudited condensed consolidated financial statements were approved for issue on 20 August 2015.

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 2015 are consistent with those followed in the preparation of the Annual Report 2014 except for the impact of the adoption of the new and revised standards, amendments and interpretations (the "new HKFRSs").

In the current period, the Group has applied, for the first time, a number of the new HKFRSs issued by the HKICPA which are effective for the Group's financial period beginning 1 January 2015. A summary of the new HKFRSs are set out as below:

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2010–2012 Cycle
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2011–2013 Cycle
HKAS 19 (Amendments)	Defined Benefit Plans: Employees Contributions

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The application of the above new 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 Group has not early applied the following new HKFRSs that have been issued but are not yet effective.

Amendments to HKFRSs	Annual Improvements 2012-2014 Cycle ¹
HKFRS 9 (as revised in 2014)	Financial Instruments ⁴
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception ¹
HKFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operations ¹
HKFRS 14	Regulatory Deferral Accounts ²
HKFRS 15	Revenue from Contracts with Customers ³
HKAS 1 (Amendments)	Disclosure Initiative ¹
HKAS 27 (Amendments)	Equity Method in Separate Financial Statements ¹
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation ¹
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants ¹

¹ Effective for annual periods beginning on or after 1 January 2016

² Effective for first annual HKFRS financial statements beginning on or after 1 January 2016

³ Effective for annual periods beginning on or after 1 January 2017

⁴ Effective for annual periods beginning on or after 1 January 2018

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

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.

Segments revenue and results

	Exploration, exploitation and operation		Supply and procurement		Consolidated	
	For the six months ended 30 June					
	2015	2014	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue:						
Sales to external customers	249,643	433,142	10,327,381	8,963,357	10,577,024	9,396,499
Segment results	(41,329)	105,206	51,627	32,717	10,298	137,923
Other revenue					7,679	7,410
Net foreign exchange gain					196	16,129
Unallocated corporate expenses					(9,965)	(38,157)
Profit from operating activities					8,208	123,305
Finance costs					(17,579)	(24,902)
(Loss)/profit before taxation					(9,371)	98,403
Taxation					(2,768)	(29,237)
(Loss)/profit for the period					(12,139)	69,166

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

3. SEGMENT INFORMATION (CONTINUED)

Revenue reported was generated from external customers. There were no inter-segment sales during the six months ended 30 June 2015 and 2014.

Segment results represent the profit earned/(loss incurred) by each segment without allocation of other revenue, net foreign exchange 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

	Exploration, exploitation and operation		Supply and procurement		Consolidated	
	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Segment assets	6,771,857	7,066,731	769,274	977,511	7,541,131	8,044,242
Unallocated corporate assets					236,850	246,544
Total assets					7,777,981	8,290,786
Segment liabilities	1,007,966	1,145,539	307,441	555,889	1,315,407	1,701,428
Unallocated corporate liabilities					781	3,448
Total liabilities					1,316,188	1,704,876

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

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

4. TURNOVER AND OTHER REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

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

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Turnover		
Sales of crude oil and gas	249,643	433,142
Trading and distribution of refined oil	10,327,381	8,963,357
	10,577,024	9,396,499
Other revenue		
Bank interest income	6,413	5,955
Rental income	1,222	1,307
Others	44	148
	7,679	7,410

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net foreign exchange gain	196	16,129
Written off of expired exploration and evaluation assets	(7,575)	–
Over-provision of decommissioning liabilities	1,620	–
Realised gain/(loss) on derivative financial instruments	10,433	(19,693)
Unrealised loss on derivative financial instruments	(33,944)	(12,066)
	(29,270)	(15,630)

6. FINANCE COSTS

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest expenses on bank borrowings wholly repayable within five years	15,981	17,631
Imputed interest on convertible bonds	–	5,736
Accretion of decommissioning liabilities	1,598	1,535
	17,579	24,902

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

7. (LOSS)/PROFIT BEFORE TAXATION

The Group's (loss)/profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	10,259,153	8,914,631
Depreciation and depletion of property, plant and equipment	151,742	139,207
Amortisation of prepaid lease payments	261	260
Minimum lease payments under operating leases of rented premises	5,004	6,646
Staff costs (including Directors' remuneration):		
– Salaries and wages	16,803	28,098
– Pension scheme contributions	366	66

8. TAXATION

No provision for Hong Kong profits tax has been made as the Group did not have assessable profits in Hong Kong for the six months ended 30 June 2015 (six months ended 30 June 2014: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current taxation		
Charge for the period – the PRC	12,669	7,420
– Canada	4,042	6,811
Deferred taxation		
(Credit)/charge for the period	(13,943)	15,006
	2,768	29,237

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

9. INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividends in respect of the six months ended 30 June 2015 (six months ended 30 June 2014: Nil).

