OPEN UP NEW OPPORTUNITIES WITH INTERNATIONAL VISION

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

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

2017 INTERIM REPORT

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Li Yi *(Chairman)*
Mr. Bruno Guy Charles Deruyck
(Chief Executive Officer)
Mr. Shen Hao
Ms. Sha Chunzhi
Mr. Li Jun
Mr. Tan Meng Seng

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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. Li Yi

NOMINATION COMMITTEE

Mr. Ng Wing Ka *(Chairman)*
Mr. Sun Liming
Mr. Li Yi

AUTHORISED REPRESENTATIVES

Mr. Li Yi
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
China Construction Bank (Asia) Corporation 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

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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 2017 together with the unaudited comparative figures for the six months ended 30 June 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
		(Unaudited)	(Unaudited)
	Notes	**HK$'000**	HK$'000
Revenue	*4*	**7,098,717**	11,000,857
Other revenue	*4*	**7,292**	3,030
		7,106,009	11,003,887
Expenses			
Purchases		**(6,929,068)**	(10,869,551)
Royalties		**(14,381)**	(9,837)
Field operation expenses		**(37,313)**	(32,427)
Exploration and evaluation expenses		**(1,698)**	(1,588)
Selling and distribution expenses		**(2,625)**	(2,124)
Administrative expenses		**(34,833)**	(38,393)
Depreciation, depletion and amortisation		**(75,954)**	(69,853)
Other gains and losses	*5*	**578**	(17,402)
		(7,095,294)	(11,041,175)
Profit/(loss) from operating activities	*6*	**10,715**	(37,288)
Finance costs	*7*	**(26,062)**	(30,412)
Loss before taxation		**(15,347)**	(67,700)
Taxation	*8*	**(6,608)**	7,263
Loss for the period		**(21,955)**	(60,437)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Six months ended 30 June	
	Notes	**2017 (Unaudited) HK$'000**	2016 (Unaudited) HK$'000
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**67,639**	97,519
Other comprehensive income for the period, net of tax		**67,639**	97,519
Total comprehensive income for the period		**45,684**	37,082
(Loss)/profit for the period attributable to:			
– Owners of the Company		**(24,852)**	(64,412)
– Non-controlling interests		**2,897**	3,975
		(21,955)	(60,437)
Total comprehensive income for the period attributable to:			
– Owners of the Company		**38,682**	34,585
– Non-controlling interests		**7,002**	2,497
		45,684	37,082
Loss per share attributable to the owners of the Company			
– Basic and diluted, HK cents	*10*	**(0.20)**	(0.53)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	Notes	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*11*	**1,808,657**	1,690,356
Prepaid lease payments		**16,492**	16,124
Investment properties	*12*	**29,703**	28,970
Intangible asset	*13*	**6,982**	6,731
Exploration and evaluation assets	*14*	**28,679**	27,566
Deferred tax assets		**72,472**	70,625
Goodwill		**51,418**	51,418
		2,014,403	1,891,790
Current assets			
Inventories	*15*	**41,566**	8,441
Trade receivables	*16*	**28,606**	24,122
Prepayments, deposits and other receivables	*17*	**371,561**	107,584
Cash and bank balances	*18*	**326,990**	610,283
		768,723	750,430
Total assets		**2,783,126**	2,642,220
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital	*19*	**242,911**	242,911
Reserves		**1,217,191**	1,177,015
Equity attributable to the owners of the Company		**1,460,102**	1,419,926
Non-controlling interests		**111,598**	104,384
Total equity		**1,571,700**	1,524,310

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	Notes	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
LIABILITIES			
Current liabilities			
Trade and other payables	*20*	**457,959**	364,175
Derivative financial liabilities		**967**	967
Tax payables		**484**	851
Bank borrowings	*21*	**255,341**	269,055
		714,751	635,048
Non-current liabilities			
Convertible bonds	*22*	**372,074**	366,303
Decommissioning liabilities		**109,940**	102,371
Deferred tax liabilities		**14,661**	14,188
		496,675	482,862
Total liabilities		**1,211,426**	1,117,910
Total equity and liabilities		**2,783,126**	2,642,220
Net current assets		**53,972**	115,382
Total assets less current liabilities		**2,068,375**	2,007,172

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the Company													
		Reserves												
	Share capital	Share premium	Contributed surplus	Exchange reserve	Revaluation reserve	Reserve on acquisition of additional interests in a subsidiary	Share options reserve	Statutory reserve	Convertible bonds reserve	Other reserve	Accumulated losses	Sub-total	Non-controlling interests	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$'000	HK$'000
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
At 1 January 2017 (Audited)	242,911	1,763,060	6,403,929	(385,865)	385,259	2,286,365	327	21,899	16,373	3,336	(9,317,668)	1,177,015	104,384	1,524,310
(Loss)/profit for the period	–	–	–	–	–	–	–	–	–	–	(24,852)	(24,852)	2,897	(21,955)
Other comprehensive income for the period	–	–	–	63,534	–	–	–	–	–	–	–	63,534	4,105	67,639
Total comprehensive income for the period	–	–	–	–	–	–	–	–	–	–	–	38,682	7,002	45,684
Recognition of share-based payment expenses	–	–	–	–	–	–	1,002	–	–	–	–	1,002	–	1,002
Net increase in other reserve *(Note 1)*	–	–	–	–	–	–	–	–	–	492	–	492	212	704
At 30 June 2017 (Unaudited)	242,911	1,763,060	6,403,929	(322,331)	385,259	2,286,365	1,329	21,899	16,373	3,828	(9,342,520)	1,217,191	111,598	1,571,700

