延長石油國際有限公司

YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 00346

2019 INTERIM REPORT

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Li Yi *(Chairman)*
Ms. Sha Chunzhi
Mr. Gao Hairen
Mr. Li Jun

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

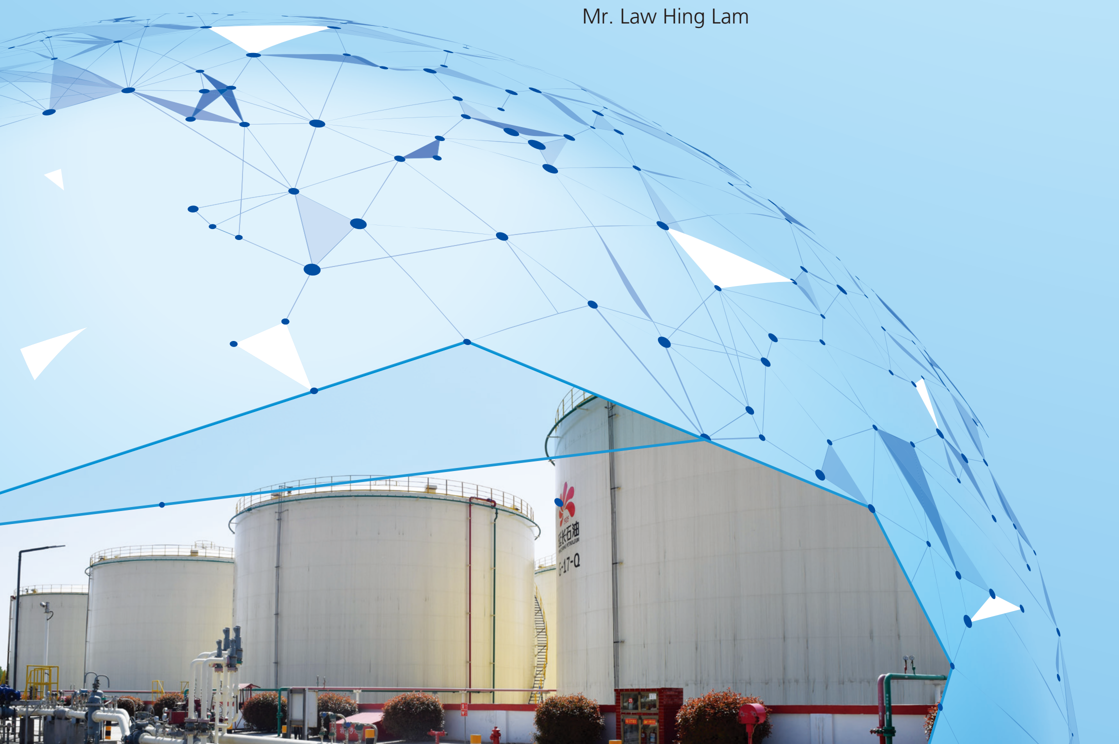
Mr. Sun Liming *(Chairman)*
Mr. Leung Ting Yuk
Mr. Li Yi

NOMINATION COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr. Li Yi
Mr. Law Hing Lam



AUDITORS

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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.
Bank of China Limited
National Bank of Canada

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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 2019 together with the unaudited comparative figures for the six months ended 30 June 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		Six months ended 30 June	
	Notes	**2019 (Unaudited) HK$'000**	2018 (Unaudited) HK$'000 *(Note)*
Revenue	*4*	**3,423,727**	2,288,147
Other revenue	*4*	**3,776**	9,832
		3,427,503	2,297,979
Expenses			
Purchases		**(3,276,440)**	(2,114,661)
Royalties		**(13,120)**	(15,680)
Field operation expenses		**(35,911)**	(37,665)
Exploration and evaluation expenses		**(1,103)**	(1,149)
Selling and distribution expenses		**(5,457)**	(3,325)
Administrative expenses		**(42,262)**	(44,158)
Depreciation, depletion and amortisation		**(52,328)**	(63,913)
Other losses	*5*	**(15,794)**	(4,288)
		(3,442,415)	(2,284,839)
(Loss)/profit from operating activities	*6*	**(14,912)**	13,140
Finance costs	*7*	**(28,439)**	(26,127)
Loss before taxation		**(43,351)**	(12,987)
Taxation	*8*	**248**	(8,799)
Loss for the period		**(43,103)**	(21,786)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Notes	Six months ended 30 June 2019 (Unaudited) HK$'000	2018 (Unaudited) HK$'000 *(Note)*
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong		**50,925**	(66,460)
Other comprehensive income for the period, with nil tax effect		**50,925**	(66,460)
Total comprehensive income for the period		**7,822**	(88,246)
(Loss)/profit for the period attributable to:			
Owners of the Company		**(47,091)**	(24,991)
Non-controlling interests		**3,988**	3,205
		(43,103)	(21,786)
Total comprehensive income for the period attributable to:			
Owners of the Company		**3,524**	(90,085)
Non-controlling interests		**4,298**	1,839
		7,822	(88,246)
Loss per share attributable to the owners of the Company			
Basic and diluted, HK cents	*10*	**(0.39)**	(0.21)