10. (LOSS)/EARNINGS PER SHARE

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

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(Loss)/earnings		
(Loss)/profit attributable to owners of the Company for the purposes of basic and diluted (loss)/earnings per share	(23,648)	62,866

The weighted average number of ordinary shares for the purposes of basic and diluted (loss)/earnings per share for the six months ended 30 June 2015 was approximately 12,145,573,000 (six months ended 30 June 2014: 11,570,987,000).

Diluted (loss)/earnings per share for the six months ended 30 June 2015 and 2014 were the same as the basic (loss)/earnings per share. There were no dilutive potential ordinary shares in existence during the six months ended 30 June 2015 and 2014.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Leasehold improvements	Petroleum and natural gas properties	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost								
At 31 December 2014 and 1 January 2015 (Audited)	133,256	5,704	6,729	3,136	409	2,982,143	105,773	3,237,150
Additions	-	16	343	-	-	79,827	9,200	89,386
Transfer from exploration and evaluation assets	-	-	-	-	-	359	-	359
Exchange differences	139	6	(290)	5	(26)	(192,220)	112	(192,274)
At 30 June 2015 (Unaudited)	133,395	5,726	6,782	3,141	383	2,870,109	115,085	3,134,621
Accumulated depreciation and depletion								
At 31 December 2014 and 1 January 2015 (Audited)	13,571	1,651	2,312	988	347	290,627	-	309,496
Charge for the period	2,145	474	863	264	58	147,938	-	151,742
Exchange differences	14	2	(56)	3	(22)	(19,182)	-	(19,241)
At 30 June 2015 (Unaudited)	15,730	2,127	3,119	1,255	383	419,383	-	441,997
Net book value								
At 30 June 2015 (Unaudited)	117,665	3,599	3,663	1,886	-	2,450,726	115,085	2,692,624
At 31 December 2014 (Audited)	119,685	4,053	4,417	2,148	62	2,691,516	105,773	2,927,654

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

12. INVESTMENT PROPERTIES

	HK\$'000
Fair value	
At 31 December 2014 and 1 January 2015 (Audited)	29,663
Exchange differences	22
	<u>29,685</u>
At 30 June 2015 (Unaudited)	<u>29,685</u>

The Directors consider that the carrying amount of the investment properties are fairly stated as at 30 June 2015.

The properties are either leased out in return of receiving rental income or held for capital appreciation and are measured using the fair value model and are classified and accounted for as investment properties.

The Group's investment properties are situated in Madagascar and the PRC and are held under long term lease and medium term leases respectively.

13. INTANGIBLE ASSETS

	Refined oil supply agreement HK\$'000
Cost	
At 31 December 2014 and 1 January 2015 (Audited)	285,769
Exchange differences	298
	<u>286,067</u>
At 30 June 2015 (Unaudited)	<u>286,067</u>
Accumulated impairment	
At 31 December 2014 and 1 January 2015 (Audited)	207,226
Exchange differences	216
	<u>207,442</u>
At 30 June 2015 (Unaudited)	<u>207,442</u>
Carrying amount	
At 30 June 2015 (Unaudited)	<u>78,625</u>
At 31 December 2014 (Audited)	<u>78,543</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

13. INTANGIBLE ASSETS (CONTINUED)

The intangible asset represents a supply agreement which enables the Group to have stable and sufficient supply of refined oil in the PRC.

Refined oil supply agreement

On 26 July 2011 and 1 November 2011, Shaanxi Yanchang Petroleum (Group) Co., Limited (“Yanchang Petroleum Group”) as the supplier has signed a supply agreement and a supplemental agreement respectively (the “Supply Agreement”), agreed to supply and Henan Yanchang Petroleum Sales Co., Limited (“Henan Yanchang”), the indirect non-wholly owned subsidiary of the Company, as the customer has agreed to purchase the refined oil for three years starting from 26 July 2011.

The Supply Agreement has been expired during the year ended 31 December 2013 and it was renewed on 24 December 2013 by both parties. Pursuant to the renewed Supply Agreement, Yanchang Petroleum Group agreed to supply and Henan Yanchang agreed to purchase the refined oil for three years starting from 1 January 2014. The Supply Agreement is renewable another term of every three years under negotiation between both parties, subject to and on the conditions and terms of the Supply Agreement. The Directors are not aware of any expected impediment with respect to the renewal of the Supply Agreement and consider that the possibility of failing in the Supply Agreement renewal is remote and the Supply Agreement will generate net cash inflows for Henan Yanchang for an indefinite period. Therefore, the Supply Agreement is treated as having an indefinite useful life.