Notes:

(1) According to relevant People's Republic of China ("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 2017, the Group contributed HK$492,000 (six months ended 30 June 2016: HK$981,000) to other reserve for the safety production fund.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Cash flows from operating activities		
Cash (used in)/generated from operations	**(141,427)**	3,110
Interest received	**1,476**	2,174
Tax paid	**(5,937)**	(3,337)
Net cash (used in)/generated from operating activities	**(145,888)**	1,947
Cash flows from investing activities		
Purchase of property, plant and equipment	**(123,623)**	(29,561)
Purchase of exploration and evaluation assets	**(2,777)**	–
Proceeds from disposal of property, plant and equipment	**–**	60,058
Net cash (used in)/generated from investing activities	**(126,400)**	30,497
Cash flows from financing activities		
Net cash outflows from bank borrowings	**(24,738)**	(419,444)
Other cash outflows from financing activities	**(6,693)**	(11,352)
Net cash used in financing activities	**(31,431)**	(430,796)
Net decrease in cash and cash equivalents	**(303,719)**	(398,352)
Cash and cash equivalents at the beginning of the period	**610,283**	886,690
Effect of exchange rate changes	**20,426**	28,519
Cash and cash equivalents at the end of the period	**326,990**	516,857
Analysis of balances of cash and cash equivalents		
Cash and bank balances	**326,990**	516,857

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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 2016 as contained in the Company's annual report 2016 (the "Annual Report 2016"), 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 31 August 2017.

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 2017 are consistent with those followed in the preparation of the Annual Report 2016 except for the impact of the adoption of the new and revised standards, amendments and interpretations (the "new and amendments to HKFRSs").

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the current period, the Group has applied, for the first time, a number of the new and amendments to HKFRSs issued by the HKICPA which are effective for the Group's financial period beginning 1 January 2017. A summary of the new and amendments to HKFRSs are set out as below:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrecognised Losses

The application of the above new and amendments to 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 amendments to 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 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 15	Clarification of HKFRS 15 Revenue from Contracts with Customers[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle[1]

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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					
	2017 HK$'000 (Unaudited)	2016 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)	2016 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)	2016 HK$'000 (Unaudited)
Segment revenue:						
Sales to external customers	146,500	96,744	6,952,217	10,904,113	7,098,717	11,000,857
Segment profit/(loss)	11,034	(35,810)	7,271	16,936	18,305	(18,874)
Other revenue					7,292	3,030
Change in fair value on derivative components of convertible bonds					–	(11,728)
Net foreign exchange gain					105	11
Unallocated corporate expenses					(14,987)	(9,727)
Profit/(loss) from operating activities					10,715	(37,288)
Finance costs					(26,062)	(30,412)
Loss before taxation					(15,347)	(67,700)
Taxation					(6,608)	7,263
Loss for the period					(21,955)	(60,437)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

3. SEGMENT INFORMATION (Continued)

Revenue reported was generated from external customers. There were no inter-segment sales during the six months ended 30 June 2017 and 2016.

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, unallocated corporate expenses, finance costs and taxation. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

	Exploration, exploitation and operation		Supply and procurement		Consolidated	
	30 June 2017 HK$'000 (Unaudited)	31 December 2016 HK$'000 (Audited)	**30 June 2017 HK$'000 (Unaudited)**	31 December 2016 HK$'000 (Audited)	**30 June 2017 HK$'000 (Unaudited)**	31 December 2016 HK$'000 (Audited)
Segment assets	**1,742,171**	1,655,166	**841,369**	760,442	**2,583,540**	2,415,608
Unallocated assets					**199,586**	226,612
Total assets					**2,783,126**	2,642,220
Segment liabilities	**414,651**	381,553	**392,128**	336,152	**806,779**	717,705
Unallocated liabilities					**404,647**	400,205
Total liabilities					**1,211,426**	1,117,910

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

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

4. REVENUE AND OTHER REVENUE

Revenue 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 revenue and other revenue are as follows:

	Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Revenue		
Sales of crude oil and gas	**146,500**	96,744
Trading and distribution of oil related products	**6,952,217**	10,904,113
	7,098,717	11,000,857
Other revenue		
Bank interest income	**1,475**	2,174
Rental income	**772**	820
Storage service income	**5,016**	–
Others	**29**	36
	7,292	3,030

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Net foreign exchange gain	**105**	11
Gain on disposal of property, plant and equipment	**3,411**	2,079
Written off of expired exploration and evaluation assets	**(2,809)**	(4,594)
Change in fair value on derivative financial instruments	**(129)**	(5,019)
Change in fair value on derivative components of convertible bonds	**–**	(11,728)
Others	**–**	1,849
	578	(17,402)

