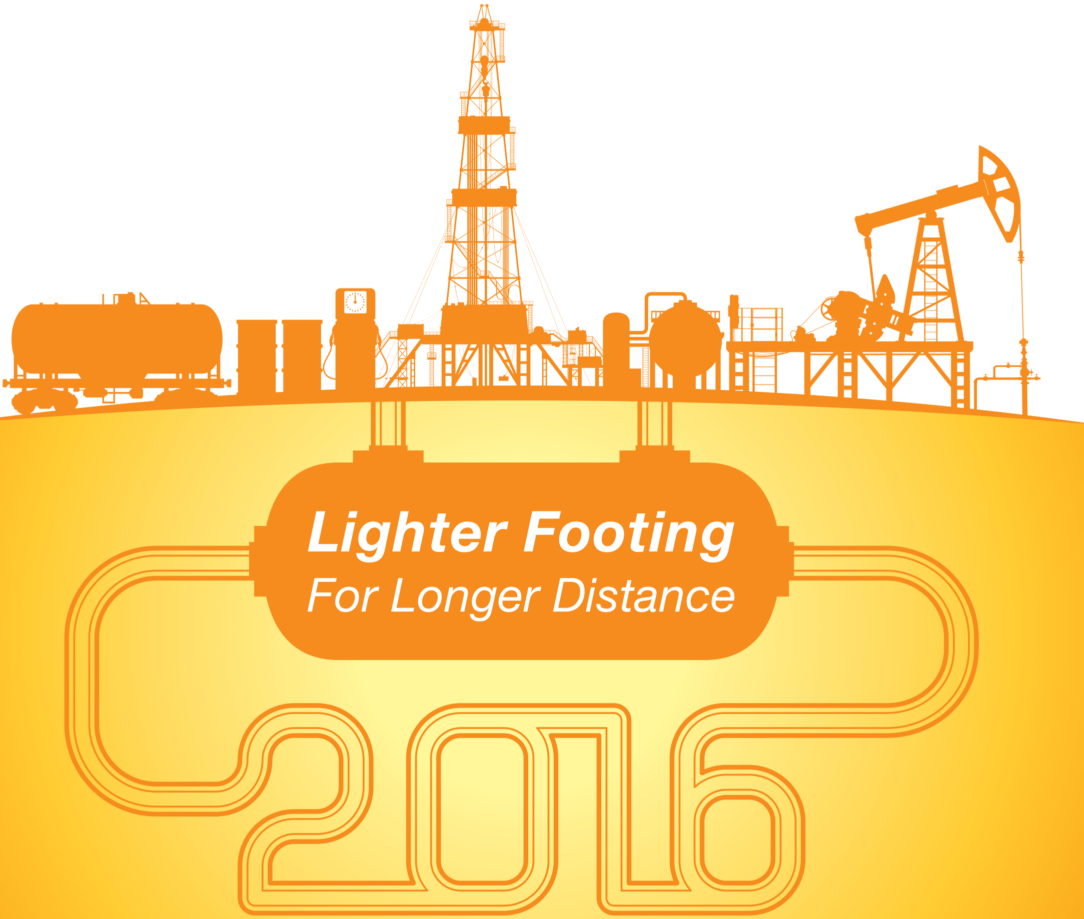
延長石油國際有限公司
YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)
Stock Code: 00346



INTERIM REPORT

CORPORATE INFORMATION

EXECUTIVE DIRECTORS
Mr. Li Yi *(Chairman)*
Mr. Hui Bo *(Vice President)*
Mr. Shen Hao
Mr. Feng Dawei
Mr. Li Jun
Mr. Andres Pena Salceda

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Ng Wing Ka
Mr. Leung Ting Yuk
Mr. Sun Liming
Dr. Mu Guodong

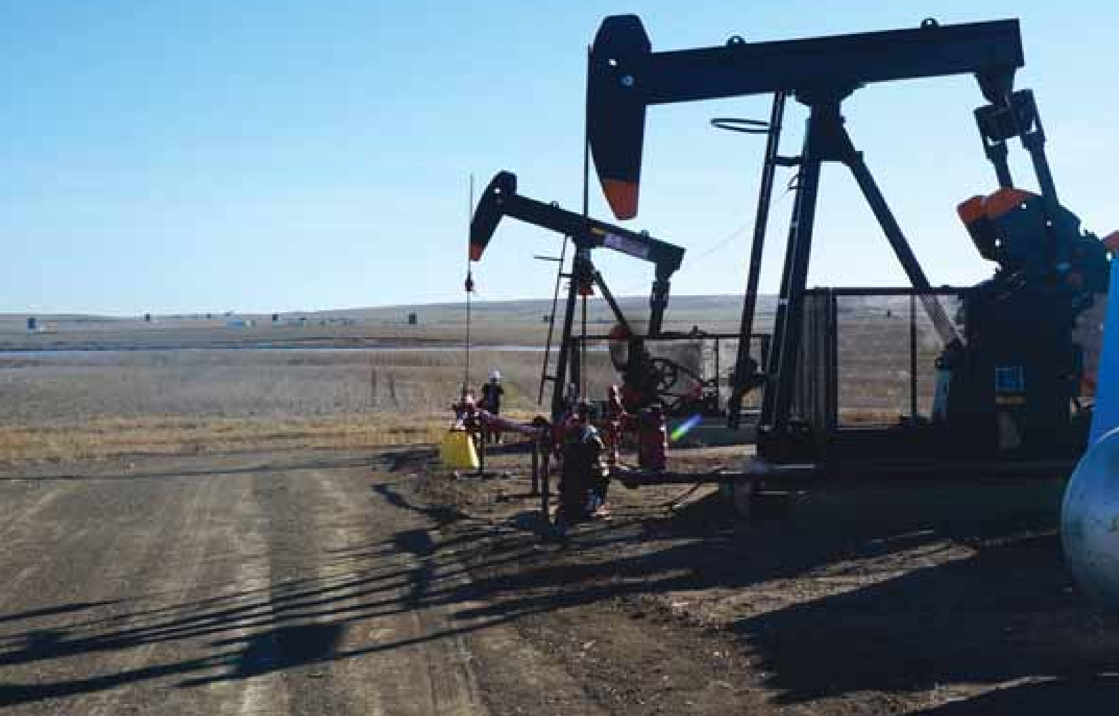
COMPANY SECRETARY
Mr. Law Hing Lam

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



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REGISTERED OFFICE
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BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Codan Services Limited
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
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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

