



延長石油國際有限公司

YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 00346

2020 INTERIM REPORT



CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Li Yi (*Chairman*)
Ms. Sha Chunzhi
Mr. Feng Yinguo
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

KPMG

Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
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 54 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.
Bank of China Limited
National Bank of Canada

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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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 2020 together with the unaudited comparative figures for the six months ended 30 June 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		Six months ended 30 June	
	Notes	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Revenue	4	8,161,298	3,423,727
Other revenue	4	1,544	3,776
		8,162,842	3,427,503
Expenses			
Purchases		(8,063,522)	(3,276,440)
Royalties		(5,332)	(13,120)
Field operation expenses		(27,001)	(35,911)
Exploration and evaluation expenses		(759)	(1,103)
Selling and distribution expenses		(5,752)	(5,457)
Administrative expenses		(26,493)	(42,262)
Depreciation, depletion and amortisation		(41,730)	(52,328)
Other losses	5	(14,269)	(15,794)
		(8,184,858)	(3,442,415)
Loss from operating activities	6	(22,016)	(14,912)
Finance costs	7	(32,536)	(28,439)
Loss before taxation		(54,552)	(43,351)
Taxation	8	(6,978)	248
Loss for the period		(61,530)	(43,103)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020	2019
		(Unaudited) HK\$'000	(Unaudited) HK\$'000
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong		(61,965)	50,925
Other comprehensive income for the period, with nil tax effect		(61,965)	50,925
Total comprehensive income for the period		(123,495)	7,822
(Loss)/profit for the period attributable to:			
Owners of the Company		(68,630)	(47,091)
Non-controlling interests		7,100	3,988
		(61,530)	(43,103)
Total comprehensive income for the period attributable to:			
Owners of the Company		(128,586)	3,524
Non-controlling interests		5,091	4,298
		(123,495)	7,822
Loss per share attributable to the owners of the Company			
Basic and diluted, HK cents	10	(0.50)	(0.39)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

		30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	1,543,716	1,653,657
Investment properties	12	16,399	16,718
Exploration and evaluation assets	13	13,833	16,802
Right-of-use assets	14	22,417	24,656
Goodwill and intangible asset		58,149	58,149
Other non-current assets		7,523	6,757
		1,662,037	1,776,739
Current assets			
Inventories	15	124,890	31,541
Trade receivables	16	19,570	170,711
Prepayments, deposits and other receivables	17	1,120,552	267,705
Cash and bank balances	18	196,070	298,688
		1,461,082	768,645
Total assets		3,123,119	2,545,384
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital	19	366,701	242,911
Reserves		939,348	721,150
Total equity attributable to the owners of the Company		1,306,049	964,061
Non-controlling interests		134,376	129,285
Total equity		1,440,425	1,093,346

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

		30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
LIABILITIES			
Current liabilities			
Trade and other payables	20	826,700	302,846
Lease liabilities	23	3,079	3,077
Tax payables		5,655	2,227
Bank borrowings	21	438,480	257,025
Convertible bonds	22	–	467,755
		1,273,914	1,032,930
Non-current liabilities			
Decommissioning liabilities		122,089	129,114
Lease liabilities	23	5,683	7,323
Deferred tax liabilities		11,037	11,287
Secured term loan	24	269,971	271,384
		408,780	419,108
Total liabilities		1,682,694	1,452,038
Total equity and liabilities		3,123,119	2,545,384
Net current assets/(liabilities)		187,168	(264,285)
Total assets less current liabilities		1,849,205	1,512,454