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	**6,929,068**	10,869,551
Depreciation and depletion of property, plant and equipment	**75,723**	69,616
Amortisation of prepaid lease payments	**231**	237
Minimum lease payments under operating leases of rented premises	**4,114**	3,848
Staff costs (including Directors' remuneration):		
– Salaries and wages	**28,815**	27,237
– Share-based payment expenses	**1,002**	–
– Pension scheme contributions	**331**	325

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

7. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Interest expenses on bank borrowings wholly repayable within five years	**6,694**	11,352
Imputed interest on convertible bonds	**18,226**	17,578
Accretion of decommissioning liabilities	**1,142**	1,482
	26,062	30,412

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 2017 and 2016.

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 2017 and 2016.

Taxation arising in Canada is calculated at 27% for the six months ended 30 June 2017 and 2016.

	Six months ended 30 June	
	2017	2016
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Current taxation		
Charge for the period – the PRC	**3,275**	3,917
– Canada	**2,269**	1,451
Deferred taxation		
Charge/(credit) for the period	**1,064**	(12,631)
Net tax charge/(credit) for the period	**6,608**	(7,263)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

9. INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividends in respect of the six months ended 30 June 2017 (six months ended 30 June 2016: 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	
	2017	2016
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Loss		
Loss for the period attributable to the owners of the Company for the purpose of basic and diluted loss per share	**(24,852)**	(64,412)

	Six months ended 30 June	
	2017	2016
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**12,145,573**	12,145,573

Diluted loss per share for the six months ended 30 June 2017 and 2016 were the same as the basic loss per share. The computation of diluted loss per share for the six months ended 30 June 2017 does not assume the Company's outstanding convertible bonds and the outstanding share options since the assumed conversion of convertible bonds and the assumed exercise of share options would result in a decrease in loss per share. The computation of diluted loss per share for the six months ended 30 June 2016 does not assume the Company's outstanding convertible bonds since the assumed conversion would result in a decrease in loss per share.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Petroleum and natural gas properties HK$'000	Construction in progress HK$'000	Total HK$'000
Cost								
At 31 December 2016 and 1 January 2017 (Audited)	122,855	11,872	10,394	2,797	353	2,623,194	128,769	2,900,234
Additions	–	–	170	7	–	123,364	82	123,623
Exchange differences	4,412	443	387	105	15	112,267	4,814	122,443
At 30 June 2017 (Unaudited)	127,267	12,315	10,951	2,909	368	2,858,825	133,665	3,146,300
Accumulated depreciation, depletion and impairment								
At 31 December 2016 and 1 January 2017 (Audited)	20,838	3,760	5,591	1,826	353	1,177,510	–	1,209,878
Charge for the period	2,057	878	1,110	243	–	71,435	–	75,723
Exchange differences	786	144	221	70	15	50,806	–	52,042
At 30 June 2017 (Unaudited)	23,681	4,782	6,922	2,139	368	1,299,751	–	1,337,643
Net book value								
At 30 June 2017 (Unaudited)	**103,586**	**7,533**	**4,029**	**770**	**–**	**1,559,074**	**133,665**	**1,808,657**
At 31 December 2016 (Audited)	102,017	8,112	4,803	971	–	1,445,684	128,769	1,690,356

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

12. INVESTMENT PROPERTIES

	HK$'000
Fair values	
At 31 December 2016 and 1 January 2017 (Audited)	28,970
Exchange differences	733
At 30 June 2017 (Unaudited)	**29,703**

The Directors consider that the carrying amount of the investment properties are fairly stated as at 30 June 2017.

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 lease respectively.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

13. INTANGIBLE ASSET

	Refined oil supply agreement HK$'000
Cost	
At 31 December 2016 and 1 January 2017 (Audited)	254,488
Exchange differences	9,480
At 30 June 2017 (Unaudited)	263,968
Accumulated impairment	
At 31 December 2016 and 1 January 2017 (Audited)	247,757
Exchange differences	9,229
At 30 June 2017 (Unaudited)	256,986
Carrying amount	
At 30 June 2017 (Unaudited)	**6,982**
At 31 December 2016 (Audited)	6,731

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

13. INTANGIBLE ASSET (Continued)

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 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 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. On 30 December 2016, both parties renewed another Refined Oil Supply Agreement that Yanchang Petroleum Group agreed to supply and Henan Yanchang agreed to purchase the refined oil for another three years starting from 1 January 2017. The Refined Oil Supply Agreement is renewable on 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 2017 and hence no impairment is needed.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

14. EXPLORATION AND EVALUATION ASSETS

	HK$'000
Cost	
At 31 December 2016 and 1 January 2017 (Audited)	12,442,009
Additions	2,777
Written off	(2,809)
Exchange differences	1,145
At 30 June 2017 (Unaudited)	12,443,122
Accumulated impairment	
At 31 December 2016 and 1 January 2017 (Audited) and 30 June 2017 (Unaudited)	12,414,443
Carrying amount	
At 30 June 2017 (Unaudited)	**28,679**
At 31 December 2016 (Audited)	27,566

The exploration and evaluation assets represent (i) valuation on the oil and gas exploration, exploitation and operation rights and profit sharing rights at the Exploration Block 2104 and the Exploration Block 3113 ("Two Exploration 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 Exploration 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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

14. EXPLORATION AND EVALUATION ASSETS (Continued)

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 Exploration Block 3113 in Madagascar. Pursuant to the investment and co-operation agreement, the capital investment of the Exploration Block 3113 shall be contributed by the Group, Yanchang Petroleum Group and ECO in the proportion of 31%, 40% and 29% respectively.