The Directors are of the opinion that no impairment indicator existed as at 30 June 2015 and hence no impairment is needed.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

14. EXPLORATION AND EVALUATION ASSETS

	HK\$'000
Cost	
At 31 December 2014 and 1 January 2015 (Audited)	12,439,284
Additions	1,761
Written off	(7,575)
Transfer to property, plant and equipment	(359)
Exchange differences	(4,172)
	<u>12,428,939</u>
At 30 June 2015 (Unaudited)	12,428,939
Accumulated impairment	
At 31 December 2014 and 1 January 2015 (Audited) and 30 June 2015 (Unaudited)	<u>8,274,121</u>
Carrying amount	
At 30 June 2015 (Unaudited)	<u>4,154,818</u>
At 31 December 2014 (Audited)	<u>4,165,163</u>

Notes:

- (a) The exploration and evaluation assets represent (i) the oil and gas exploration, exploitation and operations rights and profit sharing rights at the Oilfield Block 2104 and the Oilfield Block 3113 in Madagascar, onshore sites for oil and gas exploration, exploitation and operation; (ii) expenditure paid for provision of services on activities relating to exploration and evaluation costs in the Oilfield Block 2104 and the Oilfield Block 3113 in Madagascar; and (iii) the unproved properties and capitalised exploratory drilling and completion costs which are pending the determination of commercial viability in Canada.
- (b) The Group entered into an investment and co-operation agreement with Yanchang Petroleum Group and ECO Energy (International) Investments Limited ("ECO") on exploration, exploitation and operation in the Oilfield Block 3113 in Madagascar. Pursuant to the investment and co-operation agreement, the capital investment of the Oilfield Block 3113 shall be contributed by the Group, Yanchang Petroleum Group and ECO.
- (c) The Group has adopted HKFRS 6 *Exploration for and Evaluation of Mineral Resources* and HKAS 36 *Impairment of Assets* which require the Group to assess any impairment at each reporting date. The Directors are of the opinion that no further impairment of exploration and evaluation assets was required for the six months ended 30 June 2015.
- (d) The Group is required to assess at each reporting date any indicator that a previously recognised impairment loss no longer exists or has decreased. If there is such an indication, management should estimate the recoverable amount and determine whether any impairment reversal is appropriate. The Directors are of the opinion that no such indicator existed and hence no reversal of impairment was required for the six months ended 30 June 2015.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

15. INVENTORIES

Inventories represented the merchandise of refined oil products at the end of the reporting period.

16. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 30–90 days (31 December 2014: 30–90 days), are recognised and carried at the original invoiced amount less provision for impairment loss. It is the Group's policy to provide full impairment loss for all receivables over one year because based on historical experience such receivables past due beyond one year are generally not recoverable. Trade receivables are non-interest bearing.

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

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
0 to 30 days	47,684	207,903
31 to 60 days	164	382
61 to 90 days	70	241
Over 90 days	806	873
	48,724	209,399

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. Amount of HK\$806,000 are past due at the end of the reporting period but not impaired. The Group does not hold any collaterals or other credit enhancements over these balances.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Prepaid lease payments	522	522
Prepayments to suppliers	1,308	100,148
Other prepayments	39,132	34,472
Other deposits	299	358
Other receivables	5,175	16,295
	46,436	151,795

In determining the recoverability of other receivables, the Group considers any change in credit quality of the other receivables from the date credit was initially granted up to the end of the reporting period. The impairment loss recognised represents the difference between the carrying amount of the specific other receivables and the present value of the expected recoverable amount. No impairment loss was recognised as at 30 June 2015 (31 December 2014: Nil)

18. CASH AND BANK BALANCES

Included in the cash and bank balances as at 30 June 2015 were amounts in Renminbi ("RMB") equivalent to HK\$545,872,000 (31 December 2014: HK\$494,972,000) which are not freely convertible into other currencies.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