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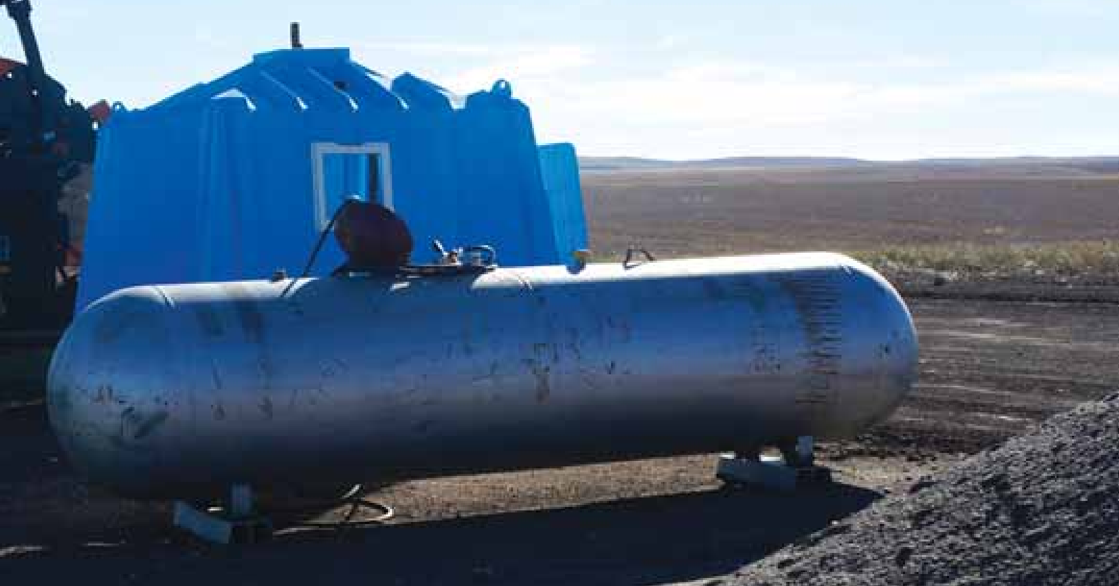

The board (the "Board") of directors (the "Directors") of Yanchang Petroleum International Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2016 together with the unaudited comparative figures for the six months ended 30 June 2015 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

		Six months ended 30 June	
		2016	2015
		(Unaudited)	(Unaudited)
	Notes	**HK$'000**	HK$'000
Revenue	*4*	**11,000,857**	10,577,024
Other revenue	*4*	**3,030**	7,679
		11,003,887	10,584,703
Expenses			
Purchases		**(10,869,551)**	(10,259,153)
Royalties		**(9,837)**	(25,963)
Field operation expenses		**(32,427)**	(45,210)
Exploration and evaluation expenses		**(1,588)**	(1,401)
Selling and distribution expenses		**(2,124)**	(21,726)
Administrative expenses		**(38,393)**	(41,769)
Depreciation, depletion and amortisation		**(69,853)**	(152,003)
Other gains and losses	*5*	**(17,402)**	(29,270)
		(11,041,175)	(10,576,495)
(Loss)/profit from operating activities	*6*	**(37,288)**	8,208
Finance costs	*7*	**(30,412)**	(17,579)
Loss before taxation		**(67,700)**	(9,371)
Taxation	*8*	**7,263**	(2,768)
Loss for the period		**(60,437)**	(12,139)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Notes	Six months ended 30 June 2016 (Unaudited) HK$'000	2015 (Unaudited) HK$'000
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**97,519**	(113,054)
Other comprehensive income/(loss) for the period, net of tax		**97,519**	(113,054)
Total comprehensive income/(loss) for the period		**37,082**	(125,193)
(Loss)/profit attributable to:			
– Owners of the Company		**(64,412)**	(23,648)
– Non-controlling interests		**3,975**	11,509
		(60,437)	(12,139)
Total comprehensive income/(loss) attributable to:			
– Owners of the Company		**34,585**	(136,816)
– Non-controlling interests		**2,497**	11,623
		37,082	(125,193)
Loss per share attributable to the owners of the Company			
– Basic and diluted, HK cents	*10*	**(0.53)**	(0.19)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	Notes	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*11*	**1,911,284**	1,878,740
Prepaid lease payments		**17,082**	17,538
Investment properties	*12*	**29,203**	29,458
Intangible assets	*13*	**47,242**	47,848
Exploration and evaluation assets	*14*	**30,746**	46,258
Deferred tax assets		**21,537**	–
Goodwill		**51,418**	51,418
		2,108,512	2,071,260
Current assets			
Inventories	*15*	**43,112**	29,347
Trade receivables	*16*	**21,748**	236,784
Prepayments, deposits and other receivables	*17*	**255,345**	115,412
Tax recoverable		**3,628**	5,681
Cash and bank balances	*18*	**516,857**	886,690
		840,690	1,273,914
Total assets		**2,949,202**	3,345,174
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital	*19*	**242,911**	242,911
Reserves		**1,427,621**	1,392,055
Equity attributable to the owners of the Company		**1,670,532**	1,634,966
Non-controlling interests		**115,859**	112,941
Total equity		**1,786,391**	1,747,907

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	Notes	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
LIABILITIES			
Current liabilities			
Trade and other payables	*20*	**375,775**	467,392
Derivative financial instruments		**18,457**	4,383
Bank borrowings	*21*	**287,097**	664,085
		681,329	1,135,860
Non-current liabilities			
Convertible bonds	*22*	**360,614**	353,792
Decommissioning liabilities		**96,221**	91,060
Deferred tax liabilities		**24,647**	16,555
		481,482	461,407
Total liabilities		**1,162,811**	1,597,267
Total equity and liabilities		**2,949,202**	3,345,174
Net current assets		**159,361**	138,054
Total assets less current liabilities		**2,267,873**	2,209,314