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 2017.

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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

16. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 90 days (31 December 2016: 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 presented based on the invoice date at the end of the reporting period as follows:

	30 June 2017 HK$'000 (Unaudited)	31 December 2016 HK$'000 (Audited)
0 to 30 days	**26,982**	23,052
31 to 60 days	**242**	506
61 to 90 days	**199**	137
Over 90 days	**1,183**	427
	28,606	24,122

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$1,183,000 (31 December 2016: HK$427,000) were past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collaterals or other credit enhancements over these balances.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

16. TRADE RECEIVABLES (Continued)

Trade receivables which are past due but not impaired is as follows:

	30 June 2017 HK$'000 (Unaudited)	31 December 2016 HK$'000 (Audited)
Over 90 days	**1,183**	427

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2017 HK$'000 (Unaudited)	31 December 2016 HK$'000 (Audited)
Prepaid lease payments	**464**	448
Prepayments to suppliers of refined oil products	**360,017**	98,411
Other prepayments	**3,167**	2,800
Other deposits	**432**	429
Other receivables	**7,481**	5,496
	371,561	107,584

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 2017 and 31 December 2016. 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 2017 were amounts in Renminbi ("RMB") equivalent to HK$88,162,000 (31 December 2016: equivalent to HK$311,274,000) which are not freely convertible into other currencies.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

19. SHARE CAPITAL

	Number of shares		Share capital	
	30 June 2017 '000	31 December 2016 '000	**30 June 2017 HK$'000 (Unaudited)**	31 December 2016 HK$'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 2017 HK$'000 (Unaudited)	31 December 2016 HK$'000 (Audited)
Trade payables	**23,679**	23,548
Deposit received in advance from customers	**304,002**	216,612
Other payables	**130,278**	124,015
	457,959	364,175

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

20. TRADE AND OTHER PAYABLES (Continued)

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

	30 June 2017 HK$'000 (Unaudited)	31 December 2016 HK$'000 (Audited)
0 to 30 days	**21,142**	21,400
31 to 60 days	**1,785**	1,313
61 to 90 days	**46**	131
Over 90 days	**706**	704
	23,679	23,548

As at 30 June 2017 and 31 December 2016, 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 2017 HK$'000 (Unaudited)	31 December 2016 HK$'000 (Audited)
Carrying amount repayable within one year or on demand:		
Unsecured bank borrowings *(Note a)*	**23,054**	55,565
Secured bank borrowings *(Note b)*	**232,287**	213,490
	255,341	269,055

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

21. BANK BORROWINGS (Continued)

(a) As at 30 June 2017, Henan Yanchang drawn unsecured bank borrowings of HK$23,054,000 (equivalent to RMB20,000,000) (31 December 2016: HK$55,565,000 (equivalent to RMB50,000,000)). 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 2017, Novus Energy Inc ("Novus") drawn HK$232,287,000 (equivalent to Canadian dollar ("CAD") 38,650,000) against its CAD42,000,000 revolving operating demand loan (31 December 2016: HK$213,490,000 (equivalent to CAD37,000,000) against its CAD42,000,000 revolving operating demand 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. Interest charges on the credit facility are based on a pricing grid system with interest rates ranging from 1.0% to 3.5% (31 December 2016: 2.0% to 4.5%) over the bank's prime lending rate; bankers' acceptances stamping fees ranging from 2.0% to 4.5% (31 December 2016: 3.0% to 5.5%); letters of credit/guarantee fees ranging from 2.0% to 4.5% (31 December 2016: 3.0% to 5.5%); and standby fees ranging from 0.5% to 1.125% (31 December 2016: 0.5% to 1.125%), all depending on a net debt to annualised quarterly cash flow ratio ranging from less than or equal to 1:1 up to greater than 4:1 (31 December 2016: 1:1 up to greater than 4:1).