19. SHARE CAPITAL

	Number of shares		Share capital	
	30 June 2015 '000	31 December 2014 '000	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Authorised:				
Ordinary shares of HK\$0.02 each	100,000,000	100,000,000	2,000,000	2,000,000
Issued and fully paid:				
At the beginning of the period/year, ordinary shares of HK\$0.02 each	12,145,573	8,145,573	242,911	162,911
Issuance of ordinary shares upon conversion of convertible bonds	–	4,000,000	–	80,000
At the end of the period/year, ordinary shares of HK\$0.02 each	12,145,573	12,145,573	242,911	242,911

20. TRADE AND OTHER PAYABLES

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Trade payables	36,533	271,319
Deposit received in advance from customers	129,253	79,706
Other payables	33,464	123,032
	199,250	474,057

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

20. TRADE AND OTHER PAYABLES (CONTINUED)

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

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
0 to 30 days	33,242	262,988
31 to 60 days	2,303	5,619
61 to 90 days	–	1,565
Over 90 days	988	1,147
	36,533	271,319

As at 30 June 2015 and 31 December 2014, the trade payables are non-interest bearing and have an average credit period on purchases of one to three months.

21. BANK BORROWINGS

At the end of each reporting period, details of bank borrowings were as follows:

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Carrying amount repayable within one year or on demand:		
Unsecured bank borrowings (Note a)	124,920	199,664
Secured bank borrowings (Note b)	701,719	728,454
	826,639	928,118

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

21. BANK BORROWINGS (CONTINUED)

- (a) As at 30 June 2015, Henan Yanchang drawn unsecured bank borrowings of RMB100,000,000 (equivalent to HK\$124,920,000) (31 December 2014: RMB160,000,000 (equivalent to HK\$199,664,000)). The bank borrowings denominated in RMB bear interest at the prevailing market rates quoted by the People's Bank of China and repayable within next twelve months.
- (b) As at 30 June 2015, Novus Energy Inc ("Novus") drawn Canadian dollar ("CAD") 112,275,000 (equivalent to HK\$701,719,000) against its CAD130 million revolving operating demand loan (31 December 2014: CAD109,050,000 (equivalent to HK\$728,454,000)). The revolving operating demand loan is available to Novus by way of prime rate based loans, bankers' acceptances and letters of credit/guarantee with interest paid monthly. Rates and fees are determined quarterly and are based on a grid system with interest rates ranging from 0.5% to 2.5% over the bank's prime lending rate and fees ranging from 0.2% to 3.75%, all depending on a net debt to cash flow ratio of Novus ranging from less than or equal to 1:1 up to greater than 3:1.

The credit facilities are secured 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. The credit facilities are subject to a financial covenant that requires Novus to maintain a working capital ratio of at least 1:1, but for the purpose of the covenant, outstanding bank debt and the fair value of any commodity contracts are excluded and the unused portion of the revolving operating demand loan may be added to current assets. As at 30 June 2015, this ratio of Novus is 4.1:1. The credit facilities are subject to periodic review by the bank with the next review under way, but may be set at an earlier or later date at the sole discretion of the bank.

22. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The fair value of financial assets and financial liabilities are determined as follows:

- (i) The fair value of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid prices and ask prices respectively; and
- (ii) The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models (e.g. discounted cash flow analysis using observable and/or unobservable inputs).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

22. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

- (i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identified assets and liabilities.
- (ii) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- (iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurring basis

Derivative financial instruments are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial instruments are determined.

Financial assets/ (liabilities)	Fair value as at		Fair value hierarchy	Valuation technique and key inputs
	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)		
Derivative financial instruments	(21,479)	18,687	Level 2	Future cash flows are estimated based on observable crude oil prices in active market

The Directors consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised costs in the unaudited condensed consolidated financial statements approximates to their fair values.

During the six months ended 30 June 2015, there were no transfers between level 1 and level 2, or transfers into or out of level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

23. COMMITMENTS

The Group had capital commitments to property, plant and equipment amounted to HK\$20,061,000 (31 December 2014: HK\$24,991,000) and exploration and evaluation costs amounted to HK\$1,783,000 (31 December 2014: HK\$1,974,000) which were contracted but not provided for as at 30 June 2015.

24. CONTINGENT LIABILITIES

As at 30 June 2015, the Group had no material contingent liabilities (31 December 2014: Nil).

25. MATERIAL RELATED PARTIES TRANSACTIONS

Save as disclosed elsewhere in the unaudited condensed consolidated financial statements, during the six months ended 30 June 2015, 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	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Salaries and allowance	2,808	3,529
Mandatory provident fund contributions	15	6
	2,823	3,535

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

25. MATERIAL RELATED PARTIES TRANSACTIONS (CONTINUED)

During the six months ended 30 June 2015, the Group had the following connected transactions with a related party:

Name of related party	Relationship	Nature of transaction	Six months ended 30 June	
			2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Yanchang Petroleum Group	Substantial shareholder	Supply of refined oil	1,616,829	740,940

Note:

The above transaction constitutes continuing connected transaction under the Listing Rules.