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to owners of the Company											
		Reserves										
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Revaluation reserve HK$'000	Reserve on acquisition of additional interests in a subsidiary HK$'000	Statutory reserve HK$'000	Other reserve HK$'000	Accumulated losses HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
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
At 1 January 2016 (Audited)	242,911	1,763,060	6,403,929	(421,342)	385,259	2,285,265	21,899	2,831	(9,048,846)	1,392,055	112,941	1,747,907
(Loss)/profit for the period	–	–	–	–	–	–	–	–	(64,412)	(64,412)	3,975	(60,437)
Other comprehensive (loss)/income for the period	–	–	–	98,997	–	–	–	–	–	98,997	(1,478)	97,519
Total comprehensive (loss)/income for the period	–	–	–	98,997	–	–	–	–	(64,412)	34,585	2,497	37,082
Net increase in other reserve *(Note 1)*	–	–	–	–	–	–	–	981	–	981	421	1,402
At 30 June 2016 (Unaudited)	242,911	1,763,060	6,403,929	(322,345)	385,259	2,285,265	21,899	3,812	(9,113,258)	1,427,621	115,859	1,786,391

Notes:

(1) According to relevant PRC regulations, 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 2016, the Group contributed HK$981,000 (six months ended 30 June 2015: HK$753,000) to other reserve for the safety production fund.

(2) 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 be transferred and credited to the contributed surplus account of the Company.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Six months ended 30 June 2016 (Unaudited) HK$'000	2015 (Unaudited) HK$'000
Cash flows from operating activities		
Cash generated from operations	3,110	262,200
Interest received	2,174	6,413
Tax paid	(3,337)	(17,466)
Net cash generated from operating activities	1,947	251,147
Cash flows from investing activities		
Purchase of property, plant and equipment	(29,561)	(130,157)
Purchase of exploration and evaluation assets	–	(1,761)
Proceeds from disposal of property, plant and equipment	60,058	–
Net cash generated from/(used in) investing activities	30,497	(131,918)
Cash flows from financing activities		
Net cash outflows from bank borrowings	(419,444)	(54,713)
Other cash outflows from financing activities	(11,352)	(15,981)
Net cash used in financing activities	(430,796)	(70,694)
Net (decrease)/increase in cash and cash equivalents	(398,352)	48,535
Cash and cash equivalents at the beginning of the period	886,690	575,602
Effect of foreign exchange rate changes	28,519	(3,109)
Cash and cash equivalents at the end of the period	516,857	621,028
Analysis of balances of cash and cash equivalents		
Cash and bank balances	516,857	621,028

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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 2015 as contained in the Company's annual report 2015 (the "Annual Report 2015"), 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 30 August 2016.

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 2016 are consistent with those followed in the preparation of the Annual Report 2015 except for the impact of the adoption of the new and revised standards, amendments and interpretations (the "new and revised HKFRSs").

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In the current period, the Group has applied, for the first time, a number of the new and revised HKFRSs issued by the HKICPA which are effective for the Group's financial period beginning 1 January 2016. A summary of the new and revised HKFRSs are set out as below:

HKFRS 14	Regulatory Deferral Accounts
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

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

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined

3. SEGMENT INFORMATION

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

(a) the exploration, exploitation and operation business segment involves oil and gas exploration, exploitation, sale and operation; and

(b) the supply and procurement business segment involves storage, transportation, trading and distribution of oil related products.

Segment revenue and results

	Exploration, exploitation and operation		Supply and procurement		Consolidated	
	For the six months ended 30 June					
	2016 HK$'000 (Unaudited)	2015 HK$'000 (Unaudited)	2016 HK$'000 (Unaudited)	2015 HK$'000 (Unaudited)	2016 HK$'000 (Unaudited)	2015 HK$'000 (Unaudited)
Segment revenue:						
Sales to external customers	96,744	249,643	10,904,113	10,327,381	11,000,857	10,577,024
Segment results	(35,810)	(41,329)	16,936	51,627	(18,874)	10,298
Other revenue					3,030	7,679
Change in fair value on derivative components of convertible bonds					(11,728)	–
Net foreign exchange gain					11	196
Unallocated corporate expenses					(9,727)	(9,965)
(Loss)/profit from operating activities					(37,288)	8,208
Finance costs					(30,412)	(17,579)
Loss before taxation					(67,700)	(9,371)
Taxation					7,263	(2,768)
Loss for the period					(60,437)	(12,139)

3. SEGMENT INFORMATION (CONTINUED)

Revenue reported was generated from external customers. There were no inter-segment sales during the six months ended 30 June 2016 and 2015.

Segment results represent the profit earned/(loss incurred) by each segment without allocation of other revenue, change in fair value on derivative components of convertible bonds, 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 2016 HK$'000 (Unaudited)	31 December 2015 HK$'000 (Audited)	**30 June 2016 HK$'000 (Unaudited)**	31 December 2015 HK$'000 (Audited)	**30 June 2016 HK$'000 (Unaudited)**	31 December 2015 HK$'000 (Audited)
Segment assets	**1,810,299**	1,767,708	**919,648**	1,001,359	**2,729,947**	2,769,067
Unallocated assets					**219,255**	576,107
Total assets					**2,949,202**	3,345,174
Segment liabilities	**329,283**	688,116	**455,920**	546,939	**785,203**	1,235,055
Unallocated liabilities					**377,608**	362,212
Total liabilities					**1,162,811**	1,597,267

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 convertible bonds and corporate financial liabilities.

