延長石油國際有限公司

YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 00346

2018 INTERIM REPORT

GROW BEYOND BOUNDARIES

TOWARDS GREATER SUCCESS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
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

Suite 1512, 15th Floor
One Pacific Place
88 Queensway
Hong Kong

STOCK CODE

00346

WEBSITE

www.yanchanginternational.com

The board (the "Board") of directors (the "Directors") of Yanchang Petroleum International Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2018 together with the unaudited comparative figures for the six months ended 30 June 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 (Unaudited) HK$'000	 2017 (Unaudited) (Restated) HK$'000
Revenue	*4*	**2,288,147**	2,308,928
Other revenue	*4*	**9,832**	7,292
		2,297,979	2,316,220
Expenses			
Purchases		**(2,114,661)**	(2,139,279)
Royalties		**(15,680)**	(14,381)
Field operation expenses		**(37,665)**	(37,313)
Exploration and evaluation expenses		**(1,149)**	(1,698)
Selling and distribution expenses		**(3,325)**	(2,625)
Administrative expenses		**(44,158)**	(34,833)
Depreciation, depletion and amortisation		**(63,913)**	(75,954)
Other (losses)/gains	*5*	**(4,288)**	578
		(2,284,839)	(2,305,505)
Profit from operating activities	*6*	**13,140**	10,715
Finance costs	*7*	**(26,127)**	(26,062)
Loss before taxation		**(12,987)**	(15,347)
Taxation	*8*	**(8,799)**	(6,608)
Loss for the period		**(21,786)**	(21,955)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 (Unaudited) HK$'000	2017 (Unaudited) (Restated) HK$'000
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**(66,460)**	67,639
Other comprehensive income for the period, net of tax		**(66,460)**	67,639
Total comprehensive income for the period		**(88,246)**	45,684
(Loss)/profit for the period attributable to:			
Owners of the Company		**(24,991)**	(24,852)
Non-controlling interests		**3,205**	2,897
		(21,786)	(21,955)
Total comprehensive income for the period attributable to:			
Owners of the Company		**(90,085)**	38,682
Non-controlling interests		**1,839**	7,002
		(88,246)	45,684
Loss per share attributable to the owners of the Company			
Basic and diluted, HK cents	*10*	**(0.21)**	(0.20)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Notes	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*11*	**1,874,515**	1,916,629
Prepaid lease payments		**16,438**	16,911
Investment properties	*12*	**21,457**	21,760
Exploration and evaluation assets	*13*	**27,877**	31,108
Goodwill and intangible asset		**58,149**	58,149
Deferred tax assets		**69,508**	75,623
		2,067,944	2,120,180
Current assets			
Inventories	*14*	**52,933**	54,214
Trade receivables	*15*	**27,869**	127,657
Prepayments, deposits and other receivables	*16*	**983,094**	353,859
Tax recoverable		**76**	–
Cash and bank balances	*17*	**195,250**	207,998
		1,259,222	743,728
Total assets		**3,327,166**	2,863,908
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital	*18*	**242,911**	242,911
Reserves		**1,146,869**	1,235,072
Total equity attributable to the owners of the Company		**1,389,780**	1,477,983
Non-controlling interests		**118,502**	116,663
Total equity		**1,508,282**	1,594,646

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Notes	**30 June 2018 (Unaudited) HK$'000**	31 December 2017 (Audited) HK$'000
LIABILITIES			
Current liabilities			
Trade and other payables	*19*	**999,127**	445,583
Convertible bonds	*21*	**379,708**	376,553
Derivative financial liabilities		**1,216**	–
Tax payables		**–**	677
Bank borrowings	*20*	**296,417**	295,527
		1,676,468	1,118,340
Non-current liabilities			
Decommissioning liabilities		**133,490**	139,575
Deferred tax liabilities		**8,926**	11,347
		142,416	150,922
Total liabilities		**1,818,884**	1,269,262
Total equity and liabilities		**3,327,166**	2,863,908
Net current liabilities		**(417,246)**	(374,612)
Total assets less current liabilities		**1,650,698**	1,745,568