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	**30 June 2019 (Unaudited) HK$'000**	31 December 2018 (Audited) HK$'000 *(Note)*
ASSETS			
Non-current assets			
Property, plant and equipment	*11*	**1,989,983**	1,909,854
Prepaid lease payments		**15,347**	15,602
Investment properties	*12*	**16,766**	16,794
Exploration and evaluation assets	*13*	**19,957**	19,319
Goodwill and intangible asset		**58,149**	58,149
Deferred tax assets		**55,790**	47,017
Right-of-use assets	*14*	**9,041**	–
Other non-current assets		**5,868**	29,695
		2,170,901	2,096,430
Current assets			
Inventories	*15*	**51,194**	67,278
Trade receivables	*16*	**221,159**	239,188
Prepayments, deposits and other receivables	*17*	**374,935**	261,299
Derivative financial instruments		**–**	8,719
Cash and bank balances	*18*	**349,202**	316,768
		996,490	893,252
Total assets		**3,167,391**	2,989,682
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital	*19*	**242,911**	242,911
Reserves		**1,124,979**	1,121,129
Total equity attributable to the owners of the Company		**1,367,890**	1,364,040
Non-controlling interests		**133,291**	106,897
Total equity		**1,501,181**	1,470,937

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	**30 June 2019 (Unaudited) HK$'000**	31 December 2018 (Audited) HK$'000 *(Note)*
LIABILITIES			
Current liabilities			
Trade and other payables	*20*	**568,964**	489,154
Derivative financial liabilities		**2,983**	–
Lease liabilities		**2,806**	–
Tax payables		**3,328**	36
Bank borrowings	*21*	**468,720**	425,659
		1,046,801	914,849
Non-current liabilities			
Convertible bonds	*22*	**465,998**	464,327
Decommissioning liabilities		**134,872**	128,094
Lease liabilities		**7,086**	–
Deferred tax liabilities		**11,453**	11,475
		619,409	603,896
Total liabilities		**1,666,210**	1,518,745
Total equity and liabilities		**3,167,391**	2,989,682
Net current liabilities		**(50,311)**	(21,597)
Total assets less current liabilities		**2,120,590**	2,074,833

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to owners of the Company											
		Reserves										
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'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 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
At 1 January 2019 (Audited) *(Note 2)*	242,911	1,763,060	6,400,652	(387,881)	5,507	21,899	6,980	5,927	(6,695,015)	1,121,129	106,897	1,470,937
(Loss)/profit for the period	–	–	–	–	–	–	–	–	(47,091)	(47,091)	3,988	(43,103)
Other comprehensive income for the period	–	–	–	50,614	–	–	–	–	–	50,614	311	50,925
Total comprehensive income for the period	–	–	–	50,614	–	–	–	–	(47,091)	3,523	4,299	7,822
Capitalisation of other non-current asset	–	–	–	–	–	–	–	–	–	–	22,095	22,095
Recognition of share based payment Expenses	–	–	–	–	327	–	–	–	–	327	–	327
Transfer upon lapse of share options	–	–	–	–	(1,571)	–	–	–	1,571	–	–	–
At 30 June 2019 (Unaudited)	242,911	1,763,060	6,400,652	(337,267)	4,263	21,899	6,980	5,927	(6,740,535)	1,124,979	133,291	1,501,181

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 2019, the Group contributed HK$ Nil (six months ended 30 June 2018: HK$810,000) to other reserve for the safety production fund.

(2) The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
		(Note)
Cash flows from operating activities		
Cash generated from operations	**94,657**	96,743
Interest received	**1,646**	1,317
Tax paid	**(6,966)**	(8,735)
Net cash generated from operating activities	**89,337**	89,325
Cash flows from investing activities		
Payment for property, plant and equipment	**(70,761)**	(86,176)
Purchase of exploration and evaluation assets	**(2,102)**	(2,540)
Proceeds from disposal of property, plant and equipment	**59**	2,171
Net cash used in investing activities	**(72,804)**	(86,545)
Cash flows from financing activities		
Net cash inflows from bank borrowings	**34,106**	11,231
Other cash outflows from financing activities	**(18,405)**	(7,891)
Net cash generated from financing activities	**15,701**	3,340
Net increase in cash and cash equivalents	**32,234**	6,120
Cash and cash equivalents at the beginning of the period	**316,768**	207,998
Effect of exchange rate changes	**200**	(18,868)
Cash and cash equivalents at the end of the period	**349,202**	195,250

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

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 2018 as contained in the Company's annual report 2018 (the "Annual Report 2018"), 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 29 August 2019.

As at 30 June 2019, the Group had net current liabilities of HK$50,311,000 and incurred net loss of HK$43,103,000 during the six months ended 30 June 2019. 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 2019 are consistent with those followed in the preparation of the Annual Report 2018 except for the impact of the adoption of the new and revised standards, amendments and interpretations (the "new and amendments to HKFRSs").

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

HKFRS 16, *Leases* (Continued)

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

HKFRS 16, *Leases* (Continued)

(a) Changes in the accounting policies *(Continued)*

(ii) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to right-of-use assets as disclosed in note 14.