4. REVENUE AND OTHER REVENUE

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant inter-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	
	2016	2015
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Revenue		
Sales of crude oil and gas	**96,744**	249,643
Trading and distribution of oil related products	**10,904,113**	10,327,381
	11,000,857	10,577,024

	Six months ended 30 June	
	2016	2015
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Other revenue		
Bank interest income	**2,174**	6,413
Rental income	**820**	1,222
Others	**36**	44
	3,030	7,679

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2016	2015
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Net foreign exchange gain	**11**	196
Gain on disposal of property, plant and equipment	**2,079**	–
Written off of expired exploration and evaluation assets	**(4,594)**	(7,575)
Over-provision of decommissioning liabilities	**–**	1,620
Change in fair value on derivative financial instruments	**(5,019)**	(23,511)
Change in fair value on derivative components of convertible bonds	**(11,728)**	–
Others	**1,849**	–
	(17,402)	(29,270)

6. LOSS FROM OPERATING ACTIVITIES

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

	Six months ended 30 June	
	2016	2015
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	**10,869,551**	10,259,153
Depreciation and depletion of property, plant and equipment	**69,616**	151,742
Amortisation of prepaid lease payments	**237**	261
Minimum lease payments under operating leases of rented premises	**3,848**	5,004
Staff costs (including Directors' remuneration)		
– Salaries and wages	**16,041**	16,803
– Pension scheme contributions	**325**	366

7. FINANCE COSTS

	Six months ended 30 June	
	2016	2015
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Interest expenses on bank borrowings wholly repayable within five years	**11,352**	15,981
Imputed interest on convertible bonds	**17,578**	–
Accretion of decommissioning liabilities	**1,482**	1,598
	30,412	17,579

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 2016 (six months ended 30 June 2015: Nil).

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for the six months ended 30 June 2016 and 2015.

Taxation arising in Canada is calculated at 27% for the six months ended 30 June 2016 and 2015.

	Six months ended 30 June	
	2016	2015
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Current taxation		
Charge for the period – the PRC	**3,917**	12,669
– Canada	**1,451**	4,042
Deferred taxation		
Credit for the period	**(12,631)**	(13,943)
Net tax (credited)/charged for the period	**(7,263)**	2,768

9. INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividends in respect of the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

10. LOSS PER SHARE

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

	Six months ended 30 June	
	2016	2015
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Loss		
Loss attributable to the owners of the Company for the purpose of basic and diluted loss per share	**(64,412)**	(23,648)

The weighted average number of ordinary shares for the purposes of basic and diluted loss per share for the six months ended 30 June 2016 was approximately 12,145,573,000 (six months ended 30 June 2015: 12,145,573,000).

Diluted loss per share for the six months ended 30 June 2016 and 2015 were the same as the basic loss per share. The convertible bonds outstanding as at 30 June 2016 had an anti-dilutive effect on the basic loss per share and were not included in the calculation of diluted loss per share for the six months ended 30 June 2016. There were no dilutive potential ordinary shares in existence during the six months ended 30 June 2015.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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 2015 and 1 January 2016 (Audited)	125,695	11,174	8,413	2,958	341	2,588,335	129,629	2,866,545
Additions	–	–	76	–	–	24,285	7,097	31,458
Transfer from exploration and evaluation assets	–	–	–	–	–	6,560	–	6,560
Disposals	–	–	–	–	–	(71,696)	(589)	(72,285)
Exchange differences	(1,593)	(141)	246	(39)	25	185,814	(1,726)	182,586
At 30 June 2016 (Unaudited)	124,102	11,033	8,735	2,919	366	2,733,298	134,411	3,014,864
Accumulated depreciation, depletion and impairment								
At 31 December 2015 and 1 January 2016 (Audited)	16,810	2,370	3,628	1,432	341	963,224	–	987,805
Charge for the period	2,015	595	1,005	249	–	65,752	–	69,616
Disposals	–	–	–	–	–	(22,450)	–	(22,450)
Exchange differences	(237)	(37)	121	(23)	25	68,760	–	68,609
At 30 June 2016 (Unaudited)	18,588	2,928	4,754	1,658	366	1,075,286	–	1,103,580
Net book value								
At 30 June 2016 (Unaudited)	**105,514**	**8,105**	**3,981**	**1,261**	**–**	**1,658,012**	**134,411**	**1,911,284**
At 31 December 2015 (Audited)	108,885	8,804	4,785	1,526	–	1,625,111	129,629	1,878,740

12. INVESTMENT PROPERTIES

	HK$'000
Fair value	
At 31 December 2015 and 1 January 2016 (Audited)	29,458
Exchange differences	(255)
At 30 June 2016 (Unaudited)	**29,203**

The Directors consider that the carrying amount of the investment properties are fairly stated as at 30 June 2016.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes 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 2015 and 1 January 2016 (Audited)	269,327
Exchange differences	(3,412)
At 30 June 2016 (Unaudited)	265,915
Accumulated impairment	
At 31 December 2015 and 1 January 2016 (Audited)	221,479
Exchange differences	(2,806)
At 30 June 2016 (Unaudited)	218,673
Carrying amount	
At 30 June 2016 (Unaudited)	**47,242**
At 31 December 2015 (Audited)	47,848

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

13. INTANGIBLE ASSETS (CONTINUED)

Refined oil supply agreement

On 26 July 2011 and 1 November 2011, Shaanxi Yanchang Petroleum (Group) Co., Limited ("Yanchang Petroleum Group"), the substantial shareholder of the Company, as the supplier has signed a supply agreement and a supplemental agreement respectively (the "Refined Oil 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 Refined Oil 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 Refined Oil 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 Refined Oil 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 Refined Oil Supply Agreement. The Directors are not aware of any expected impediment with respect to the renewal of the Refined Oil Supply Agreement and consider that the possibility of failing in the Refined Oil Supply Agreement renewal is remote and the Refined Oil Supply Agreement will generate net cash inflows for Henan Yanchang for an indefinite period. Therefore, the Refined Oil 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 2016 and hence no impairment is needed.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

14. EXPLORATION AND EVALUATION ASSETS

	HK$'000
Cost	
At 31 December 2015 and 1 January 2016 (Audited)	12,458,558
Disposals and written off	(12,394)
Transfer to property, plant and equipment	(6,560)
Exchange differences	3,442
At 30 June 2016 (Unaudited)	12,443,046
Accumulated impairment	
At 31 December 2015 and 1 January 2016 (Audited) and 30 June 2016 (Unaudited)	12,412,300
Carrying amount	
At 30 June 2016 (Unaudited)	**30,746**
At 31 December 2015 (Audited)	46,258

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

14. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

Notes:

(a) The exploration and evaluation assets represent (i) the oil and gas exploration, exploitation and operation rights and profit sharing rights at the Oilfield Block 2104 and the Oilfield Block 3113 (the "Two Oilfield Blocks") in Madagascar, onshore sites for oil and gas exploration, exploitation and operation; (ii) expenditure paid for provision of services on activities relating to evaluation of the technical feasibility and commercial viability of extracting oil and gas in the Two Oilfield Blocks in Madagascar; and (iii) the unproved properties and capitalised exploration, 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 2016.