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	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	Share options reserve HK$'000	Statutory reserve HK$'000	Convertible bonds 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 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	–	–	–	63,534	–	–	–	–	–	–	(24,852)	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
At 1 January 2018 (Audited)	242,911	1,763,060	6,400,652	(265,894)	–	–	3,702	21,899	16,373	5,276	(6,709,996)	1,235,072	116,663	1,594,646
(Loss)/profit for the period	–	–	–	–	–	–	–	–	–	–	(24,991)	(24,991)	3,205	(21,786)
Other comprehensive income for the period	–	–	–	(65,094)	–	–	–	–	–	–	–	(65,094)	(1,366)	(66,460)
Total comprehensive income for the period	–	–	–	(65,094)	–	–	–	–	–	–	(24,991)	(90,085)	1,839	(88,246)
Recognition of share based payment Expenses	–	–	–	–	–	–	1,072	–	–	–	–	1,072	–	1,072
Net increase in other reserve (Note 1)	–	–	–	–	–	–	–	–	–	810	–	810	–	810
At 30 June 2018 (Unaudited)	242,911	1,763,060	6,400,652	(330,988)	–	–	4,774	21,899	16,373	6,086	(6,734,987)	1,146,869	118,502	1,508,282

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 2018, the Group contributed HK$810,000 (six months ended 30 June 2017: HK$492,000) to other reserve for the safety production fund.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Cash flows from operating activities		
Cash generated from/(used in) operations	**96,743**	(141,427)
Interest received	**1,317**	1,476
Tax paid	**(8,735)**	(5,937)
Net cash generated from/(used in) operating activities	**89,325**	(145,888)
Cash flows from investing activities		
Payment for property, plant and equipment	**(86,176)**	(123,623)
Purchase of exploration and evaluation assets	**(2,540)**	(2,777)
Proceeds from disposal of property, plant and equipment	**2,171**	–
Net cash used in investing activities	**(86,545)**	(126,400)
Cash flows from financing activities		
Net cash inflows/(outflows) from bank borrowings	**11,231**	(24,738)
Other cash outflows from financing activities	**(7,891)**	(6,693)
Net cash generated from/(used in) financing activities	**3,340**	(31,431)
Net increase/(decrease) in cash and cash equivalents	**6,120**	(303,719)
Cash and cash equivalents at the beginning of the period	**207,998**	610,283
Effect of exchange rate changes	**(18,868)**	20,426
Cash and cash equivalents at the end of the period	**195,250**	326,990

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standard (the "HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The unaudited condensed consolidated financial statements should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2017 as contained in the Company's annual report 2017 (the "Annual Report 2017"), which have been prepared in accordance with the Hong Kong Financial Reporting Standards (the "HKFRSs").

These unaudited condensed consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Group. All values are rounded to the nearest thousand (HK$'000), unless otherwise stated. These unaudited condensed consolidated financial statements were approved for issue on 28 August 2018.

As at 30 June 2018, the Group had net current liabilities of HK$417,246,000 and incurred net loss of HK$21,786,000 during the six months ended 30 June 2018. These facts and circumstances indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors are of the opinion that the Group will be able to meet its financial obligations as and when they fall due for the next twelve months from the end of the reporting period assuming the success of the following measures:

(i) The Group expects to generate operating cash flows for the next twelve months;

(ii) The Directors consider that the Group could obtain financing from various sources of funding; and

(iii) The Directors consider that the Group could dispose of certain assets to obtain funding.

Accordingly, the unaudited condensed consolidated financial statements are prepared on going concern basis. Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustment has not been reflected in these financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments which are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The accounting policies adopted in the unaudited condensed consolidated financial statements for the six months ended 30 June 2018 are consistent with those followed in the preparation of the Annual Report 2017 except for the impact of the adoption of the new and revised standards, amendments and interpretations (the "new and amendments to HKFRSs").

In the current period, the Group has applied, for the first time, a number of the new and amendments to HKFRSs issued by the HKICPA which are effective for the Group's financial period beginning 1 January 2018. A summary of the new and amendments to HKFRSs are set out as below:

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

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

HKFRS 16	Leases[1]

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

HKFRS 9, Financial Instruments

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

HKFRS 9, Financial Instruments (Continued)

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

Classification of financial assets and financial liabilities

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

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

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;

- FVOCI (recycling), if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

- FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or not.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

HKFRS 9, Financial Instruments (Continued)

Classification of financial assets and financial liabilities (Continued)

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

HKFRS 15, Revenue from contracts with customers

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

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

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

Principal versus agent considerations in revenue recognition

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

HKFRS 16, Lease

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

HKFRS 16, Lease (Continued)

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

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

3. SEGMENT INFORMATION

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

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

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

No operating segments have been aggregated to form the above reportable segments.