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. For the Group, low-value assets are typically laptops or office furniture. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

HKFRS 16, *Leases* (Continued)

(a) Changes in the accounting policies *(Continued)*

(ii) Lessee accounting (Continued)

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses, except for the following types of right-of-use asset:

– right-of-use assets that meet the definition of investment property are carried at fair value

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

HKFRS 16, *Leases* (Continued)

(a) Changes in the accounting policies *(Continued)*

(iii) Leasehold investment property

Under HKFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation ("leasehold investment properties"). The adoption of HKFRS 16 does not have a significant impact on the Group's financial statements as the Group previously elected to apply HKAS 40, *Investment properties*, to account for all of its leasehold properties that were held for investment purposes as at 31 December 2018. Consequentially, these leasehold investment properties continue to be carried at fair value.

(iv) Lessor accounting

The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

The adoption of HKFRS 16 does not have a significant impact on the Group's financial statements.

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies

(i) Classification of interest in leasehold land and buildings held for own use

In accordance with HKAS 16, *Property, plant and equipment*, the Group chooses to apply either the cost model or the revaluation model as its accounting policy for items of property, plant and equipment held for own use on a class-by-class basis. In applying this policy, the Group has concluded that its registered ownership interests in leasehold properties and the right to use other properties leased under tenancy agreements are two separate groupings of assets which differ significantly in their nature and use. Accordingly, they are regarded by the Group as separate classes of asset for subsequent measurement policies in accordance with the above accounting policies.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

HKFRS 16, *Leases* (Continued)

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies *(Continued)*

(ii) Determining the lease term

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

(iii) Transitional impact

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.35% to 6.00%.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

HKFRS 16, *Leases* (Continued)

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies *(Continued)*

(iii) Transitional impact (Continued)

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

HKFRS 16, *Leases* (Continued)

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies *(Continued)*

(iii) Transitional impact (Continued)

The following table reconciles the operating lease commitments as disclosed in note 32 of Annual Report 2018 as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019.

	1 January 2019 HK$'000
Operating lease commitments at 31 December 2018	21,346
Less: commitments relating to lease exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(3,041)
– leases of low value assets	(268)
Add: lease payments for the additional periods where the Group considers it reasonably certain that it will exercise the extension options	–
	18,037
Less: lease contracts signed but not yet commenced	(17,329)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	708
Add: finance lease liabilities recognised as at 31 December 2018	–
Total lease liabilities recognised at 1 January 2019	708

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position at 31 December 2018.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

HKFRS 16, *Leases* (Continued)

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies *(Continued)*

(iii) Transitional impact (Continued)

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased asset is identified as a right-of-use asset. There is no impact on the opening balance of equity.

The Group presents right-of-use assets that do not meet the definition of investment property in 'right-of-use assets' and presents lease liabilities separately in the statement of financial position.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018	Capitalisation of operating lease contracts	Carrying amount at 1 January 2019
	HK$'000	HK$'000	HK$'000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Right-of-use assets	–	708	708
Total non-current assets	**2,096,430**	**708**	**2,097,138**
Lease liabilities (current)	–	346	346
Current liabilities	**914,849**	**346**	**915,195**
Net current liabilities	**(21,597)**	**(346)**	**(21,943)**
Total assets less current liabilities	**2,074,833**	**362**	**2,075,195**
Lease liabilities (non-current)	–	362	362
Total non-current liabilities	**603,896**	**362**	**604,258**
Net assets	**1,470,937**	**–**	**1,470,937**

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

HKFRS 16, *Leases* (Continued)

(c) Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

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					
	2019 HK$'000 (Unaudited)	2018 HK$'000 (Unaudited) *(Note)*	**2019 HK$'000 (Unaudited)**	2018 HK$'000 (Unaudited) *(Note)*	**2019 HK$'000 (Unaudited)**	2018 HK$'000 (Unaudited) *(Note)*
Segment revenue:						
Sales to external customers	**100,419**	146,521	**3,323,308**	2,141,626	**3,423,727**	2,288,147
Segment (loss)/profit	**(26,034)**	12,980	**22,191**	8,111	**(3,843)**	21,091
Other revenue					**3,776**	9,832
Net foreign exchange loss					**(978)**	(18)
Unallocated corporate expenses					**(13,867)**	(17,765)
(Loss)/profit from operating activities					**(14,912)**	13,140
Finance costs					**(28,439)**	(26,127)
Loss before taxation					**(43,351)**	(12,987)
Taxation					**248**	(8,799)
Loss for the period					**(43,103)**	(21,786)

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach comparative information is not restated.

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 2019 and 2018.

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, 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 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited) *(Note)*	**30 June 2019 HK$'000 (Unaudited)**	31 December 2018 HK$'000 (Audited) *(Note)*	**30 June 2019 HK$'000 (Unaudited)**	31 December 2018 HK$'000 (Audited) *(Note)*
Segment assets	**1,880,329**	1,771,423	**1,236,712**	1,028,059	**3,117,041**	2,799,482
Unallocated assets					**50,350**	190,200
Total assets					**3,167,391**	2,989,682
Segment liabilities	**449,490**	423,764	**710,540**	591,468	**1,160,030**	1,015,232
Unallocated liabilities					**506,180**	503,513
Total liabilities					**1,666,210**	1,518,745

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated.