26. COMPARATIVE INFORMATION

Certain comparative figures have been reclassified to conform with the current period presentation.

SUPPLEMENTARY INFORMATION ON OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES

This section provides supplemental information on oil and gas activities in accordance with the Chapter 18 of the Listing Rules.

A. MAJOR EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES

The following table summarised the major exploration, development and production activities during the reporting period:

	Canada	Madagascar
Exploration activities:	Nil	470 kilometer 2D seismic data collection in the Oilfield Block 3113
Development activities:	6 wells drilled 6 wells completed	Nil
Production activities:	Average daily net production Oil: 3,775 bbls Gas: 3,161 mcf	Nil

B. GROUP'S SHARE OF COSTS INCURRED ON EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES

The following table summarised the Group's share of costs incurred on exploration, development and production activities for the reporting period:

	Canada HK\$'000	Madagascar HK\$'000	Total HK\$'000
Exploration costs	671	1,090	1,761
Developments costs	79,827	–	79,827
Production costs (<i>note</i>)	45,210	–	45,210

Note: Production costs excluding depletion, depreciation and amortisation, government tax and selling expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

In-production oil and gas business

By upholding the principles of stabilising production, balancing cash flow and reducing loss, Novus achieved average daily production of 4,302 barrel of oil equivalent (“BOE”) for the first half of 2015, with 202 BOE more as compared with the last period, despite unfavourable conditions of depressed oil prices. The unaudited proved plus probable reserve of Novus was around 21,300,000 BOE as at 30 June 2015. Satisfactory achievement of certain performance targets was primarily due to the Company’s committed efforts made on integration of human resources, management and operation of Novus. The Company has strived to narrow down the cultural and management differences in Novus and successfully implemented the following integrations.

With respect to human resources, the Company has established an experienced, aggressive and dedicated management team for Novus during the first half of 2015 by way of recruitment, internal promotion and staff deployment. In addition, reorganisation of departments and reallocation of human resources have scaled up the expertise and professionalism of staff in Novus.

With respect to management, the Company has strengthened four major management systems, namely performance assessment system for defining responsibilities and targets of each department, weekly-meeting and weekly-report system for closer communication and cooperation between departments, oilfield precautionary and emergency system for controlling the adverse factors, such as bad weather conditions and facilities failure, and internal financial control system for controlling the risks relating to income and expenses. The enhancement of the systems has closed the gap of cultural differences and encouraged initiatives of staff members of Novus.

With respect to operation, Novus has systematically reviewed its performances of development, production and operation and improved its practices and procedures on well drilling, well completion and field operation. Increase in production was due to the fact that the production of single well commenced in 2015 was higher than expected. Besides, the completion of Flaxcombe pipelines project and IPL sales pipeline connection project has effectively cut down field operation expenses and transportation costs.

Given the sluggish global economic climate and the likely increase in supply of crude oil, the trend of oil prices in the second half of 2015 would not be optimistic. Based on the performances of production and operation of Novus in the first half of 2015, the Company will put its best efforts to meet its average daily production target, with lesser capital expenditure, by elevating production of single well and reducing costs.

MANAGEMENT DISCUSSION AND ANALYSIS

Refined oil trading business

Having been affected by the slump in international crude oil prices, refined oil prices in the PRC remained at a low level. Under such circumstances, the Company has conducted a number of counter measures, such as planning to fully utilised storage capacity as well as expanding oil sources and customer base in order to boost the sale and maximise the profit. In the first half of 2015, sales volume of refined oil in Henan Yanchang was around 1.6 million tonnes, representing an increase of 540,000 tonnes or 51% as compared with the last period; revenue of refined oil trading was RMB8.3 billion, representing an increase of RMB1.1 billion or 15% as compared with the last period. For the second half of 2015, the Company's target sales volume of refined oil is planned to be 1.9 million tonnes. For the year of 2015, the Company's target sales volume of refined oil in total is planned to be 3.5 million tonnes, representing an increase of 900,000 tonnes or 35% as compared to last year.