Segment revenue and results

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

3. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

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

Segment results represent the profit earned by each segment without allocation of other revenue, change in fair value on derivative components of convertible bonds, net foreign exchange (loss)/gain, corporate expenses, finance costs and taxation. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

Segment assets and liabilities

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

	Exploration, exploitation and operation		Supply and procurement		Consolidated	
	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)	**30 June 2018 HK$'000 (Unaudited)**	31 December 2017 HK$'000 (Audited)	**30 June 2018 HK$'000 (Unaudited)**	31 December 2017 HK$'000 (Audited)
Segment assets	**1,768,379**	1,822,084	**1,444,448**	901,182	**3,212,827**	2,723,266
Unallocated assets					**114,339**	140,642
Total assets					**3,327,166**	2,863,908
Segment liabilities	**432,812**	432,010	**963,834**	426,429	**1,396,646**	858,439
Unallocated liabilities					**422,238**	410,823
Total liabilities					**1,818,884**	1,269,262

3. SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

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

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

Information about major customers

Included in revenue arising from supply and procurement business segment of HK$2,141,626,000 (30 June 2017: HK$2,162,428,000) are revenue of HK$1,248,350,000 (30 June 2017: HK$562,877,000) which arose from four customers (30 June 2017: one customer) of the Group which contributed 10% or more to the Group's total revenue for the period.

Revenue from major customers of the Group's total revenue, are set out below:

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
		(Restated)
Customer A	**336,199**	562,877
Customer B	**364,041**	–
Customer C	**288,913**	–
Customer D	**259,197**	–

4. REVENUE AND OTHER REVENUE

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

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

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

5. OTHER (LOSSES)/GAINS

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

6. PROFIT FROM OPERATING ACTIVITIES

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

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

7. FINANCE COSTS

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

8. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

The provision for Hong Kong profits tax for the six months ended 30 June 2018 is calculated at 16.5% of estimated assessable profits (six months ended 30 June 2017: 16.5%). Taxation for subsidiaries outside Hong Kong is charged at appropriate current rate of taxation ruling in the relevant countries. The Canada blended statutory tax rate and the PRC corporate income tax rate applicable to the Group's subsidiaries in Canada and the PRC are 27% and 25% for the six months ended 30 June 2018 and 2017 respectively.

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Current tax – Hong Kong Profits Tax		
Provision for the period	**–**	–
Current tax – Outside Hong Kong		
Provision for the period	**7,975**	5,544
Deferred tax		
Origination and reversal of temporary differences	**824**	1,064
	8,799	6,608

9. INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividends in respect of the six months ended 30 June 2018 (six months ended 30 June 2017: 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	
	2018	2017
	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	**(24,991)**	(24,852)

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

11. 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 2017 and 1 January 2018 (Audited)	139,612	14,010	11,727	3,026	384	3,094,620	122,977	3,386,356
Additions	69	–	180	–	–	81,269	11,782	93,300
Disposals	–	–	–	–	–	(300)	–	(300)
Exchange differences	(2,176)	(509)	(376)	(46)	(18)	(124,652)	(2,023)	(129,800)
At 30 June 2018 (Unaudited)	137,505	13,501	11,531	2,980	366	3,050,937	132,736	3,349,556
Accumulated depreciation, depletion and impairment								
At 31 December 2017 and 1 January 2018 (Audited)	26,781	5,831	7,897	2,479	384	1,426,355	–	1,469,727
Charge for the period	2,290	957	613	108	–	59,700	–	63,668
Exchange differences	(432)	(106)	(232)	(37)	(18)	(57,529)	–	(58,354)
At 30 June 2018 (Unaudited)	28,639	6,682	8,278	2,550	366	1,428,526	–	1,475,041
Net book value								
At 30 June 2018 (Unaudited)	**108,866**	**6,819**	**3,253**	**430**	**–**	**1,622,411**	**132,736**	**1,874,515**
At 31 December 2017 (Audited)	112,831	8,179	3,830	547	–	1,668,265	122,977	1,916,629

12. INVESTMENT PROPERTIES

	HK$'000
Fair values	
At 31 December 2017 and 1 January 2018 (Audited)	21,760
Exchange differences	(303)
At 30 June 2018 (Unaudited)	**21,457**

The Directors consider that the carrying amount of the investment properties are fairly stated as at 30 June 2018.

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 mainly situated in the PRC and are held under medium term lease.