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; and
- 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$3,323,308,000 (30 June 2018: HK$2,141,626,000) are revenue of HK$1,062,803,000 (30 June 2018: HK$1,248,350,000) which arose from two customers (30 June 2018: four customers) 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	
	2019	2018
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Customer A *(note 1)*	**179,530**	336,199
Customer B	**442,443**	364,041
Customer C *(note 1)*	**72,388**	288,913
Customer D *(note 1)*	**–**	259,197
Customer E	**620,360**	–

Note:

1. The corresponding revenues from Customer A, C and D did not contribute over 10% of the total revenue of the Group during the period ended 30 June 2019.

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.

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. In this case, the Group acts as an agent for certain sales transaction of oil related products as the Group does not have sufficient control over the specific goods provided by the suppliers before goods transferred to customers. When the Group acts as an agent, it recognises revenue on a net basis to which it expects to be entitled in exchange for arranging for the specified goods to be provided by the other party.

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

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Revenue		
Sales of crude oil and gas	**100,419**	146,521
Trading and distribution of oil related products	**3,323,308**	2,141,626
	3,423,727	2,288,147
Other revenue		
Bank interest income	**1,646**	1,317
Rental income	**509**	967
Storage fee income	**1,590**	7,408
Others	**31**	140
	3,776	9,832

5. OTHER LOSSES

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Net foreign exchange loss	**(978)**	(18)
(Loss)/gain on disposal of property, plant and equipment	**(414)**	1,871
Written off of expired exploration and evaluation assets	**–**	(4,527)
Fair value change on derivative financial instruments	**(13,567)**	(1,614)
Others	**(835)**	–
	(15,794)	(4,288)

6. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

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

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
		(*Note*)
Cost of inventories sold	**3,276,440**	2,114,661
Depreciation and depletion charge		
– property, plant and equipment	**51,626**	63,668
– right-of-use assets	**473**	–
Amortisation of prepaid lease payments	**229**	245
Minimum lease payments under operating leases of rented premises	**3,226**	4,095
Staff costs (including Directors' remuneration):		
– Salaries and wages	**34,597**	32,735
– Share-based payment expenses	**327**	1,072
– Pension scheme contributions	**1,218**	325

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated.

7. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
		(Note)
Interest expenses on bank borrowings wholly repayable within five years	**11,044**	7,891
Interest expenses on convertible bonds	**15,684**	16,663
Interest expenses on lease liabilities	**118**	–
Accretion of decommissioning liabilities	**1,593**	1,573
	28,439	26,127

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated.

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 2019 is calculated at 16.5% of estimated assessable profits (six months ended 30 June 2018: 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 2019 and 2018 respectively.

	Six months ended 30 June	
	2019	2018
	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	**6,725**	7,975
Deferred tax		
Reversal and origination of temporary differences	**(6,973)**	824
	(248)	8,799

9. INTERIM DIVIDENDS

The Directors do not recommend the payment of any interim dividends in respect of the six months ended 30 June 2019 (six months ended 30 June 2018: 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	
	2019	2018
	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	**(47,091)**	(24,991)

	Six months ended 30 June	
	2019	2018
	'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 2019 and 2018 were the same as the basic loss per share. The computation of diluted loss per share for the six months ended 30 June 2019 and 2018 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 2018 and 1 January 2019 (Audited)	143,092	13,171	11,384	3,756	352	3,015,080	115,252	3,302,087
Additions	–	–	407	–	–	70,756	–	71,163
Disposals	(406)	(10)	–	–	–	–	–	(416)
Exchange differences	(240)	(22)	173	(7)	13	110,957	(193)	110,681
At 30 June 2019 (Unaudited)	142,446	13,139	11,964	3,749	365	3,196,793	115,059	3,483,515
Accumulated depreciation, depletion and impairment								
At 31 December 2018 and 1 January 2019 (Audited)	29,932	7,009	8,554	2,565	352	1,343,821	–	1,392,233
Charge for the period	2,699	833	615	151	–	47,328	–	51,626
Disposal	(82)	(9)	–	–	–	–	–	(91)
Exchange differences	(41)	(8)	164	(5)	13	49,641	–	49,764
At 30 June 2019 (Unaudited)	32,508	7,825	9,333	2,711	365	1,440,790	–	1,493,532
Net book value								
At 30 June 2019 (Unaudited)	**109,938**	**5,314**	**2,631**	**1,038**	**–**	**1,756,003**	**115,059**	**1,989,983**
At 31 December 2018 (Audited)	113,160	6,162	2,830	1,191	–	1,671,259	115,252	1,909,854

12. INVESTMENT PROPERTIES

	HK$'000
Fair values	
At 31 December 2018 and 1 January 2019 (Audited)	16,794
Exchange differences	(28)
At 30 June 2019 (Unaudited)	**16,766**

The Directors consider that the carrying amount of the investment properties are fairly stated as at 30 June 2019.

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 2018 and 1 January 2019 (Audited)	12,433,762
Additions	2,102
Written off	(2,169)
Exchange differences	705
At 30 June 2019 (Unaudited)	12,434,400
Accumulated impairment	
At 31 December 2018 and 1 January 2019 (Audited) and 30 June 2019 (Unaudited)	12,414,443
Carrying amount	
At 30 June 2019 (Unaudited)	**19,957**
At 31 December 2018 (Audited)	19,319

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 2019.