As at 30 June 2017, interest on the revolving operating demand loan was charged at prime rate plus 2.25% per annum (31 December 2016: prime rate plus 3.0% per annum), bankers' acceptances stamping fees were 3.25% per annum (31 December 2016: 4.0% per annum), letters of credit/guarantee fees were 3.25% per annum (31 December 2016: 4.0% per annum), and standby fees were 0.56% per annum (31 December 2016: 0.75% 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 on oil and natural gas reserves upon request. The credit facility is subject to a financial covenant that requires Novus to maintain a working capital ratio of at least 1:1, where for the purpose of the covenant, outstanding bank debt and the fair value of any commodity contracts are excluded from current liabilities and the unused portion of the revolving operating demand loan is added to current assets. As at 30 June 2017, the ratio was 1.55:1 (31 December 2016: 1.3:1).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

22. CONVERTIBLE BONDS

The Company issued convertible bonds in the principal amount of US$46,300,000 (the "Convertible Bonds"). The Convertible Bonds bear annual interest rate of 7% and mature on the date falling on the third anniversary of the date of issuance. The 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. As the weighted average price of the shares for the ten consecutive trading days before the first anniversary of the issuance of the Convertible Bonds was HK$0.2194, the conversion price of the Convertible Bonds was adjusted to HK$0.36 per share with effect from 23 December 2016 pursuant to the agreement in relation to the issue of the Convertible Bonds.

The Convertible Bonds contain two components, liability component and derivative financial liabilities component.

The liability component is classified as non-current liabilities and carried at amortised cost using the effective interest method. The derivative financial liabilities component is measured at fair value using the Monte Carlo simulation model method. The fair value changes were recognised in profit or loss.

Liability component:

	HK$'000
At 31 December 2016 and 1 January 2017 (Audited)	366,303
Imputed interest charged	18,226
Interest payable	(12,455)
At 30 June 2017 (Unaudited)	**372,074**

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

22. CONVERTIBLE BONDS (Continued)

Derivative financial liabilities component:

	Redemption options held by bondholder HK$'000
At 31 December 2016 and 1 January 2017 (Audited)	967
Fair value change	–
At 30 June 2017 (Unaudited)	**967**

23. 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 2017

23. 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).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

23. FAIR VALUE MEASUREMENT 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 2017 HK$'000 (Unaudited)	31 December 2016 HK$'000 (Audited)	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs
Derivative financial instruments					
– Derivative components of Convertible Bonds	**(967)**	(967)	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 is 10.36%. Share price volatility of 46.3%. *(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 a decrease in the fair value measurement of derivative components of Convertible Bonds.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

23. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

There were no transfer between Level 1 and 2 during the six months ended 30 June 2017.

Reconciliation of Level 3 fair value measurements:

	HK$'000
At 31 December 2016 and 1 January 2017 (Audited)	967
Fair value change	–
At 30 June 2017 (Unaudited)	**967**

Fair value of the Group's financial assets and liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

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

	30 June 2017		31 December 2016	
	Carrying amount HK$'000 (Unaudited)	Fair value HK$'000 (Unaudited)	Carrying amount HK$'000 (Audited)	Fair value HK$'000 (Audited)
Financial liabilities				
Convertible bonds	372,074	372,043	366,303	366,272

24. COMMITMENTS

The Group had capital commitments to property, plant and equipment amounted to HK$19,126,000 (31 December 2016: HK$18,814,000) which were contracted but not provided for as at 30 June 2017.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

25. CONTINGENT LIABILITIES

As at 30 June 2017, the Group had no material contingent liabilities (31 December 2016: Nil).

26. MATERIAL RELATED PARTIES TRANSACTIONS

Save as disclosed elsewhere in the unaudited condensed consolidated financial statements, during the six months ended 30 June 2017, 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	
	2017	2016
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Salaries and allowance	**4,252**	3,017
Share-based payment expenses	**1,002**	–
Pension scheme contributions	**9**	15
	5,263	3,032

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

26. MATERIAL RELATED PARTIES TRANSACTIONS (Continued)

During the six months ended 30 June 2017, the Group had the following connected transactions with a related party:

Name of related party	Relationship	Nature of transaction	Six months ended 30 June 2017 HK$'000 (Unaudited)	2016 HK$'000 (Unaudited)
Yanchang Petroleum Group	Substantial shareholder	Supply of refined oil	378,669	325,153

Note:

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

SUPPLEMENTAL 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:	25 wells drilled 21 wells completed	Nil
Production activities:	Average daily net production Oil: 2,287 bbls Gas: 3,279 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	2,777	–	2,777
Developments costs	123,364	–	123,364
Production costs *(note)*	37,313	–	37,313

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

During the first half of 2017, the Company's management facing the challenges in the market, overcame the adverse impact of subdued oil prices and managed a turnaround to profit in the upstream business of Novus in Canada with both production and sales exceeding the targets. The Company also successfully implemented the interim plan for the downstream refined oil trading business of Henan Yanchang.

I. Upstream oil and gas producing business in Canada

For the first half of 2017, Novus achieved average daily production of 2,834 barrels, exceeding its targeted production volume by 596 barrels. Novus has also optimised its drilling and fracturing processes through efficiency enhancement measures adopted during the period, resulting in higher-than-expected production volume at both old and new wells and hence lowered per barrel operating and transportation costs. The management sought cost savings by cutting expenses through various means, such as lowering office expenses and professional fees by reducing headcounts and restructuring job positions. As a result, Novus achieved savings of CAD1 million in administrative expenses for the first half of 2017, representing a 40% reduction versus the budget. Under the efficiency enhancement measures and cost saving initiatives, Novus achieved actual sales of CAD25 million versus the target of CAD20 million, actual per barrel operating and transportation costs of CAD12.5 versus budget per barrel operating and transportation costs of CAD14, and actual netback per barrel of CAD31.4 versus budget netback per barrel of CAD30.1 which was better than the peer average. The financial performance was better than expected and Novus achieved a turnaround to a net profit of CAD280,000. This is the first time that Canada operation reported a profit since 2014 under the prolonged slump oil price environment.