13. EXPLORATION AND EVALUATION ASSETS

	HK$'000
Cost	
At 31 December 2017 and 1 January 2018 (Audited)	12,445,551
Additions	2,540
Written off	(4,527)
Exchange differences	(1,244)
At 30 June 2018 (Unaudited)	12,442,320
Accumulated impairment	
At 31 December 2017 and 1 January 2018 (Audited) and 30 June 2018 (Unaudited)	12,414,443
Carrying amount	
At 30 June 2018 (Unaudited)	**27,877**
At 31 December 2017 (Audited)	31,108

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 3113 (the "Exploration Block") 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 Exploration Block in Madagascar; and (iii) the unproved properties and capitalised exploration, drilling and completion costs which are pending the determination of commercial viability in Canada.

13. EXPLORATION AND EVALUATION ASSETS (Continued)

The Group entered into an investment and co-operation agreement with Shaanxi Yanchang Petroleum (Group) Co., Limited ("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 2018.

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.

14. INVENTORIES

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

15. TRADE RECEIVABLES

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

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

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

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

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

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Over 90 days	**2,317**	2,519

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Prepaid lease payments	**476**	483
Prepayments to suppliers	**938,649**	319,802
Other prepayments	**2,978**	3,088
Other deposits	**372**	372
Other receivables	**40,619**	30,114
	983,094	353,859

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 2018 and 31 December 2017. The Group does not hold any collaterals over these balances.

17. CASH AND BANK BALANCES

Included in the cash and bank balances as at 30 June 2018 were amounts in Renminbi ("RMB") equivalent to HK$90,858,000 (31 December 2017: HK$83,336,000) which are not freely convertible into other currencies.

18. SHARE CAPITAL

	Number of shares		Share capital	
	30 June 2018 '000	31 December 2017 '000	**30 June 2018 HK$'000 (Unaudited)**	31 December 2017 HK$'000 (Audited)
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

Share options

Share option scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme included the Directors and other employees of the Group. The Scheme was adopted on 25 May 2012 and refreshed on 25 May 2017, unless otherwise cancelled or amended, will remain in force for ten years from that date.

As at 30 June 2018, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 75,000,000 (31 December 2017: 75,000,000), representing 0.6% (31 December 2017: 0.6%) of the total number of the shares of the Company (the "Shares") in issue at that date.

The maximum number of shares available for issue under options which may be granted under the Scheme of the Company is 1,214,557,304 (31 December 2017: 1,214,557,304) shares (being not more than 10% of the total number of the shares in issue as at the date of adoption of the Scheme), representing 10% (31 December 2017: 10%) of the total number of shares in issue as at the date of this annual report.

18. SHARE CAPITAL (Continued)

Share options (Continued)

Share option scheme (Continued)

Details of share options are as follows:

Date of grant	Number of share options granted	Vesting period	Exercise period	Exercise price	Fair value for batch of share options at grant date
18 October 2016	12,000,000	18 October 2016 to 30 September 2017	1 October 2017 to 30 September 2026	HK$0.2210	1,510,000
1 June 2017	13,000,000	1 June 2017 to 30 September 2017	1 October 2017 to 30 September 2026	HK$0.1842	940,000
	25,000,000	1 June 2017 to 30 September 2018	1 October 2018 to 30 September 2026	HK$0.1842	1,813,000
	25,000,000	1 June 2017 to 30 September 2019	1 October 2019 to 30 September 2026	HK$0.1842	1,832,000

19. TRADE AND OTHER PAYABLES

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

19. TRADE AND OTHER PAYABLES (Continued)

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

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

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

20. BANK BORROWINGS

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

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Carrying amount repayable within one year or on demand:		
Unsecured bank borrowings *(Note a)*	**59,110**	59,945
Secured bank borrowings *(Note b)*	**237,307**	235,582
	296,417	295,527

20. BANK BORROWINGS (Continued)

(a) As at 30 June 2018, Henan Yanchang Petroleum Sales Co., Limited ("Henan Yanchang") drawn down unsecured bank borrowings of HK$59,110,000 (equivalent to RMB50,000,000) (31 December 2017: HK$59,945,000 (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 2018, Novus Energy Inc ("Novus") drawn HK$237,307,000 (equivalent to Canadian dollar ("CAD")39,750,000) against its CAD48,000,000 credit facilities in the form of bank acceptances (31 December 2017: HK$235,582,000 (equivalent to CAD37,875,000) against its CAD42,000,000 credit facilities in the form of bank acceptances).