The investment in construction of Xingang sub-pipeline under the Lanzhou-Zhengzhou-Changsha is approximately RMB108 million. The construction of main body of departure station, terminal station, pipelines and two valve chambers have been completed, representing 98% of the project work with RMB88.22 million being invested. At present, the construction of Xingang sub-pipeline is in its final stage of which works will involve electric circuit connection, test for pressure resistance and so on. Meanwhile, inspection and acceptance of the entire project have been in preparation so as to facilitate the commencement of Xingang sub-pipeline with an aim to reduce transportation costs and in turn, improve profitability of the refined oil business.

Exploratory works

The Company has completed data processing and collection in relation to 197 kilometer 2D seismic exploration for the Oilfield Block 2104 and 470 kilometer 2D seismic exploration for the Oilfield Block 3113. In light of the difficult environment of Madagascar, the Company has taken a series of effective measures with careful planning in advance, developed harmonious relationship with local communities, workers and farmers, observed the requirements of the government and the local custom and solved the problem of lacking logistic supports. The Company has completed quality data processing and collection in a safe and timely manner in such perplexing and challenging landscape, such as arduous hills, rivers, criss-cross in ravines and gullies and unification of agricultural lands. The exploration works have been highly respected and recognized by the government of Madagascar as well as by the local communities.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company obtained the preliminary approval from Office Des Mines Nationales Et Des Industries Strategiques (“OMNIS”) for further extension of exploration period of the Oilfield Block 2104 and 3113 for two years in 2016 and 2017 at the meeting held by the management committee of the Oilfield Blocks 2104 and 3113. The Company is now in discussion and review with the government on documents setting out exploration plan and budget in 2016 and 2017 after extension of exploration period has been officially applied to the government of Madagascar. In addition, formal negotiation with OMNIS for drafting supplementary agreement on further extension of exploration period has been conducted and the Company seeks to finalise the extension of exploration period for the two oilfield blocks as soon as possible.

On the other hand, with the support of Research Institute of Yanchang Petroleum Group, the Company will carry out comprehensive analysis on the Oilfield Blocks 2104 and 3113 for the purpose of determining the next step plan.

OUTLOOK

In the first half of 2015, the Company had overcome the challenges of depressed oil prices in the market. The Company had achieved in excess of production target for Novus’ upstream oil production business in Canada and whereas in excess of the profit target for Henan Yanchang downstream refined oil trading business in the PRC. In addition, the Company has successfully completed the data processing and collection in relation to 2D seismic exploration for two oilfield blocks in Madagascar and obtained the preliminary approval for extension of exploration period from the government of Madagascar.

Notwithstanding the Company reported a loss for the six months ended 30 June 2015, the Board considers the Group’s overall operational and financial positions are robust and remains positive on its business prospects, in particular, the refined oil trading business in the PRC still recorded an encouraging operating profit of approximately HK\$51 million. In view of the current low crude oil prices, the Group has introduced various measures to mitigate the operational pressure, inter alia, stringent controls on the operating costs and capital expenditure so as to enhance the profitability and balance the cash flow. At the same time, the Group is well positioned to seize acquisition opportunities as they come.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover and segment results

For the period under review, the Group's operating segments comprised of (i) exploration, exploitation and operation business, and (ii) supply and procurement business. During the six months ended 30 June 2015, the Group's turnover was derived from the production of crude oil and natural gas in Canada as well as 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 778,000 BOE and contributed production income of HK\$249,643,000 during the period under review. Due to crude oil prices dropped significantly in comparison with last period, which in turn had severe adverse impact on its sales and profit margin, the exploration, exploitation and operation business recorded an operating loss of HK\$41,329,000 this period in contrast of an operating profit of HK\$105,206,000 last period.

During the six months ended 30 June 2015, the revenue of refined oil trading business increased by 15% from the last period of HK\$8,963,357,000 to HK\$10,327,381,000. Henan Yanchang achieved sales of refined oil of 1,596,000 tonnes for the first half of 2015 and contributed operating profit of HK\$51,627,000 to the supply and procurement business, an increase of 58% as compared to the last corresponding period.

Other revenue

Apart from the aforesaid segment profit or loss, other revenue of HK\$7,679,000 recorded for the period under review, increased by HK\$269,000 from HK\$7,410,000 of the last period, which mainly represented interest income from bank deposits.

Purchases

Purchases, increased in line with the growth of sales in refined oil from last period of HK\$8,914,631,000 to this period of HK\$10,259,153,000, were wholly derived from the refined oil trading business of Henan Yanchang.

Royalties

Royalties, including crown, freehold and overriding royalties incurred by Novus for crude oil and natural gas production in Canada, amounted to HK\$25,963,000 during the six months ended 30 June 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

Field operation

Field operation expenses amounted to HK\$45,210,000 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 in Canada.