In the meantime, following massive efforts in research and preparation, Novus reported excellent performance of its drilling well in the core area of Flaxcombe. Novus' 7-32 well reported cumulative production of 4,300 barrels (or a daily average of 152 barrels) for February 2017, ranking first among all producing wells within Viking play. From April to June 2017, Novus accounted for 3 of the 15 top producing wells in Viking play. Novus' 14-26 well in Flaxcombe producing a daily average of 104 barrels (consisting of 87% oil) for 82 consecutive days, ranking third in oil and gas production together and first in oil production only in Viking play, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS (Continued)

I. Upstream oil and gas producing business in Canada (Continued)

Based on its successful experience in optimising the drilling and fracturing processes and developing the area of Flaxcombe during the first six months, Novus will apply the same to its drilling operations in the second half of the year, so as to increase production and reserve as well as enhance the company's value.

II. Downstream refined oil trading business of Henan Yanchang

During the first half of 2017, Henan Yanchang achieved sales of 1.22 million tonnes of refined oil, with revenue amounted to RMB6.06 billion and realised net profit of RMB8.38 million. As sales policy of "cash before delivery" was strictly implemented, recovery of receivables was 100%. Integrated controls on production and financial operations have been conducted in a safe and efficient manner with no accidents reported.

For the second half of 2017, the price of refined oil in the PRC is expected to remain soft given oversupply of crude oil in the international market. While prudently carrying out its annual plan, Henan Yanchang will also actively explore opportunities for business growth. In addition to expanding and developing the gas station business, Henan Yanchang is looking at the following major directions for business development in the long run:

1. To enhance efforts of exploring strategic co-operation with domestic oil and gas companies. While striving for revenue growth in storage business, Henan Yanchang will continue to strengthen its co-operation with domestic oil and gas companies in order to upgrade the refined oil supply business.

2. To strengthen depot sales and enhance customer development. Vigorous sales and marketing efforts will be made to the targeted customers for wholesale refined oil products, such as logistics companies, industrial and mining companies, large construction sites, private-owned gas stations and mixing stations. Meanwhile, internal reform and business development in respect of depot gas station will also be enhanced.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS (Continued)

II. Downstream refined oil trading business of Henan Yanchang (Continued)

3. To improve abilities in market judgement and business expansion. In-depth and detailed research on the business development in the western Henan market will be conducted, complemented by active liaison to commence sales of ethanol gasoline, in order to cope with the 13th five year plan in the Henan region.

III. Outlook

The Company will continue to prudently run the business on the back of efficiency enhancement measures and cost reduction initiatives, while exploring different options for financing and restructuring. The Company will seek protection of its interests on the overseas assets amidst weakened oil prices; actively explore opportunities for business expansion; and leverage on financing options available to a listed company so as to fulfill the Company's development plan. Through asset acquisition and organic growth of the upstream business, the Company aims to become a medium-scale international oil and gas enterprise with a daily average production of 70,000 BOE in the coming five years' time.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue and segment results

For the period under review, the Group's operating segments comprised (i) exploration, exploitation and operation business, and (ii) supply and procurement business. For the six months ended 30 June 2017, the Group's turnover was mainly 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 512,800 BOE and contributed production income of HK$146,500,000 during the period under review compared to production of 470,975 BOE and production income of HK$96,744,000 of the previous period. As a result of increase in sales volume and profit margin brought along by efficiency enhancement and cost reduction measures, Novus managed to turnaround into an operating profit of HK$11,034,000 for the six months ended 30 June 2017, as compared to an operating loss of HK$35,810,000 for the previous period.

During the six months ended 30 June 2017, the revenue of refined oil trading business of Henan Yanchang decreased by 36% from the previous period of HK$10,904,113,000 to the current period of HK$6,952,217,000, resulting from the drop in sales volume from the previous period of 2.2 million tonnes to the current period of 1.2 million tonnes and contributed operating profit of HK$7,271,000 to the supply and procurement business.

Other revenue

Apart from the aforesaid segment results, other revenue of HK$7,292,000 which mainly represented interest income from bank deposits, rental income and storage service income recorded from the PRC for the period under review, increased by HK$4,262,000 from HK$3,030,000 of the previous period.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Purchases

Purchases, decreased from the previous period of HK$10,869,551,000 to this period of HK$6,929,068,000, were wholly derived from the refined oil trading business of Henan Yanchang. The decrease of purchases was consistent with the drop in sales of refined oil trading business in the PRC.