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 2017: 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 2017: 3.0% to 5.5%); letters of credit/guarantee fees ranging from 2.0% to 4.5% (31 December 2017: 3.0% to 5.5%); and standby fees ranging from 0.5% to 1.125% (31 December 2017: 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 2017: 1:1 up to greater than 4:1).

As at 30 June 2018, interest on the revolving operating demand loan was charged at prime rate plus 1.5% per annum (31 December 2017: prime rate plus 2.5% per annum), bankers' acceptances stamping fees were 2.5% per annum (31 December 2017: 3.5% per annum), letters of credit/guarantee fees were 2.5% per annum (31 December 2017: 4.0% per annum), and standby fees were 0.63% per annum (31 December 2017: 0.63% 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 facilities are 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 2018, the ratio was 1.73:1 (31 December 2017: 1.45:1).

20. BANK BORROWINGS (Continued)

(b) (Continued)

The syndicated credit agreement contains a hedging covenant requiring Novus to have in place hedges totaling not less than 50% of average daily oil production on a one year rolling basis. Hedges are required to be entered into within 15 banking days following the end of each fiscal quarter.

21. CONVERTIBLE BONDS

On 23 December 2015, 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 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 2017 and 1 January 2018 (Audited)	376,553
Imputed interest charged	16,663
Interest payable	(18,367)
Exchange difference	4,859
At 30 June 2018 (Unaudited)	**379,708**

22. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

(i) The fair value of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid prices and ask prices respectively; and

(ii) The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models (e.g. discounted cash flow analysis using observable and/or unobservable inputs).

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).

22. 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 (liabilities)/ assets	Fair value as at 30 June 2018 HK$'000 (Unaudited)	Fair value as at 31 December 2017 HK$'000 (Audited)	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs
Derivative financial instruments					
– Oil commodity contracts	**(1,216)**	–	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

There were no transfer between Level 1 and 2 during the six months ended 30 June 2018.

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)

The Directors consider the carrying amounts of financial assets and financial liabilities recognized in the unaudited condensed consolidated statement of financial position for both periods approximate to their fair values.

23. COMMITMENTS

The Group had no capital commitments to property, plant and equipment (31 December 2017: HK$29,161,000) which were contracted but not provided for as at 30 June 2018.

24. CONTINGENT LIABILITIES

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

25. MATERIAL RELATED PARTIES TRANSACTIONS

Save as disclosed elsewhere in the unaudited condensed consolidated financial statements, during the six months ended 30 June 2018, the Group had the following transactions with related parties.

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

Key management personnel

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Salaries and allowance	**3,410**	4,252
Share-based payment expenses	**1,072**	1,002
Mandatory provident fund contributions	**18**	9
	4,500	5,263

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

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

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:	10 wells drilled 6 wells completed	Nil
Production activities:	Average daily net production Oil: 1,895 bbls Gas: 2,065 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	1,333	–	1,333
Developments costs	82,730	–	82,730
Production costs *(note)*	37,665	–	37,665

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

I. Upstream oil and gas producing business in Canada

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

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

II. Downstream refined oil trading business of Henan Yanchang in the PRC

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

BUSINESS REVIEW AND PROSPECTS (Continued)

III. Outlook

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

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

2. *Striving for fulfilling business objectives of refined oil trading business in the PRC*

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

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

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

4. *Obtaining financing sources in the market*

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

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

FINANCIAL REVIEW

Revenue and segment results

For the period under review, the Group's operating segments comprised (i) exploration, exploitation and operation business, and (ii) supply and procurement business. For the six months ended 30 June 2018, the Group's turnover was mainly derived from the production of crude oil and natural gas in Canada as well as the trading of refined oil in the PRC.

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

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

Other revenue

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

Purchases

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

FINANCIAL REVIEW (Continued)

Royalties

Royalties, including crown, freehold and overriding royalties incurred by Novus for crude oil and natural gas production in Canada, increased from the previous period of HK$14,381,000 to the current period of HK$15,680,000 due to increase in sales.

Field operation expenses

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

Exploration and evaluation expenses

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

Selling and distribution expenses

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

Administrative expenses

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

Depreciation, depletion and amortisation

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

FINANCIAL REVIEW (Continued)

Other losses and gains

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

Finance costs

Finance costs amounted to HK$26,127,000 comprised (i) bank borrowing costs of HK$7,891,000 included interests, commitment fees, standby charges, and other expenses related to the businesses of Novus and Henan Yanchang, (ii) accretion of HK$1,573,000 related to the provision of the decommissioning liabilities incurred by Novus; and (iii) imputed interest on convertible bonds of HK$16,663,000 arisen from the issue of 3-year convertible bonds with a principal amount of US$46,300,000.