(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.

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 2015: 30–90 days), are recognised and carried at the original invoiced amount less allowance for doubtful debt. 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 2016 HK$'000 (Unaudited)	31 December 2015 HK$'000 (Audited)
0 to 30 days	**20,202**	234,397
31 to 60 days	**524**	294
61 to 90 days	**287**	68
Over 90 days	**735**	2,025
	21,748	236,784

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$735,000 (31 December 2015: HK$2,025,000) 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 2016

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2016 HK$'000 (Unaudited)	31 December 2015 HK$'000 (Audited)
Prepaid lease payments	**468**	474
Prepayments to suppliers of refined oil products	**241,236**	97,399
Other prepayments	**3,757**	3,902
Other deposits	**395**	291
Other receivables	**9,489**	13,346
	255,345	115,412

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. No impairment loss was recognised as at 30 June 2016 (31 December 2015: Nil). The Group does not hold any collaterals over these balances.

18. CASH AND BANK BALANCES

Included in the cash and bank balances as at 30 June 2016 were amounts in RMB equivalent to HK$245,327,000 (31 December 2015: HK$268,361,000) which are not freely convertible into other currencies.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

19. SHARE CAPITAL

	Number of shares		Share capital	
	30 June 2016 '000	31 December 2015 '000	**30 June 2016 HK$'000 (Unaudited)**	31 December 2015 HK$'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 and 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 2016 HK$'000 (Unaudited)	31 December 2015 HK$'000 (Audited)
Trade payables	**21,370**	291,773
Deposit received in advance from customers	**293,678**	110,099
Other payables	**60,727**	65,520
	375,775	467,392

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 2016 HK$'000 (Unaudited)	31 December 2015 HK$'000 (Audited)
0 to 30 days	20,175	290,571
31 to 60 days	141	370
61 to 90 days	53	159
Over 90 days	1,001	673
	21,370	291,773

As at 30 June 2016 and 31 December 2015, 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 2016 HK$'000 (Unaudited)	31 December 2015 HK$'000 (Audited)
Carrying amount repayable within one year or on demand:		
Unsecured bank borrowings *(Note a)*	92,896	94,088
Secured bank borrowings *(Note b)*	194,201	569,997
	287,097	664,085

21. BANK BORROWINGS (CONTINUED)

(a) As at 30 June 2016, Henan Yanchang drawn unsecured bank borrowings of RMB80,000,000 (equivalent to HK$92,896,000) (31 December 2015: RMB80,000,000 (equivalent to HK$94,088,000)). 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. The effective interest rate as at 30 June 2016 is 4.35%.

(b) As at 30 June 2016, Novus Energy Inc ("Novus") drawn Canadian dollar ("CAD") 32,475,000 (equivalent to HK$194,201,000) against its CAD75,000,000 revolving operating demand loan (31 December 2015: CAD92,150,000 (equivalent to HK$514,197,000) against its CAD110,000,000 revolving operating demand loan and CAD10,000,000 (equivalent to HK$55,800,000) against its CAD15,000,000 non-revolving term loan).

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 2.0% to 4.5% (31 December 2015: 1.0% to 3.5%) over the bank's prime lending rate; bankers' acceptances stamping fees ranging from 3.0% to 5.5% (31 December 2015: 2.0% to 4.5%); letters of credit/guarantee fees ranging from 3.0% to 5.5% (31 December 2015: 2.0% to 4.5%); and standby fees ranging from 0.5% to 1.125% (31 December 2015: 0.5% to 1.125%), all depending on a net debt to cash flow ratio ranging from less than or equal to 1:1 up to greater than 4:1 (31 December 2015: 1:1 up to greater than 4:1).

As at 30 June 2016, interest on the revolving operating demand loan is charged at prime plus 4.0% (31 December 2015: 1.75%) per annum, bankers' acceptances stamping fees are 5.0% (31 December 2015: 2.75%) per annum, letters of credit/guarantee are charged a fee of 5.0% (31 December 2015: 2.75%) per annum, and standby fees are 1.0% (31 December 2015: 0.6875%) per annum.

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 2016, this ratio of Novus is 2.2:1 (31 December 2015: 2.7:1). The credit facilities are subject to periodic review by the bank.

22. CONVERTIBLE BONDS

On 23 December 2015, the Company issued convertible bonds in the principal amount of US$46,300,000 ("2015 Convertible Bonds"). The 2015 Convertible Bonds bear annual interest rate of 5% and mature on the date falling on the third anniversary of the date of issuance. The 2015 Convertible Bonds entitles the bondholder to convert to the ordinary shares of the Company at an initial conversion price of HK$0.40 per share.

On 1 April 2016, the Company and the bondholder entered into a supplemental deed whereby the parties agreed to amend certain terms and conditions under the subscription agreement and the instrument executed by the Company on 23 December 2015 constituting the 2015 Convertible Bonds as follows:

Interest:	7% per annum on the outstanding principal amount of the 2015 Convertible Bonds, which shall be payable by the Company to the bondholder in arrears semi-annually from the issue date until the date on which the 2015 Convertible Bonds are redeemed.
Redemption upon maturity:	The Company will redeem on the maturity date the 2015 Convertible Bonds in an amount equal to the sum of the aggregate principal amount of the 2015 Convertible Bonds then outstanding plus a premium representing an interest rate of 3% per annum on the principal amount of the 2015 Convertible Bonds together with all accrued and outstanding interest.
Early redemption at the option of the bondholder:	Unless previously redeemed, converted or cancelled, the bondholder may, at its option and within a month after the second anniversary of the issue date ("Early Redemption Date"), notify the Company in writing to request the Company to redeem the 2015 Convertible Bonds in whole or in part in an amount equal to the sum of the outstanding principal amount of the 2015 Convertible Bonds to be redeemed, plus a premium representing an annual interest rate of 3% on the relevant principal amount together with all accrued and outstanding interest calculated from the issue date to the Early Redemption Date.