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to owners of the Company											
	Reserves										Non-controlling interests	Total
	Share capital	Share premium	Contributed surplus	Exchange reserve	Share options reserve	Statutory reserve	Convertible bonds reserve	Other reserve	Accumulated losses	Sub-total		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2019 (Audited) (note)	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
At 1 January 2020 (Audited)	242,911	1,763,060	6,400,652	(344,445)	-	21,899	6,980	6,669	(7,133,665)	721,150	129,285	1,093,346
(Loss)/profit for the period	-	-	-	-	-	-	-	-	(68,630)	(68,630)	7,100	(61,530)
Other comprehensive income for the period	-	-	-	(59,956)	-	-	-	-	-	(59,956)	(2,009)	(61,965)
Total comprehensive income for the period	-	-	-	(59,956)	-	-	-	-	(68,630)	(128,586)	5,091	(123,495)
Issue of shares upon conversion of convertible bonds	123,790	352,251	-	-	-	-	(6,980)	-	-	345,271	-	469,061
Net increase in other reserve	-	-	-	-	-	-	-	1,513	-	1,513	-	1,513
Transfer of reserves	-	-	-	-	-	12,905	-	-	(12,905)	-	-	-
At 30 June 2020 (Unaudited)	366,701	2,115,311	6,400,652	(404,401)	-	34,804	-	8,182	(7,215,200)	939,348	134,376	1,440,425

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 CASH FLOWS

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Cash flows from operating activities		
Cash (used in)/generated from operations	(251,675)	94,657
Interest received	866	1,646
Tax paid	(2,912)	(6,966)
Net cash (used in)/generated from operating activities	(253,721)	89,337
Cash flows from investing activities		
Payment for property, plant and equipment	(7,466)	(70,761)
Purchase of exploration and evaluation assets	–	(2,102)
Proceeds from disposal of property, plant and equipment	–	59
Net cash used in investing activities	(7,466)	(72,804)
Cash flows from financing activities		
Net cash inflows from bank borrowings	186,048	34,106
Other cash outflows from financing activities	(21,193)	(18,405)
Net cash generated from financing activities	164,855	15,701
Net (decrease)/increase in cash and cash equivalents	(96,332)	32,234
Cash and cash equivalents at the beginning of the period	298,688	316,768
Effect of exchange rate changes	(6,286)	200
Cash and cash equivalents at the end of the period	196,070	349,202

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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 2019 as contained in the Company’s annual report 2019 (the “Annual Report 2019”), 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 27 August 2020.

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 2020 are consistent with those followed in the preparation of the Annual Report 2019 except for the impact of the adoption of the new and revised standards, amendments and interpretations (the “new and amendments to HKFRSs”).

The Group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- Amendments to HKFRS 3, *Definition of a Business*

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendments to HKFRS 3, *Definition of a Business*

The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional “concentration test” that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The Group has applied the amendments prospectively to transactions for which the acquisition date is on or after 1 January 2020.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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					
	2020	2019	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue:						
Sales to external customers	38,746	100,419	8,122,552	3,323,308	8,161,298	3,423,727
Segment (loss)/profit	(40,116)	(26,034)	35,918	22,191	(4,198)	(3,843)
Other revenue					1,544	3,776
Net foreign exchange loss					(12,953)	(978)
Unallocated corporate expenses					(6,409)	(13,867)
Loss from operating activities					(22,016)	(14,912)
Finance costs					(32,536)	(28,439)
Loss before taxation					(54,552)	(43,351)
Taxation					(6,978)	248
Loss for the period					(61,530)	(43,103)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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 2020 and 2019.

Segment (loss)/profit represents the loss incurred/profit earned by each segment without allocation of other revenue, net foreign exchange loss, unallocated corporate expenses, finance costs and taxation. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

Segment assets and liabilities

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

	Exploration, exploitation and operation		Supply and procurement		Consolidated	
	30 June 2020	31 December 2019	30 June 2020	31 December 2019	30 June 2020	31 December 2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Segment assets	1,360,135	1,489,515	1,713,649	1,003,579	3,073,784	2,493,094
Unallocated assets					49,335	52,290
Total assets					3,123,119	2,545,384
Segment liabilities	421,704	435,914	1,227,531	515,536	1,649,235	951,450
Unallocated liabilities					33,459	500,588
Total liabilities					1,682,694	1,452,038