Exploration and evaluation expenses

The amount of HK\$1,401,000 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, dropped from the last period of HK\$24,937,000 to the current period of HK\$21,726,000, were mainly incurred by Novus. The decrease in the expenses was due to the reduction of trucking cost as a result of the completion of pipelines connection project in Novus.

Administrative expenses

Administrative expenses including Directors' remuneration, staff costs, office rentals, professional fees and listing fee etc decreased by HK\$36,999,000 and amounted to HK\$41,769,000. Such decrease in the current period as compared to last period was mainly attributable to the absence of the substantial professional fees incurred for acquisition of Novus during the last period.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation expenses increased from the last period of HK\$139,467,000 to the current period of HK\$152,003,000 which was mainly due to the increase in depletion of oil and gas properties incurred by Novus as a result of increase in production during the period under review.

Other gains and losses

The amount represented the aggregate of (i) written off of expired lands in Novus of HK\$7,575,000; (ii) loss on hedging of oil and gas commodity contracts of HK\$23,511,000 incurred by Novus; and after offsetting (iii) over-provision of decommissioning liabilities of HK\$1,620,000 incurred by Novus and net exchange gain of HK\$196,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance costs

Finance costs amounted to HK\$17,579,000 comprised of (i) borrowing costs of HK\$15,981,000 included interest, commitment fees, standby charges, and other expenses related to the businesses of Novus and Henan Yanchang, and (ii) accretion of HK\$1,598,000 related to the provision of the decommissioning liabilities incurred by Novus.

Taxation

Taxation represented the aggregate of (i) provision for Canada resource surcharge on Novus's production revenue of oil and natural gas amounted to HK\$4,042,000; (ii) provision for the PRC enterprise income tax on the profit earned from refined oil trading business of Henan Yanchang amounted to HK\$12,669,000; and after offsetting (iii) net deferred tax income amounted to HK\$13,943,000.

(Loss)/profit for the period

Compared to a profit for the last period of HK\$69,166,000, a loss of HK\$12,139,000 was recorded for the period under review due to the loss incurred by Novus' crude oil and natural gas production business as a result of the global crude oil prices remained low in the first half of 2015.

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 2015.

The Group had outstanding bank borrowings amounted to HK\$826,639,000 (31 December 2014: HK\$928,118,000) comprised of (i) RMB100,000,000 (equivalent to HK\$124,920,000) under Henan Yanchang and (ii) CAD112,275,000 (equivalent to HK\$701,719,000) under Novus as at 30 June 2015. The Group has obtained bank facilities of RMB1,300 million (equivalent to HK\$1,623,960,000) from banks in the PRC and of CAD130 million (equivalent to HK\$812,500,000) from a bank in Canada. As at 30 June 2015, the Group has cash and bank balances of HK\$621,028,000 (31 December 2014: HK\$575,602,000). In view of ample cash on hand together with the available bank facilities, the Group has sufficient working capital to finance its business operation.

As at 30 June 2015, the gearing ratio of the Group, measured on the basis of total liabilities as a percentage of total equity, remained healthy in a ratio of 20.4% (31 December 2014: 25.9%). The current ratio of the Group, measured on the basis of current assets as a percentage of current liabilities stood at 71.7% as at 30 June 2015 (31 December 2014: 72.6%).

MANAGEMENT DISCUSSION AND ANALYSIS

COMMODITY PRICE MANAGEMENT

Novus is engaged in crude oil and gas development, production and selling activities. 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. As at 30 June 2015, Novus has entered six commodity contracts for crude oil and gas business to manage its 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. Since the Group's transactions and investment are mostly denominated in Hong Kong dollar, US dollar, Canadian dollar and Renminbi, of which the exchange rates are relatively stable, and hence 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 acquisition and disposal for the six months ended 30 June 2015.

SIGNIFICANT INVESTMENT

Save as holding 21% equity interests in Gold Grand Investment Limited, the Group did not hold any significant investments during the six months ended 30 June 2015.

CAPITAL COMMITMENT

As at 30 June 2015, the Group had committed to property, plant and equipment amounted to HK\$20,061,000 (31 December 2014: HK\$24,991,000) as well as exploration and evaluations costs amounted to HK\$1,783,000 (31 December 2014: HK\$1,974,000).