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. RIGHT-OF-USE ASSETS

As discussed in note 2, the Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. Further details on the net book value of the Group's right-of-use assets by class of underlying asset are set out below:

	HK$'000 *(Note)*
Cost	
At 1 January 2019 (Unaudited)	708
Additions	8,803
Exchange differences	4
At 30 June 2019 (Unaudited)	9,515
Accumulated depreciation and impairment	
At 1 January 2019 (Unaudited)	–
Charge for the period	473
Exchange differences	1
At 30 June 2019 (Unaudited)	474
Net book value	
At 30 June 2019 (Unaudited)	9,041

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated.

During the six months ended 30 June 2019, the Group entered into a number of lease agreements for use of offices, and therefore recognised the additions to right-of-use assets of HK$8,803,000. The leases of offices contain minimum annual lease payment terms that are fixed.

15. INVENTORIES

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

16. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 90 days (31 December 2018: 90 days), are recognised and carried at the original invoiced amount less loss 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 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
0 to 30 days	**219,016**	236,742
31 to 60 days	**247**	126
61 to 90 days	**243**	236
Over 90 days	**1,653**	2,084
	221,159	239,188

The Directors believe that no loss allowance 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$1,653,000 (31 December 2018: HK$2,084,000) was past due at the end of the reporting period for which the Group has not provided for loss allowance. 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 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
Over 90 days	**1,653**	2,084

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
Prepaid lease payments	**1,128**	459
Prepayments to suppliers	**360,901**	252,082
Other prepayments	**4,902**	3,303
Other deposits	**1,148**	372
Other receivables	**6,856**	5,083
	374,935	261,299

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 2019 and 31 December 2018. 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 2019 were amounts in Renminbi ("RMB") equivalent to HK$296,224,000 (31 December 2018: HK$146,502,000) which are not freely convertible into other currencies.

19. SHARE CAPITAL

	Number of shares		Share capital	
	30 June 2019 '000	31 December 2018 '000	**30 June 2019 HK$'000 (Unaudited)**	31 December 2018 HK$'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 2019, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 50,000,000 (31 December 2018: 75,000,000), representing 0.4% (31 December 2018: 0.6%) of the total number of the shares of the Company (the "Shares") in issue at that date. 25,000,000 share options lapsed during the period ended 30 June 2019.

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 2018: 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 2018: 10%) of the total number of shares in issue as at the date of this interim report.

19. SHARE CAPITAL (Continued)

Share options (Continued)

Share option scheme *(Continued)*

Details of share options are as follows:

					Number of share options			
Date of grant	Fair value for batch of share options at grant date	Vesting period	Exercise period	Exercise price	As at 1 January 2019	Granted during the period	Lapsed during the period	As at 30 June 2019
18/10/2016	HK$1,510,000	18/10/2016 – 30/9/2017	1/10/2017 – 30/9/2026	HK$0.2210	12,000,000	–	–	12,000,000
1/6/2017	HK$940,000	1/6/2017 – 30/9/2017	1/10/2017 – 30/9/2026	HK$0.1842	13,000,000	–	–	13,000,000
	HK$1,813,000	1/6/2017 – 30/9/2018	1/10/2018 – 30/9/2026	HK$0.1842	25,000,000	–	–	25,000,000
	HK$1,832,000	1/6/2017 – 30/9/2019	1/10/2019 – 30/9/2026	HK$0.1842	25,000,000	–	(25,000,000)	–

20. TRADE AND OTHER PAYABLES

	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
Trade payables	**226,450**	202,144
Contract liabilities	**227,647**	133,593
Other payables	**114,867**	153,417
	568,964	489,154

20. 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 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
0 to 30 days	**223,198**	195,727
31 to 60 days	**1,264**	3,252
61 to 90 days	**985**	323
Over 90 days	**1,003**	2,842
	226,450	202,144

As at 30 June 2019 and 31 December 2018, 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 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
Carrying amount repayable within one year or on demand:		
Unsecured bank borrowings *(Note a)*	**227,340**	170,790
Secured bank borrowings *(Note b)*	**241,380**	254,869
	468,720	425,659

21. BANK BORROWINGS (Continued)

(a) As at 30 June 2019, Henan Yanchang Petroleum Sales Co., Limited ("Henan Yanchang") has drawn down unsecured bank borrowings of HK$227,340,000 (equivalent to RMB200,000,000) (31 December 2018: HK$170,790,000 (equivalent to RMB150,000,000)). 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 2019, Novus Energy Inc ("Novus") drawn HK$241,380,000 (equivalent to Canadian dollar ("CAD")40,500,000) against its CAD48,000,000 credit facilities in the form of bank acceptances (31 December 2018: HK$254,869,000 (equivalent to CAD44,325,000) against its CAD48,000,000 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 2018: 1.0% to 3.5%) over the bank's prime lending rate; bankers' acceptances stamping fees ranging from 2.0% to 4.5% (31 December 2018: 2.0% to 4.5%); letters of credit/guarantee fees ranging from 2.0% to 4.5% (31 December 2018: 2.0% to 4.5%); and standby fees ranging from 0.5% to 1.125% (31 December 2018: 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 2018: 1:1 up to greater than 4:1).

As at 30 June 2019, interest on the revolving operating demand loan was charged at prime rate plus 2.5% per annum (31 December 2018: prime rate plus 1.75% per annum), bankers' acceptances stamping fees were 3.5% per annum (31 December 2018: 2.75% per annum), letters of credit/guarantee fees were 3.5% per annum (31 December 2018: 2.75% per annum), and standby fees were 0.88% per annum (31 December 2018: 0.69% 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 2019, the ratio was 1.52:1 (31 December 2018: 1.41:1).