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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\$8,122,552,000 (six months ended 30 June 2019: HK\$3,323,308,000) are revenue of HK\$2,507,881,000 (six months ended 30 June 2019: HK\$1,062,803,000) which arose from two customers (six months ended 30 June 2019: two 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	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Customer A	–	442,443
Customer B (<i>note</i>)	569,610	620,360
Customer C	902,993	–
Customer D	1,604,888	–

Note: The corresponding revenue from Customer B did not contribute over 10% of the total revenue of the Group during the period ended 30 June 2020.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue		
Sales of crude oil and gas	38,746	100,419
Trading and distribution of oil related products	8,122,552	3,323,308
	8,161,298	3,423,727
Other revenue		
Bank interest income	866	1,646
Rental income	237	509
Storage fee income	72	1,590
Others	369	31
	1,544	3,776

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

5. OTHER LOSSES

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Net foreign exchange loss	(12,953)	(978)
Gain/(loss) on disposal of property, plant and equipment	37	(414)
Written off of expired exploration and evaluation assets	(2,118)	–
Fair value change on derivative financial instruments	–	(13,567)
Others	765	(835)
	(14,269)	(15,794)

6. LOSS FROM OPERATING ACTIVITIES

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

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Cost of inventories sold	8,063,522	3,276,440
Depreciation and depletion charge		
– property, plant and equipment	39,875	51,626
– right-of-use assets	1,855	473
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2020 and 2019	761	2,876
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	294	350
Staff costs (including Directors' remuneration):		
– Salaries and wages	24,101	34,597
– Share-based payment expenses	–	327
– Pension scheme contributions	557	1,218

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

7. FINANCE COSTS

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Interest expenses on bank borrowings and secured term loan wholly repayable within five years	19,294	11,044
Interest expenses on convertible bonds	11,852	15,684
Interest expenses on lease liabilities	262	118
Accretion of decommissioning liabilities	1,128	1,593
	32,536	28,439

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 2020 is calculated at 16.5% of estimated assessable profits (six months ended 30 June 2019: 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 People's Republic of China (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 2020 and 2019 respectively.

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Current tax – Hong Kong Profits Tax		
Provision for the period	–	–
Current tax – Outside Hong Kong		
Provision for the period	6,978	6,725
Deferred tax		
Reversal of temporary differences	–	(6,973)
	6,978	(248)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

9. INTERIM DIVIDENDS

The Directors do not recommend the payment of any interim dividends in respect of the six months ended 30 June 2020 (six months ended 30 June 2019: 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	
	2020	2019
	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

(68,630)	(47,091)
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	Six months ended 30 June	
	2020	2019
	'000	'000
	(Unaudited)	(Unaudited)

Number of shares

Weighted average number of ordinary shares for the purpose of basic and diluted loss per share

13,743,954	12,145,573
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Diluted loss per share for the six months ended 30 June 2020 and 2019 were the same as the basic loss per share. The computation of diluted loss per share for the six months ended 30 June 2020 and 2019 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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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 2019 and 1 January 2020 (Audited)	153,945	13,190	12,010	4,226	4,584	3,227,395	113,108	3,528,458
Additions	-	-	269	-	-	7,197	-	7,466
Disposals	-	-	(89)	-	-	(40)	-	(129)
Exchange differences	(2,935)	(251)	(374)	(80)	(26)	(167,662)	(2,165)	(173,493)
At 30 June 2020 (Unaudited)	151,010	12,939	11,816	4,146	4,558	3,066,890	110,943	3,362,302
Accumulated depreciation, depletion and impairment								
At 31 December 2019 and 1 January 2020 (Audited)	34,646	8,508	9,025	2,779	1,176	1,818,667	-	1,874,801
Charge for the period	2,624	570	747	102	702	35,130	-	39,875
Disposal	-	-	(89)	-	-	-	-	(89)
Exchange differences	(656)	(161)	(308)	(52)	(19)	(94,805)	-	(96,001)
At 30 June 2020 (Unaudited)	36,614	8,917	9,375	2,829	1,859	1,758,992	-	1,818,586
Net book value								
At 30 June 2020 (Unaudited)	114,396	4,022	2,441	1,317	2,699	1,307,898	110,943	1,543,716
At 31 December 2019 (Audited)	119,299	4,682	2,985	1,447	3,408	1,408,728	113,108	1,653,657

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

12. INVESTMENT PROPERTIES

	HK\$'000
Fair values	
At 31 December 2019 and 1 January 2020 (Audited)	16,718
Exchange differences	(319)
	<hr/>
At 30 June 2020 (Unaudited)	16,399

The Directors consider that the carrying amount of the investment properties are fairly stated as at 30 June 2020.