Royalties

Royalties, including crown, freehold and overriding royalties incurred by Novus for crude oil and natural gas production in Canada, increased from the previous period of HK$9,837,000 to the current period of HK$14,381,000 due to increase in sales.

Field operation expenses

In line with the increase in sales volume, field operation expenses increased to HK$37,313,000 this period from the previous period of HK$32,427,000; 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$1,698,000 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, slightly increased from the previous period of HK$2,124,000 to the current period of HK$2,625,000, were mainly incurred by Novus for crude oil and natural gas production in Canada.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Administrative expenses

Administrative expenses including Directors' remuneration, staff costs, office rentals, professional fees and listing fee etc, as a result of cost saving initiatives decreased by HK$3,560,000 to HK$34,833,000 for the period under review.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation expenses increased from the previous period of HK$69,853,000 to the current period of HK$75,954,000 which was mainly due to the increase in depletion of petroleum and natural gas properties incurred by Novus as a result of increase in production during the period under review.

Other gains and losses

The amount of HK$578,000 represented the aggregate of (i) gain on disposal of properties, plant and equipment of HK$3,411,000; and (ii) other gains of HK$105,000 which offsetting (iii) written off of expired exploration and evaluation assets of HK$2,809,000; and (iv) loss on hedging of oil and gas commodity contracts of HK$129,000.

Finance costs

Finance costs amounted to HK$26,062,000 comprised (i) bank borrowing costs of HK$6,694,000 included interests, commitment fees, standby charges, and other expenses related to the businesses of Novus and Henan Yanchang; (ii) accretion of HK$1,142,000 related to the provision of the decommissioning liabilities incurred by Novus; and (iii) imputed interest on convertible bonds of HK$18,226,000 arisen from the issue of 3-year convertible bonds with a principal amount of US$46,300,000.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Taxation

Net tax expense of HK$6,608,000 represented the aggregate of (i) provision for Canada resource surcharge on Novus' production revenue of oil and natural gas amounted to HK$2,269,000; (ii) provision for the PRC enterprise income tax on the profit earned from refined oil trading business of Henan Yanchang amounted to HK$3,275,000; and (iii) net deferred tax expense amounted to HK$1,064,000.

Loss for the period

Despite the low international crude oil prices challenge, the Group has managed to turnaround for its oil and gas producing business in Canada through remarkable operational efficiency enhancement as well as various cost reduction measures. In addition, the refined oil trading business in the PRC has remained profitable and also contributed to the significant decrease in loss of the Group for the six months ended 30 June 2017 to HK$21,955,000, from the previous period loss of HK$60,437,000.

LIQUIDITY AND FINANCIAL RESOURCES

The Group funded its operation mainly by its internal resources together with bank borrowings for the six months ended 30 June 2017.

The Group had outstanding variable interest rates bank borrowings amounted to HK$255,341,000 as at 30 June 2017 (31 December 2016: HK$269,055,000) comprised (i) HK$23,054,000 (equivalent to RMB20,000,000) under Henan Yanchang and (ii) HK$232,287,000 (equivalent to CAD38,650,000) under Novus. The Group has obtained bank facilities of HK$576,350,000 (equivalent to RMB500,000,000) from banks in the PRC and of HK$252,420,000 (equivalent to CAD42,000,000) from a bank in Canada.

On 23 December 2015, the Company raised fund from the issue of Convertible Bonds to China Construction Bank Corporation in the principal amount of US$46,300,000 (equivalent to HK$358,825,000) which carries coupon interest with 7% and matures on the third anniversary date from the date of issue. The fund raised had been used for the Group's general working capital. The whole principal amount of Convertible Bonds was still outstanding as at 30 June 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES (Continued)

As at 30 June 2017, the Group had cash and bank balances of HK$326,990,000 (31 December 2016: HK$610,283,000). In view of sufficient cash on hand together with the available bank facilities, the Group has enough working capital to finance its business operation.

At the period end, the gearing ratio of the Group, measured on the basis of total liabilities as a percentage of total equity, was 77.1% (31 December 2016: 73.3%). The current ratio of the Group, measured on the basis of current assets as a percentage of current liabilities stood at 107.6% as at 30 June 2017 (31 December 2016: 118.2%).

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 is exposed to general price fluctuations of crude oil and gas. During the six months ended 30 June 2017, Novus has entered one commodity contract for crude oil and gas business to manage price risk.

TREASURY MANAGEMENT AND POLICIES

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITION AND DISPOSAL

The Group had no material acquisitions and disposals for the six months ended 30 June 2017.

SIGNIFICANT INVESTMENT

The Group did not hold any significant investments as at 30 June 2017.

CAPITAL COMMITMENT

As at 30 June 2017, the Group had committed to property, plant and equipment amounted to HK$19,126,000 (31 December 2016: HK$18,814,000).

Save as aforesaid, the Group did not have any other material commitments as at 30 June 2017.

PLEDGE OF ASSETS

The Group's CAD42,000,000 (31 December 2016: CAD42,000,000) 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 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 2017, the Group did not have any significant contingent liabilities (31 December 2016: Nil).