22. CONVERTIBLE BONDS (CONTINUED)

Specific covenants: The Company undertakes to comply with the following specific covenants as amended at all times until the date when all the 2015 Convertible Bonds have been converted into conversion share(s) or the Company has redeemed all the 2015 Convertible Bonds (whichever is earlier):

(1) maintaining the net assets value of the Company at no less than HK$1.2 billion;

(2) maintaining the ratio of total assets value to net assets value of the Company at no more than 2.5 times;

(3) maintaining the ratio of net interest-bearing debt to net assets value of the Company at no more than 100%.

For the avoidance of doubt, the other specific covenants remain unchanged.

The 2015 Convertible Bonds contains two components, liability component and derivative financial liabilities component as follows:

Liability component:

	HK$'000
Liability component at 31 December 2015 and 1 January 2016 (Audited)	353,792
Imputed interest charged	17,578
Interest payable	(10,756)
Liability component at 30 June 2016 (Unaudited)	**360,614**

22. CONVERTIBLE BONDS (CONTINUED)

Derivative financial liabilities component:

	Redemption options held by bondholder HK$'000	Change in conversion price of convertible bonds HK$'000	Total HK$'000
Derivative financial liabilities component at 31 December 2015 and 1 January 2016 (Audited)	2,710	1,638	4,348
Fair value change	(1,183)	12,911	11,728
Derivative financial liabilities component at 30 June 2016 (Unaudited)	**1,527**	**14,549**	**16,076**

23. FAIR VALUE MEASURMENT 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).

23. FAIR VALUE MEASURMENT 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 date (unobservable inputs).

23. FAIR VALUE MEASURMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

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 30 June 2016 HK$'000	Fair value as at 31 December 2015 HK$'000	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs
Derivative financial instruments					
– Oil commodity contracts	**(2,381)**	(35)	Level 2	Discounting the difference between the contracted prices and the published forward price curves, using the remaining contracted volumes and a risk-free rate adjusted for non-performance risk	N/A
– Derivative components of convertible bonds	**(16,076)**	(4,348)	Level 3	Generating a large number of possible random price paths using Monte Carlo simulation to calculate the average present value of the extra payoff from the simulated paths	Discount rate adopted ranging from 9.66% to 9.79%. Share price volatility of 45% *(Note)*

Note:

An increase in the discount rate adopted in isolation would result in a decrease in fair value measurement of derivative components of convertible bonds.

An increase in the share price volatility used in isolation would result in an increase in the fair value measurement of derivative components of convertible bonds.

Refer to Note 22 for the fair value reconciliation of derivative components of convertible bonds for the six months ended 30 June 2016.

23. FAIR VALUE MEASURMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Excepted as detailed in the following table, the Directors of the Company consider the carrying amounts of financial assets and financial liabilities recognised in the consolidated statement of financial position approximate to their fair values.

	30 June 2016		31 December 2015	
	Carrying amount HK$'000 (Unaudited)	Fair value HK$'000 (Unaudited)	Carrying amount HK$'000 (Audited)	Fair value HK$'000 (Audited)
Financial liabilities				
Convertible bonds	**360,614**	**362,255**	353,792	354,493

24. COMMITMENTS

The Group had capital commitments to property, plant and equipment amounted to HK$987,000 (31 December 2015: HK$19,331,000) which were contracted but not provided for as at 30 June 2016.

25. CONTINGENT LIABILITIES

As at 30 June 2016, the Group had no material contingent liabilities (31 December 2015: Nil).

26. MATERIAL RELATED PARTIES TRANSACTIONS

Save as disclosed elsewhere in the unaudited condensed consolidated financial statements, during the six months ended 30 June 2016, 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	
	2016	2015
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Salaries and allowance	**3,017**	2,808
Mandatory provident fund contributions	**15**	15
	3,032	2,823

During the six months ended 30 June 2016, the Group had the following connected transaction with related party:

Name of related party	Relationship	Nature of transaction	Six months ended 30 June	
			2016	2015
			HK$'000	HK$'000
			(Unaudited)	(Unaudited)
Yanchang Petroleum Group	Substantial shareholder	Supply of refined oil	**325,153**	1,616,829

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

27. COMPARATIVE FINANCIAL INFORMATION

Certain comparative figures have been restated to conform with current period's 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	Nil
Development activities:	3 wells drilled 3 wells completed	Nil
Production activities:	Average daily net production Oil: 2,025 bbls Gas: 3,374 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	–	–	–
Developments costs	24,285	–	24,285
Production costs *(note)*	32,427	–	32,427

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

In the first half of 2016, the Company strived to overcome the challenges of depressed oil prices and economic downturn. The Company has effectively cut down Novus Energy Inc.'s ("Novus") operational and management costs for its in-production oil and gas business in Canada; and achieved in excess of the business targets for Henan Yanchang refined oil trading business in the PRC. In addition, the Company introduced through placement of shares to Copower Enterprise Group Limited ("Copower Enterprise") and upon completion of the transaction, Copower Enterprise will become the second-largest shareholder of the Company and which will also strengthen the Company's shareholder base.

In-production oil and gas upstream business

In the first half of 2016, Novus's management enhanced operational efficiency and reduced costs in order to meet its average daily production target under difficult low oil prices environment. For capital expenditures, through flexible drilling plan and disposal of non-core assets, Novus optimised and concentrated its resources to develop core areas. For operational costs, the actual operational and transportation costs per barrel kept below budget as a result of improving operational efficiency. For management costs, job specialisation and reorganisation as well as austerity measures on office expenses and professional fees implemented.

Besides, Novus's exploration and operation department has been conducting refrac program for the existing old wells. Initial performance has been satisfactory with refrac of three old wells completed, two in Saskatchewan and one in Alberta. The refrac is principally due to poor production performance of the existing old wells but good performance in surrounding area, and those wells are anticipated to have better performance. It is expected that the production volume of the three wells upon refrac will increase to 100 barrels and a reserve of 80,000 barrels. The refrac is planned to extend to other existing old wells and 13 potential target wells are currently identified.

In the second half of 2016, in addition to further strengthening of operational efficiency and costs control, Novus will put emphasis on refrac of its existing old wells so as to increase production volume and reserve. While firmly adhering to its annual budget, Novus will also flexibly adjust its drilling plan of new wells subject to oil prices.