21. 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.

22. CONVERTIBLE BONDS

On 28 November 2018, the Company issued convertible bonds to Yanchang Petroleum Group (Hong Kong) Co., Limited ("Yanchang Petroleum HK") in the principal amount of US$60,000,000. The convertible bonds bear annual interest rate of 6% and mature on the date falling on the second anniversary of the date of issuance. The convertible bonds entitle the holder to convert to the ordinary shares of the Company at an initial conversion price of HK$0.076 per share.

The convertible bonds contain two components, liability component and equity component.

The liability component is carried at amortised cost using the effective interest method. The equity component is measured at the residual amount after separating the liability component of the convertible bond.

Liability component:

	HK$'000
At 31 December 2018 and 1 January 2019 (Audited)	464,327
Interest expense	15,684
Interest paid	(14,013)
At 30 June 2019 (Unaudited)	**465,998**

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).

24. COMMITMENTS

The Group had capital commitments to property, plant and equipment amounted to HK$27,566,000 (31 December 2018: HK$25,362,000) which were contracted but not provided for as at 30 June 2019.

25. CONTINGENT LIABILITIES

As at 30 June 2019, the Group had no material contingent liabilities (31 December 2018: Nil).

26. MATERIAL RELATED PARTIES TRANSACTIONS

Save as disclosed elsewhere in the unaudited condensed consolidated financial statements, during the six months ended 30 June 2019, 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	
	2019	2018
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Salaries and allowance	**4,473**	3,410
Share-based payment expenses	**327**	1,072
Mandatory provident fund contributions	**11**	18
	4,811	4,500

During the six months ended 30 June 2019, 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**	**2019**	2018
			HK$'000	HK$'000
			(Unaudited)	(Unaudited)
Yanchang Petroleum Group	A substantial shareholder	Purchase of refined oil	**1,740,005**	1,152,116

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

27. COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective method. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.

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:	11 wells drilled 10 wells completed	Nil
Production activities:	Average daily net production Oil: 1,486 bbls Gas: 1,833 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	1,311	–	1,311
Developments costs	70,756	–	70,756
Production costs *(note)*	35,911	–	35,911

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

As difficult challenges emerged in the first half of 2019 in the global market arising from unceasing fluctuations in crude oil prices and more intensive Sino-US trade war, the Company has continued to make orderly progress on various business targets under its strategy of "sustaining production at minimum cost and seeking development".

I. Upstream oil and gas producing business in Canada

In the first half of 2019, Novus achieved a total of crude oil production of 324,343 barrels of equivalent ("BOE") with an average daily production of 1,792 BOE, as compared to an average daily production of 2,239 BOE for the corresponding period in 2018, the decrease was principally due to interruption of Novus scheduled drillings for the first quarter by extreme bad weather. Novus recorded sales amount of CAD17.05 million and a loss of CAD4.42 million. During the period under review, as a result of decrease in production volume field operation and transportation costs per BOE increased to CAD19.6 from CAD15.6 for the corresponding period in 2018, and netback per BOE was CAD27.0. Given the weather getting back to normal, drilling works have been in full swing since May 2019. As at the end of June 2019, drilling of 11 wells has commenced and drilling of 10 wells has completed.

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

In the first half of 2019, sales volume of refined oil by Henan Yanchang increased to 1.65 million tonnes from 1.33 million tonnes for the corresponding period in 2018. The revenue amounted to RMB2.91 billion with a profit of RMB12 million for the period under review, as compared to the revenue of RMB1.76 billion with a profit of RMB9.29 million for the corresponding period in 2018. 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

In the second half of 2019, the management team will maintain strict control over production costs, assets and capital of the Company so as to enhance its management efficiency and profitability.

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

As the drilling season started in May, the knowledge obtained from the process optimisation of drilling and refrac technique in the past and the successful experience in developing new region will be applied by Novus to the drilling activities in the second half of 2019, aiming to increase overall market value of Novus by further enhancing both production volume and reserves.

2. *Striving for fulfilling business objectives of refined oil trading business by Henan Yanchang*

In the second half of 2019, Henan Yanchang will sustain the development of the existing business and extensively explore potential business through formulating a targeted marketing scheme by conducting real-time market research for collecting accurate market data. In addition, a number of measures will be taken, such as effective motivation of staff members for striving for excellence, improvement of sales at oil storage stations, enhancement of delicacy management of newly operating petrol stations, with the goal of fulfilling all business objectives of the entire year.

3. *Obtaining financing sources in the market*

To support the development of the Company, it will endeavour to establish closer relationship with funds, banks and potential investors abroad and at home for exploiting opportunity to obtain financing sources. At present, the Company is exploring possibilities on all fronts to further improve its capital structure and financial position.

As the global economy is being adversely affected by the Sino-US trade war, the possibility of reaching an agreement will be remote in the near future. The management of the Company will be more cautious on demand for crude oil in the second half of 2019 and be alert at all times for determinedly implementing measures for cost reduction and operational efficiency enhancement in a bid to protect the assets of the Company and its shareholders' interests to the greatest extent possible.