Taxation

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

Loss for the period

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

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

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

COMMODITY PRICE MANAGEMENT

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

TREASURY MANAGEMENT AND POLICIES

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

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

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

MATERIAL ACQUISITION AND DISPOSAL

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

SIGNIFICANT INVESTMENT

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

CAPITAL COMMITMENT

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

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

PLEDGE OF ASSETS

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

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

CONTINGENT LIABILITY

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

LITIGATION

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

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2018, the Group's total number of staff was 146 (31 December 2017: 142). Salaries of employees are maintained at a competitive level with total staff costs for the six months ended 30 June 2018 amounted to HK$34,132,000 (six months ended 30 June 2017: HK$30,148,000). Remuneration policy is based on principles of equality, motivation, performance and prevailing market practice and remuneration packages are normally reviewed on an annual basis. Other staff benefits including provident fund, medical insurance coverage and etc. There is also a share option scheme offered to employees and eligible participants. No share options were granted under the Company's share option scheme during the six months ended 30 June 2018 (six months ended 30 June 2017: 63,000,000 share options).

INTERIM DIVIDENDS

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

DIRECTORS' INTERESTS IN SHARE CAPITAL

At 30 June 2018, 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 period for the six months ended 30 June 2018 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 2017 of the Company.

75,000,000 share options were granted to a Director under the Scheme. Details of the movements of the share options granted to the Director under the Scheme during the period were as follows:

Grantee	Date of grant	Vesting period	Exercise period	Exercise price	At 1 January 2018	Granted during the period	Exercised during the period	At 30 June 2018
Executive Director								
Mr. Deruyck	18/10/2016	18/10/2016 – 30/9/2017	1/10/2017 – 30/9/2026	0.2210	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
					75,000,000	–	–	75,000,000

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2018, 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 owned	Long position	6,496,729,547	53.49%
Central Huijin Investment Ltd. ("Central Huijin") *(Note 2)*	Interest of controlled corporation	Long position	996,736,111	8.21%
China Construction Bank Corporation ("CCBC") *(Note 2)*	Interest of controlled corporation	Long position	996,736,111	8.21%
Giant Wave Investments Limited ("Giant Wave") *(Note 2)*	Directly owned	Long position	996,736,111	8.21%

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 held 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).

Pursuant to a subscription agreement dated 3 December 2015 (the "Subscription Agreement") entered into between the Company and 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.

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 (increased 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 a series of its wholly-owned subsidiaries. Accordingly, both Central Huijin and CCBC 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 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") currently comprises the three independent non-executive Directors, namely Mr. Leung Ting Yuk, Mr. Ng Wing Ka and Mr. Sun Liming. Mr. Leung Ting Yuk is the chairman of the Audit Committee. The Audit Committee has reviewed the accounting principles and policies adopted by the Company and discussed with management the risk management, internal control systems and financial reporting matters. The Audit Committee has reviewed the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2018.

CONTINUING CONNECTED TRANSACTIONS

Yanchang Petroleum Group and Henan Yanchang (an indirect non-wholly owned subsidiary of the Company) renewed and entered into a new supply agreement dated 30 December 2016 (the "Supply Agreement"), pursuant to which Yanchang Petroleum Group agreed to supply and Henan Yanchang agreed to purchase refined oil for the three years ending 31 December 2019. Further details of the transactions are included in note 25 to the unaudited condensed consolidated financial statements.

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

OTHER INFORMATION

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

1. With effect from 1 July 2018, the annual emolument paid by the Company to Mr. Tan Meng Seng has been revised from HK$720,000 to HK$249,600.

2. Mr. Li Yi was appointed as director of the following Company's subsidiaries:

   (i) Benefit Foison International Limited – with effect from 1 June 2018

   (ii) Wisdom Orchid Holdings Limited – with effect from 1 June 2018

   (iii) Sinogate Trading Limited – with effect from 19 June 2018

   (iv) Yanchang Petroleum International Energy Trading Limited – with effect from 22 June 2018

   (v) Fortune Touch Group Limited – with effect from 6 August 2018

   (vi) On Grand Trading Limited – with effect from 6 August 2018

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code regarding to the securities transactions of the Company by 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 to the securities transactions of the Company by the Directors for the six months ended 30 June 2018.

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

Hong Kong, 28 August 2018