Refined oil trading downstream business

In the first half of 2016, sales volume of refined oil in Henan Yanchang was 2.2 million tonnes with revenue of RMB9.3 billion. As sales policy of "cash before delivery" was strictly implemented, recovery of receivables was 100%. Henan Yanchang maintained a safe, highly-effective and steady operation in terms of production, capital and debt as well as integrated management and control without occurrence of adverse incidents.

Having been affected by the slump in international crude oil prices, refined oil prices and demand for refined oil in the PRC remained at a low level. With a comprehensive study, Henan Yanchang plans to achieve profit maximisation by fully utilising its storage capacity and expanding its oil sources and customer base. Principal initiatives are as follows: (i) liquidising oil storage assets and building up closer cooperation with strategic partners, entering into strategic cooperation agreement in relation to purchase and sales business, storage business and outsourcing of oil refinery, with an aim to reduce operational costs by multiple rail transportation of oil and enhance operational efficiency of oil storage, resulting in increase in oil storage turnover rate and liquidisation of oil storage in general; (ii) optimising and adjusting market structure, broadening end customer base as core revenue stream complemented by corporate customers, seeking to acquire customers of privately operated gas stations, adopting differentiated marketing strategies such as bargain per order, quantity based pricing and tax payment after goods sold; and (iii) striving for exploring high-value regions such as Yunnan, Guizhou and Sichuan, 4 customers in Sichuan, 2 customers in Chongqing and 1 customer in Yunnan have been obtained so far which laid a foundation for opening new markets in the future.

In the second half of 2016, Henan Yanchang, in addition to pursuing its annual business targets, will foster long-term development and accelerate its gas stations business. In order to put Lanzhou-Zhengzhou-Changsha oil pipeline project into smooth operation, Henan Yanchang is well-prepared for trial run of the project, with an aim to reduce transportation costs and promote the project as a new profit driver.

Financing activities

On 14 June 2016, the Company introduced Copower Enterprise as a strategic cooperation partner at business level by placing of 1.21 billion new shares to Copower Enterprise. The placement represents the support to the Company from the parent Yanchang Petroleum Group and the potential cooperation with Copower Enterprise, which in turn, has enhanced investors' confidence in the Company, will benefit to the further expansion of financing channel and will attract more strategic cooperation partners at business and financial levels.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

Given market remained pessimistic over the rebound of oil prices in the second half of 2016, and also under the principles of maintaining production volume, balancing cash flow and reducing loss, the Group will continue to adopt measures, including controls over costs and capital expenditures, in order to mitigate operational pressure, elevate profitability and balance cash flow. In addition, the Company will continue to explore and line up with more equity investors for further improving the Company's shareholding structure. While under the circumstance of low oil prices, the Company will keep on studying the feasibility of re-structuring and acquisition of upstream assets in Canada, safeguarding its interests of assets abroad and actively exploring business opportunities.

FINANCIAL REVIEW

Revenue 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. For the six months ended 30 June 2016, the Group's turnover was derived from 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 470,975 BOE and contributed production income of HK$96,744,000 during the period under review compared to production of 778,592 BOE and production income of HK$249,643,000 for the last period. Though the sales dropped sharply as a result of persistent low oil prices and decrease in production, with more stringent management and cost controls, operating loss reduced from the last period of HK$41,329,000 compared to this period of HK$35,810,000.

During the six months ended 30 June 2016, the revenue of refined oil trading business increased by 6% from the last period of HK$10,327,381,000 to HK$10,904,113,000. Henan Yanchang's sales of refined oil increased from last period of 1.6 million tonnes to 2.2 million tonnes this period and contributed operating profit of HK$16,936,000 to the supply and procurement business, a decrease of 67% as compared to the last corresponding period mainly due to the decrease in economic performance of refined oil trading business as the international crude oil price remained low in the first half of 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Other revenue

Apart from the aforesaid segment results, other revenue of HK$3,030,000 which mainly represented interest income from bank deposits and rental income from the PRC properties recorded for the period under review, decreased by HK$4,649,000 from HK$7,679,000 of the last period.

Purchases

Purchases, increased from last period of HK$10,259,153,000 to this period of HK$10,869,551,000, were wholly derived from the refined oil trading business of Henan Yanchang. The increase of purchases was consistent with the growth in sales of refined oil trading business.

Royalties

Royalties, including crown, freehold and overriding royalties incurred by Novus for crude oil and natural gas production in Canada, decreased from the last period of HK$25,963,000 to the current period of HK$9,837,000 due to drop in sales price and volume.

Field operation expenses

Due to decrease in sales volume and more stringent cost control in place, field operation expenses reduced to HK$32,427,000 this period from the last period of HK$45,210,000; which 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 exploration and evaluation expenses amounted to HK$1,588,000 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$21,726,000 to the current period of HK$2,124,000, were mainly incurred by Novus. The substantial drop on the expenses was due to the truck cost savings as a result of completion on pipeline network in the oilfields last year.

Administrative expenses

Administrative expenses including Directors' remuneration, staff costs, office rentals, professional fees and listing fee etc, decreased by HK$3,376,000 and amounted to HK$38,393,000 for the period under review.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation expenses decreased from the last period of HK$152,003,000 to the current period of HK$69,853,000 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 during the period under review.

Other gains and losses

The amount of HK$17,402,000 represented: (i) written off of expired exploration and evaluation assets of HK$4,594,000; (ii) loss on hedging of oil and gas commodity contracts of HK$5,019,000; (iii) non-cash fair value loss on derivative components of convertible bonds of HK$11,728,000 and after offsetting (iv) gain on disposal of properties, plant and equipment of HK$2,079,000 and (v) other gains of HK$1,860,000.

Finance costs

Finance costs amounted to HK$30,412,000 comprised of: (i) bank borrowing costs of HK$11,352,000 included interests, commitment fees, standby charges, and other expenses related to the businesses of Novus and Henan Yanchang, (ii) accretion of HK$1,482,000 related to the provision of the decommissioning liabilities incurred by Novus; and (iii) imputed interest on convertible bonds of HK$17,578,000 arisen from the issue of 3-year convertible bonds with a principal amount of US$46,300,000 carries at 7% coupon interest.