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 2019, 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 324,343 BOE and contributed production income of HK$100,419,000 during the period under review, as compared to production of 405,300 BOE and production income of HK$146,521,000 of the previous period. As the sales dropped sharply as a result of weak oil prices and decrease in production, therefore an operating loss of HK$26,034,000 recorded for the exploration, exploitation and operation business for the six months ended 30 June 2019, as compared to an operating profit of HK$12,980,000 for the previous period.

During the six months ended 30 June 2019, the revenue of refined oil trading business in the PRC was HK$3,323,308,000 as compared to HK$2,141,626,000 of the previous period. Resulting from the higher gross profit margin and higher sales volume from the previous period of 1.33 million tonnes to the current period of 1.65 million tonnes, Henan Yanchang contributed an operating profit of HK$22,191,000 to the supply and procurement business, as compared to an operating profit of HK$8,111,000 of the previous period.

Other revenue

Apart from the aforesaid segment results, other revenue of HK$3,776,000 which mainly represented interest income from bank deposits, rental income and storage fee income recorded from the PRC for the period under review, decreased by HK$6,056,000 from HK$9,832,000 of the previous period.

Purchases

Purchases increased from the previous period of HK$2,114,661,000 to this period of HK$3,276,440,000, which were mainly derived from the refined oil trading business of Henan Yanchang. The increase of purchases was due to the increase 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, decreased from the previous period of HK$15,680,000 to the current period of HK$13,120,000 due to the drop in sales price and volume.

Field operation expenses

Due to the drop in the production, field operation expenses reduced to HK$35,911,000 this period from the previous period of HK$37,665,000. 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$1,103,000 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 as a result of the growth in sales from the previous period of HK$3,325,000 to the current period of HK$5,457,000, 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, decreased by HK$1,896,000 to HK$42,262,000 for the period under review.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation expenses decreased from the previous period of HK$63,913,000 to the current period of HK$52,328,000. The decrease was mainly due to the decrease in depletion of petroleum and natural gas properties incurred by Novus resulting from the drop in production affected by extreme bad weather in Canada during the period under review.

FINANCIAL REVIEW (Continued)

Other losses

Other losses of HK$15,794,000 represented the aggregate of (i) loss on hedging of oil and gas commodity contracts of HK$13,567,000; (ii) net foreign exchange loss of HK$978,000; (iii) loss on disposal of properties, plant and equipment of HK$414,000; and (iv) other loss of HK$835,000.

Finance costs

Finance costs amounted to HK$28,439,000 comprised (i) bank borrowing costs of HK$11,044,000 included interests, commitment fees, standby charges, and other expenses related to the businesses of Novus and Henan Yanchang; (ii) accretion of HK$1,593,000 related to the provision of the decommissioning liabilities incurred by Novus; (iii) imputed interest on convertible bonds of HK$15,684,000 arisen from the issue of 2-year convertible bonds with a principal amount of US$60,000,000; and (iv) interest of lease liabilities of HK$118,000 related to the leases of the Group.

Taxation

Tax credit of HK$248,000 represented the net effect of (i) provision for the PRC corporate income tax on the profit earned from refined oil trading business of Henan Yanchang amounted to HK$6,725,000; and (ii) net deferred tax income amounted to HK$6,973,000.

Loss for the period

Compared to a loss for the last period of HK$21,786,000, a loss of HK$43,103,000 was recorded for the period under review. The loss, amongst others, included (i) the loss of HK$26,030,000 incurred by the oil and gas production business in Canada due to the weak oil prices as a result of the U.S. – China trade dispute and the slowing global economy; and (ii) the convertible bonds interest of HK$15,684,000 incurred during the period.

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 2019.

The Group had outstanding variable interest rates bank borrowings amounted to HK$468,720,000 as at 30 June 2019 (31 December 2018: HK$425,659,000) comprised (i) HK$227,340,000 (equivalent to RMB200,000,000) under Henan Yanchang and (ii) HK$241,380,000 (equivalent to CAD40,500,000) under Novus. The Group has obtained bank facilities of HK$568,350,000 (equivalent to RMB500,000,000) from various banks in the PRC in writing or verbal form and of HK$286,080,000 (equivalent to CAD48,000,000) from a bank in Canada.

On 28 November 2018, the Company raised fund from the issue of convertible bonds to Yanchang Petroleum HK in the principal amount of US$60,000,000 (equivalent to HK$471,000,000) which carry coupon interest with 6% and mature on the second anniversary date from the date of issue. Part of the fund raised amount to HK$383,897,000 had been used for the repayment of the convertible bonds issued to China Construction Bank Corporation and balance had been used as general working capital for the Group's business needs. The principal amount of convertible bonds was still outstanding as at 30 June 2019.

As at 30 June 2019, the Group had cash and bank balances of HK$349,202,000 (31 December 2018: HK$316,768,000). 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 62.3% (31 December 2018: 60.5%). The current ratio of the Group, measured on the basis of current assets as a percentage of current liabilities stood at 95.2% as at 30 June 2019 (31 December 2018: 97.6%).

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 2019, Novus had entered sixty 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 2019.

SIGNIFICANT INVESTMENT

The Group did not hold any significant investments as at 30 June 2019.

CAPITAL COMMITMENT

The Group had capital commitments to property, plant and equipment amounted to HK$27,566,000 (31 December 2018: HK$25,362,000) which were contracted but not provided for as at 30 June 2019.