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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

13. EXPLORATION AND EVALUATION ASSETS

	HK\$'000
Cost	
At 31 December 2019 and 1 January 2020 (Audited)	12,431,245
Written off	(2,118)
Exchange differences	(851)
	<hr/>
At 30 June 2020 (Unaudited)	12,428,276
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Accumulated impairment	
At 31 December 2019 and 1 January 2020 (Audited) and 30 June 2020 (Unaudited)	12,414,443
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Carrying amount	
At 30 June 2020 (Unaudited)	13,833
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At 31 December 2019 (Audited)	16,802
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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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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 2020.

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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

14. RIGHT-OF-USE ASSETS

The Group entered into a number of lease agreements for use of offices and 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
Cost	
At 31 December 2019 and 1 January 2020 (Audited)	27,067
Exchange differences	(470)
	<hr/>
At 30 June 2020 (Unaudited)	26,597
	<hr/>
Accumulated depreciation and impairment	
At 31 December 2019 and 1 January 2020 (Audited)	2,411
Charge for the period	1,855
Exchange differences	(86)
	<hr/>
At 30 June 2020 (Unaudited)	4,180
	<hr/>
Net book value	
At 30 June 2020 (Unaudited)	22,417
	<hr/>
At 31 December 2019 (Audited)	24,656
	<hr/>

15. INVENTORIES

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

16. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 90 days (31 December 2019: 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 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
0 to 30 days	17,466	168,429
31 to 60 days	64	135
61 to 90 days	11	40
Over 90 days	2,029	2,107
	19,570	170,711

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\$2,029,000 (31 December 2019: HK\$2,107,000) 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 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Over 90 days	2,029	2,107

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Prepayments to suppliers of refined oil products	1,091,526	259,030
Other prepayments	2,535	2,008
Other deposits	810	848
Other receivables	25,681	5,819
	1,120,552	267,705

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 2020 and 31 December 2019. 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 2020 were amounts in Renminbi ("RMB") equivalent to HK\$138,256,000 (31 December 2019: HK\$223,213,000) which are not freely convertible into other currencies.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

19. SHARE CAPITAL

	Number of shares		Share capital	
	30 June 2020 '000	31 December 2019 '000	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Ordinary shares of HK\$0.02 each issued and fully paid:				
At the beginning of the period/year	12,145,573	12,145,573	242,911	242,911
Shares issued upon conversion of convertible bonds (note)	6,189,474	–	123,790	–
At the end of the period/year	18,335,047	12,145,573	366,701	242,911

Note: This represents the shares issued in relation to convertible bonds with aggregate principal amount of US\$60,000,000 which was issued pursuant to a subscription agreement entered into on 12 October 2018. The convertible bonds were fully converted into 6,189,473,684 ordinary shares of HK\$0.02 each at conversion price of HK\$0.076 per share of the Company on 15 May 2020. The new shares rank pari passu with the existing shares in all respects.

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 2020, none of shares in respect of which options had been granted and remained outstanding under the Scheme (31 December 2019: Nil), representing 0% (31 December 2019: 0%) 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 2019: 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 6.6% (31 December 2019: 10%) of the total number of shares in issue as at the date of this interim report.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

20. TRADE AND OTHER PAYABLES

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Trade payables	8,644	150,778
Contract liabilities (<i>note</i>)	737,510	50,860
Other payables	80,546	101,208
	826,700	302,846

Note: Contract liabilities as at 30 June 2020 and 31 December 2019 mainly represented the advance received from customers upon order placement, and were fully recognised as revenue during the period/year when the control over a product was transferred to customer. The Group typically received advance on acceptance of orders. The amount of the advance, if any, was negotiated on a case by case basis with customers.