LITIGATION

As at 30 June 2017, the Group had no material litigations (31 December 2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2017, the Group's total number of staff was 142 (31 December 2016: 130). Salaries of employees are maintained at a competitive level with total staff costs for the six months ended 30 June 2017 amounted to HK$30,148,000 (six months ended 30 June 2016: HK$27,562,000). Remuneration policy is based on principles of equality, motivation, performance and prevailing market practice and remuneration packages are normally reviewed on an annual basis. Other staff benefits including provident fund, medical insurance coverage and etc. There is also a share option scheme offered to employees and eligible participants. 63,000,000 share options were granted to a Director under the Company's share option scheme during the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

INTERIM DIVIDEND

The Board does not recommend the payment of any dividends for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

OTHER INFORMATION

DIRECTORS' INTERESTS IN SHARE CAPITAL

At 30 June 2017, 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
Mr. Bruno Guy Charles Deruyck ("Mr. Deruyck")	Personal interest *(Note 1)*	Long position	75,000,000	0.618%
Mr. Sun Liming	Personal interest	Long position	600,000	0.005%
Dr. Mu Guodong ("Dr. Mu")	Personal interest and interest of spouse *(Note 2)*	Long position	300,000	0.002%

Note 1: 12,000,000 and 63,000,000 share options were granted to Mr. Deruyck on 18 October 2016 and 1 June 2017 respectively. Mr. Deruyck is deemed to be interested in these 75,000,000 shares under the SFO.

Note 2: 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.

OTHER INFORMATION

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Share Option Scheme" below, at no time during the six months ended 30 June 2017 and up to the date of this report 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.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme"), further details of which are set out in the Annual Report 2016 of the Company.

63,000,000 share options were granted to a Director under the Scheme during the six months ended 30 June 2017, details as follows:

Grantee	Date of grant	Vesting period	Exercise price	Exercise price	At 1 January 2017	Granted during the period	Exercised during the period	At 30 June 2017
Executive Director								
Mr. Deruyck	18/10/2016	18/10/2016–30/9/2017	1/10/2017–30/9/2026	0.221	12,000,000	–	–	12,000,000
	1/6/2017	1/6/2017–1/10/2017	1/10/2017–30/9/2026	0.1842	–	13,000,000	–	13,000,000
	1/6/2017	1/6/2017–1/10/2018	1/10/2018–30/9/2026	0.1842	–	25,000,000	–	25,000,000
	1/6/2017	1/6/2017–1/10/2019	1/10/2019–30/9/2026	0.1842	–	25,000,000	–	25,000,000
					12,000,000	63,000,000	–	75,000,000

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2017, 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	996,736,111	8.21%
Central Huijin Investment Ltd. ("Central Huijin") *(Note 2)*	Interest of controlled corporation	Long position	996,736,111	8.21%
Giant Wave Investments Limited ("Giant Wave") *(Note 2)*	Directly beneficially owned	Long position	996,736,111	8.21%

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS (Continued)

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

Note 1: Yanchang Petroleum Group beneficially holds these 6,496,729,547 shares through its direct wholly-owned subsidiary, Yanchang Petroleum HK.

Note 2: These 996,736,111 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) through their direct wholly-owned subsidiary, Giant Wave.

Pursuant to a subscription agreement dated 3 December 2015 (the "Subscription Agreement") entered into between the Company and Giant Wave, the Company conditionally agreed to issue, and Giant Wave 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.

Pursuant to the terms and conditions of the instrument executed by way of deed poll by the Company on 23 December 2015 constituting the Convertible Bonds, the conversion price of the Convertible Bonds was adjusted to HK$0.36 per share with effect from 23 December 2016. Following the said adjustment to the conversion price, a total number of 996,736,111 shares will be issued upon full conversion of the Convertible Bonds (an increase of 99,673,611 shares from the original 897,062,500 shares based on the initial conversion price of HK$0.40 per conversion share).

Central Huijin directly holds 57.31% shareholding interests in CCBC, whereas CCBC beneficially holds 100% shareholding interests in Giant Wave through series of its wholly-owned subsidiaries. Accordingly, both CCBC and Central Huijin were deemed, under the SFO, to have an interest in these 996,736,111 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 2017.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE PRACTICE

The Board is committed to achieving 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 optimise return for the shareholders.

In the opinion of the Board, the Company had complied with the code provisions set out in the Corporate Governance Code in Appendix 14 of the Listing Rules during the six months ended 30 June 2017.

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 risk management, internal control systems and financial reporting matters. The Audit Committee has reviewed the results of the Group for the six months ended 30 June 2017.

OTHER INFORMATION

DISCLOSURE ON CHANGE OF INFORMATION OF DIRECTORS PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

With effect from 1 April 2017, the annual emolument paid by the Company to Mr. Tan Meng Seng has been revised from HK$249,600 to HK$720,000.

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 securities transactions of the Directors. Having made specific enquiry of all Directors of the Company, they confirmed that they have complied with the required standards as set out in the Model Code as their code of conduct regarding Directors' securities transactions with the Company for the six months ended 30 June 2017.

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

Hong Kong, 31 August 2017