PLEDGE OF ASSETS

The Group's CAD48,000,000 (31 December 2018: CAD48,000,000) 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 CAD200,000,000 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 2019, the Group had no materiel contingent liabilities (31 December 2018: Nil).

LITIGATION

As at 30 June 2019, the Group had no material litigations (31 December 2018: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2019, the Group's total number of staff was 168 (31 December 2018: 158). Salaries of employees are maintained at a competitive level with total staff costs for the six months ended 30 June 2019 amounted to HK$36,142,000 (six months ended 30 June 2018: HK$34,132,000). 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 2019 (six months ended 30 June 2018: Nil).

INTERIM DIVIDENDS

The Board does not recommend the payment of interim dividends for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

OTHER INFORMATION

DIRECTORS' INTERESTS IN SHARE CAPITAL

At 30 June 2019, 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. Sun Liming	Personal interest	Long position	600,000	0.005%
Dr. Mu Guodong ("Dr. Mu")	Personal interest and interest of spouse *(Note 1)*	Long position	300,000	0.002%

Note 1: 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 2019 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 2018 of the Company.

75,000,000 share options were granted to Mr. Bruno Guy Charles Deruyck ("Mr. Deruyck") under the Scheme and out of which 25,000,000 share options lapsed during the period. Details of the movements of the share options granted to Mr. Deruyck under the Scheme during the period were as follows:

					Number of share options				
Grantee	Date of grant	Vesting period	Exercise period	Exercise price	At 1 January 2019	Granted during the period	Lapsed during the period	Exercised during the period	At 30 June 2019
Executive Director (Resigned on 1 June 2019)									
Mr. Deruyck	18/10/2016	18/10/2016 – 30/9/2017	1/10/2017 – 30/9/2026	HK$0.2210	12,000,000	–	–	–	12,000,000
	1/6/2017	1/6/2017 – 1/10/2017	1/10/2017 – 30/9/2026	HK$0.1842	13,000,000	–	–	–	13,000,000
	1/6/2017	1/6/2017 – 1/10/2018	1/10/2018 – 30/9/2026	HK$0.1842	25,000,000	–	–	–	25,000,000
	1/6/2017	1/6/2017 – 1/10/2019	1/10/2019 – 30/9/2026	HK$0.1842	25,000,000	–	(25,000,000)	–	–
					75,000,000	–	(25,000,000)	–	50,000,000

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2019, 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	12,686,203,231	104.45%
Yanchang Petroleum HK *(Note 1)*	Directly owned	Long position	12,686,203,231	104.45%

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 held these12,686,203,231 shares through its direct wholly-owned subsidiary, Yanchang Petroleum HK.

Amongst these 12,686,203,231, 6,189,473,684 Shares represent a deemed interest held by Yanchang Petroleum HK. Pursuant to a subscription agreement dated 12 October 2018 (the "Subscription Agreement") entered into between the Company and Yanchang Petroleum HK, The Company had conditionally agreed to issue, and Yanchang Petroleum HK had conditionally agreed to subscribe for, the convertible bonds of an aggregate principal amount of US$60,000,000 at the conversion price of HK$0.076 per Share on completion.

With all the conditions precedent under the Subscription Agreement being fulfilled, completion of subscription took place on 28 November 2018 which enables Yanchang Petroleum HK to subscribe for a maximum of 6,189,473,684 Shares at the conversion price of HK$0.076 per share upon full conversion of the convertible bonds within the 2-year exercise period.

For illustrative purpose, the approximate percentage of the total issued ordinary share capital of the enlarged capital will be 69.19% immediately after completion upon full conversion of the convertible bonds.

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 2019.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the Board, the Company had complied with the code provisions set out in the Corporate Governance Code (the "CG Code") in Appendix 14 of the Listing Rules during the six months ended 30 June 2019, except for the following deviation:

1. code provision A.6.7 of the CG Code provides that independent non-executive Directors and other non-executive Directors should also attend general meetings and develop a balanced understanding of the views of shareholders. One of the independent non-executive Directors, Mr. Sun Liming was unable to attend at annual general meeting ("AGM") of the Company held on 30 May 2019 due to other ad hoc engagements.

2. code provision A.2.1 of the CG Code provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The position of the chief executive officer of the Company was temporarily vacant following the resignation of Mr. Deruyck as an executive Director and chief executive officer on 1 June 2019 as the Company needs times to identify a suitable candidate to assume the role of the chief executive officer.

OTHER INFORMATION

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 2019.

AUDITORS

With effect from 10 November 2017, HLB Hodgson Impey Cheng Limited ("HLB") resigned as the auditors of the Company. Following the resignation of HLB, KPMG ("KPMG") was appointed as the new auditors of the Company with the recommendation of the Audit Committee. Considering that KPMG had been the auditors of the Company since 2017, the Board and the Audit Committee took the view that a change of auditors demonstrated a good corporate governance practice.

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 26 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. Mr. Deruyck resigned as director and chief executive officer of the following Company's subsidiaries:

   (i) Yanchang International (Canada) Limited – with effect from 1 June 2019; and

   (ii) Novus Energy Inc. – with effect from 1 June 2019.

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 2019.

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

Hong Kong, 29 August 2019