Contract liabilities of HK\$737,510,000 were recognised as at 30 June 2020 (31 December 2019: HK\$50,860,000) as a result of the receipt of payment during the period/year in advance of the satisfaction of performance obligation, and are expected to be fully recognised as revenue within one year.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
0 to 30 days	7,370	149,099
31 to 60 days	60	734
61 to 90 days	264	–
Over 90 days	950	945
	8,644	150,778

As at 30 June 2020 and 31 December 2019, 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 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Carrying amount repayable within one year or on demand:		
Unsecured bank borrowings (<i>note</i>)	438,480	257,025

Note: As at 30 June 2020, Henan Yanchang Petroleum Sales Co., Limited (“Henan Yanchang”) has drawn down unsecured bank borrowings of RMB400,000,000 (equivalent to HK\$438,480,000) (31 December 2019: RMB230,000,000 (equivalent to HK\$257,025,000)). 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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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.

On 15 May 2020, the aggregate principal amount of US\$60,000,000 convertible bonds were fully converted into 6,189,473,684 ordinary shares of HK\$0.02 each at conversion price of HK\$0.076 per share. The new shares issued rank pari passu with the existing shares in all respects.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

23. LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at 30 June 2020 and 31 December 2019:

	30 June 2020		31 December 2019	
	Present value of the lease payments HK\$'000 (Unaudited)	Total lease payments HK\$'000 (Unaudited)	Present value of the lease payments HK\$'000 (Audited)	Total lease payments HK\$'000 (Audited)
Within 1 year	3,079	3,480	3,077	3,566
After 1 year but within 2 years	3,297	3,535	2,999	3,325
After 2 years but within 5 years	1,420	1,718	3,240	3,623
After 5 years	966	1,085	1,084	1,229
	5,683	6,338	7,323	8,177
	8,762	9,818	10,400	11,743
Less: total future interest expenses		(1,056)		(1,343)
Present value of lease liabilities		8,762		10,400

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

24. SECURED TERM LOAN

On 20 December 2019, Novus Energy Inc. (“Novus”) has drawn down the secured term loan of US\$35,000,000, pursuant to the loan agreement between Novus (as the borrower) and Yanchang Petroleum HK (as the lender) signed on 5 November 2019. The secured term loan denominated in US dollars bears interest rate at 4.8% per annum and repayable in three years.

The secured term loan is secured by a US\$70,000,000 debenture with the following charges: (1) first and fixed charge over all of Novus’ right, title and interest, whether freehold, leasehold or other, under or in respect of the lands, in relation to the properties held by Novus from time to time; (2) a first priority security interest to and over all of Novus’ present and after-acquired personal property (i.e. movable property) from time to time, tangible and intangible, in each case, of every nature and kind and wherever situate and all proceeds thereof; and (3) a floating charge over all of Novus’ property to the extent not otherwise described above (excluding any agreement, right, franchise, intellectual property, license or permit). The secured term loan is subject to a financial covenant that requires Novus to maintain a working capital ratio of at least 1:1. As at 30 June 2020, this ratio was 1.97:1 (31 December 2019: 2.56:1). As at 30 June 2020, the carrying amount of the secured term loan is HK\$269,971,000 (31 December 2019: HK\$271,384,000).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

25. 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).

26. COMMITMENTS

The Group had capital commitments to property, plant and equipment amounted to HK\$1,755,000 (31 December 2019: HK\$1,713,000) which were contracted but not provided for as at 30 June 2020.

27. CONTINGENT LIABILITIES

As at 30 June 2020, the Group had no material contingent liabilities (31 December 2019: Nil).