Save as aforesaid, the Group did not have any other material commitments as at 30 June 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

PLEDGE OF ASSETS

The Group's CAD130 million (31 December 2014: CAD130 million) revolving operating demand loan, available to Novus by way of prime rate based loans, bankers' acceptances and letters of credit/guarantee, is secured by a general assignment of book debts and a CAD200 million (31 December 2014: 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 2015, the Group did not have any significant contingent liabilities (31 December 2014: Nil).

LITIGATION

As at 30 June 2015, the Group had no material litigation (31 December 2014: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2015, the Group's total number of staff was 131 (31 December 2014: 132). Salaries of employees are maintained at a competitive level with total staff costs (excluding the equity-settled share-based expenses) for the period ended 30 June 2015 amounted to HK\$17,169,000 (six months ended 30 June 2014: HK\$28,164,000). 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 share option scheme are offered to employees. During the period under review, no share options were granted to the eligible participants under the Company's share option scheme.

INTERIM DIVIDEND

The Board resolved not to declare the payment of interim dividend for the six months ended 30 June 2015 (six months ended 30 June 2014: Nil).

OTHER INFORMATION

DIRECTORS' INTERESTS IN SHARE CAPITAL

At 30 June 2015, the interests and short positions of the directors and chief executives in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("the Model Code") were as follows:

Interests and short positions in shares, underlying shares and debentures of the Company

Name of Director	Nature of interest	Long position/ Short position	Number of ordinary shares of the Company held	Approximate percentage of the total issued ordinary share capital of the Company
Dr. Mu Guodong ("Dr. Mu") (Note)	Personal interest and interest of spouse	Long position	300,000	0.002%
Mr. Sun Liming	Personal interest	Long position	600,000	0.005%

Note: Out of these 300,000 Shares, Dr. Mu personally held 230,000 Shares and his spouse held 70,000 Shares. Dr. Mu is deemed to be interested in these 70,000 Shares under the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Share Option Scheme" below, at no time during the period for the six months ended 30 June 2015 was the Company or any of its subsidiaries a party to any arrangement to enable the Company's Directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2015, the interests of persons, other than a director or chief executive of the Company, in the shares of the Company as recorded in the register maintained pursuant to Section 336 of the SFO were as follows:

Interests and short positions of substantial shareholders in shares and underlying shares of the Company

Name	Capacity	Long position/ Short position	Number of ordinary shares of the Company held	Approximate percentage of the total issued ordinary share capital of the Company
Yanchang Petroleum Group (Note 1)	Interest of controlled corporation	Long position	6,496,729,547	53.49%
Yanchang Petroleum Group (Hong Kong) Co., Limited ("Yanchang Petroleum HK") (Note 1)	Directly beneficially owned	Long position	6,496,729,547	53.49%

Note 1: Yanchang Petroleum Group beneficially held these 6,496,729,547 Shares through its direct wholly-owned subsidiary, Yanchang Petroleum HK. Yanchang Petroleum Group is deemed to be interested in the said Shares under the SFO.

Save as disclosed above, the Company had not been notified of any other interests or short positions in the shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company as at 30 June 2015.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme"), further details of which are set out in the Annual Report 2014 of the Company.

During the six months ended 30 June 2015, no share options have been granted, exercised, cancelled or lapsed in accordance with the terms of the Scheme.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2015, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the Board, the Company had complied with the code provisions set out in the Corporate Governance Code (the "CG Code") in Appendix 14 of the Listing Rules during the six months period ended 30 June 2015, except for the following deviations:

1. code provision A.4.2 of the CG Code provides that all Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. In accordance with the Bye-laws of the Company, any Director appointed to fill a casual vacancy shall hold office only until the next following annual general meeting ("AGM") of the Company and shall then be eligible for re-election. The Board considers that such a deviation is not material as casual vacancy seldom happens and duration between appointment to fill casual vacancy and the immediate following AGM of the Company is usually less than one year and is considered to be short.
2. code provision A.6.7 of the CG Code provides that independent non-executive Directors and other non-executive Directors should also attend general meetings and develop a balanced understanding of the views of shareholders. One of the independent non-executive Directors, Dr. Mu Guodong was unable to attend the AGM of the Company held on 27 May 2015 due to other ad hoc engagements.

OTHER INFORMATION

AUDIT COMMITTEE

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 internal control 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 2015.

MODEL CODE FOR SECURITIES TRANSACTION 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, the Directors confirmed that they had complied with the required standards as set out in the Model Code as their code of conduct regarding Directors' securities transactions with the Company throughout the six months ended 30 June 2015.

By Order of the Board
Yanchang Petroleum International Limited
Mr. Zhang Kaiyong
Chairman

Hong Kong, 20 August 2015