Taxation

Net tax income of HK$7,263,000 represented: the aggregate of (i) provision for Canada resource surcharge on Novus' production revenue of oil and gas amounted to HK$1,451,000; (ii) provision for the PRC enterprise income tax on the profit earned from refined oil trading business of Henan Yanchang amounted to HK$3,917,000; and after offsetting (iii) net deferred tax income amounted to HK$12,631,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Loss for the period

Compared to a loss for the last period of HK$12,139,000, a loss of HK$60,437,000 was recorded for the period under review, the increase in loss was mainly attributable to the decrease in profit of the refined oil trading business in the PRC together with the interest and the non-cash fair value loss arisen from the issue of convertible bonds raised last year for supporting the Group's business.

LIQUIDITY AND FINANCIAL RESOURCES

The Group funded its operation mainly from its internal resources together with bank borrowings and convertible bonds for the six months ended 30 June 2016.

The Group had outstanding variable rates bank borrowings amounted to HK$287,097,000 (31 December 2015: HK$664,085,000) comprised of: (i) RMB80,000,000 (equivalent to HK$92,896,000) under Henan Yanchang and (ii) CAD32,475,000 (equivalent to HK$194,201,000) under Novus as at 30 June 2016. The Group has obtained bank facilities of RMB500,000,000 (equivalent to HK$580,600,000) from banks in the PRC and CAD75,000,000 (equivalent to HK$448,500,000) from a bank in Canada.

Convertible bonds 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 was still outstanding as at 30 June 2016. The fund raised has been used as intended for the general working capital of the Group.

On 14 June 2016, the Company entered into a subscription agreement with Copower Enterprise, pursuant to which Copower Enterprise has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue, an aggregate of 1,210,000,000 shares at the subscription price of HK$0.24 per subscription share. Upon completion of the transaction, the net proceeds from the subscription of approximately HK$290,400,000 will be raised and are intended to be used for general working capital of the Group.

As at 30 June 2016, the Group has cash and bank balances of HK$516,857,000 (31 December 2015: HK$886,690,000). 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 2016, the gearing ratio of the Group, measured on the basis of total liabilities as a percentage of total equity, improved to 65.1% (31 December 2015: 91.4%). The current ratio of the Group, measured on the basis of current assets as a percentage of current liabilities, stood healthy at 123.4% as at 30 June 2016 (31 December 2015: 112.2%).

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 2016, Novus has entered 12 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. 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 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENT

21% equity interests in Gold Grand Investment Limited has been disposed of during the six months ended 30 June 2016, and thereafter the Group did not hold any significant investments as at 30 June 2016.

CAPITAL COMMITMENT

As at 30 June 2016, the Group had committed to property, plant and equipment amounted to HK$987,000 (31 December 2015: HK$19,331,000).

Save as aforesaid, the Group did not have any other material commitments as at 30 June 2016.

PLEDGE OF ASSETS

The Group's CAD75 million (31 December 2015: CAD125 million) banking facilities, 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 (31 December 2015: 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 (31 December 2015: Nil).

CONTINGENT LIABILITY

As at 30 June 2016, the Group did not have any significant contingent liabilities (31 December 2015: Nil).

LITIGATION

As at 30 June 2016, the Group had no material litigations (31 December 2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2016, the Group's total number of staff was 123 (31 December 2015: 132). Salaries of employees are maintained at a competitive level with total staff costs (excluding the equity-settled share-based expenses) for the six months ended 30 June 2016 amounted to HK$16,366,000 (six months ended 30 June 2015: HK$17,169,000). 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 2016 (six months ended 30 June 2015: Nil).

OTHER INFORMATION

DIRECTORS' INTERESTS IN SHARE CAPITAL

At 30 June 2016, 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 2016 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 2016, 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%
China Construction Bank Corporation ("CCBC") *(Note 2)*	Interest of controlled corporation	Long position	897,062,500	7.39%
Central Huijin Investment Ltd. ("Central Huijin") *(Note 2)*	Interest of controlled corporation	Long position	897,062,500	7.39%

OTHER INFORMATION

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

Note 2: These 897,062,500 Shares represent a deemed interest held by CCBC and Central Huijin (the holding company of CCBC which holds approximately 57.31% shareholding interests in CCBC). Pursuant to a subscription agreement dated 3 December 2015 (the "Subscription Agreement") (as amended by the supplemental deed dated 1 April 2016) entered into between the Company and Giant Wave Investments Limited ("Giant Wave"), the Company has conditionally agreed to issue, and Giant Wave has conditionally agreed to subscribe for, the convertible bonds (the "Convertible Bonds") of an aggregate principal amount of US$46,800,000 (subject to the RMB Cap Amount as stipulated in the Subscription Agreement) at the conversion price of HK$0.40 per Share on completion.

With all the conditions precedent under the Subscription Agreement being fulfilled, completion of the subscription took place on 23 December 2015 and the aggregate principal amount of the Convertible Bonds was adjusted to US$46,300,000 (equivalent to HK$358,825,000), which enables Giant Wave to subscribe for a maximum of 897,062,500 Shares at the conversion price of HK$0.40 per Share upon full conversion of the Convertible Bonds within the 3-year exercise period.

CCBC and Central Huijin respectively holds 100% shareholding interests in Giant Wave through their respective various wholly-owned subsidiaries. Accordingly, both CCBC and Central Huijin were deemed, under the SFO, to have an interest in these 897,062,500 Shares.

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 2016.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme"), further details of which are set out in the Annual Report 2015 of the Company.

During the six months ended 30 June 2016, no share options have been granted, exercised, cancelled or lapsed in accordance with the terms of the Scheme.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

OTHER INFORMATION

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 period ended 30 June 2016, 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 less than one year and is considered to be short.

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 on the matters relating to the financial reporting, risk management and internal control systems. The Audit Committee has reviewed the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2016.

OTHER INFORMATION

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 of the Company, they confirmed that they have complied with the required standards as set out in the Model Code as their code of conduct regarding Directors' securities transactions with the Company for the six months ended 30 June 2016.

By Order of the Board
Yanchang Petroleum International Limited
Mr. Li Yi
Chairman

Hong Kong, 30 August 2016