28. MATERIAL RELATED PARTIES TRANSACTIONS

Save as disclosed elsewhere in the unaudited condensed consolidated financial statements, during the six months ended 30 June 2020, 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:

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

28. MATERIAL RELATED PARTIES TRANSACTIONS (Continued)

Key management personnel

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Salaries and allowance	4,922	4,473
Share-based payment expenses	–	327
Mandatory provident fund contributions	9	11
	4,931	4,811

During the six months ended 30 June 2020, the Group had the following connected transactions with a related party arising from the refined oil supply agreement dated 12 November 2019 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 2022:

Name of related party	Relationship	Nature of transaction	Six months ended 30 June	
			2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Yanchang Petroleum Group	A substantial shareholder	Purchase of refined oil	2,519,982	1,740,005

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

29. IMPACTS OF COVID-19 PANDEMIC

The COVID-19 pandemic since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations and financial position. The Group has been closely monitoring the impact of the development of the epidemic and assess its impact on its operations.

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:	Nil	Nil
Production activities:	Average daily net production Oil: 940 bbls Gas: 1,681 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	759	–	759
Developments costs	7,197	–	7,197
Production costs (<i>note</i>)	27,001	–	27,001

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

The global outbreak and spread of COVID-19 in the first half of 2020 has compelled major economies in the world to lower growth target of their gross domestic products. Meanwhile, disputes between China and the U.S. have not been settled. Global economy is having a rocky road to recovery, and weak demand for crude oil remains. As the market has been facing the most brutal challenges in recent years, the Company's management adopted a series of effective measures under its strategy of "sustaining production at minimum cost and seeking development" in an effort to maintain the value of the Company's assets and protect the interests of its shareholders under adverse circumstances, laying a concrete foundation of the Company for development and placing itself in a better position for growth on course for market recovery.

I. Upstream oil and gas producing business in Canada

Production and operation

In the first half of 2020, Novus achieved an average daily production of 1,220 barrels of equivalent ("BOE"), as compared with an average daily production of 1,792 BOE in the same period last year. Novus has minimized dual impacts of fluctuation of international oil price and the outbreak of COVID-19 through adjusting and optimizing manpower deployment and manhours as well as temporarily closing some "Viking" play wells and some "Success" play wells with poor productivity performance with an aim to maintain stable and high efficient operation of Novus. Operating expenses for the first half of 2020 decreased by Canadian dollar ("CAD")1 million from that for the same period last year. With various subsidy and assistance measures implemented by Canadian government, Novus has received a subsidy of CAD216,000 as at the date of this report, and a subsidy of CAD230,000 is expected to received in the second half of this year.

Transportation and sales

In response to adverse impacts of a meltdown in oil price and its considerable fluctuation in the first half of 2020, Novus has developed a flexible sales strategy by leveraging the benefit of its own storage capacity, to upward or downward adjust its oil inventory subject to local selling price of crude oil. Novus has further reduced transportation cost by entering into new contracts with pipe transportation companies, it is expected that transportation cost of Novus will be cut down by CAD1.1 million for the period from May 2020 to May 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS (Continued)

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

Exploration and development

Novus made a stable progress in exploration business in the first half of 2020, and it completed a technology assessment for land bidding with an area of 189 square kilometers and successfully renewed mining rights of 29.11 square kilometers during the period, on-going optimization of deployment of mining rights will maintain momentum for development in the future.

II. Downstream oil products trading business in the PRC

(i) Refined oil business of Henan Yanchang

Sales and operation

Accumulated refined oil sales of Henan Yanchang in the first half of 2020 recorded 2,490,000 tonnes, the operating revenue was RMB7.33 billion with total profit of RMB9.31 million. Recovery of receivables was 100%. Integrated controls on production and financial operations have been conducted in a safe and efficient manner with no accidents reported.

The spread of COVID-19 and the plunge in international oil price in the first half of 2020 have struck an unprecedented blow to oil industry. Facing the arduous challenges, Henan Yanchang has adopted a series of effective measures to respond to the situation hard hit by low oil price, resulting in outstanding performance by fulfilling sales target initially set.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS (Continued)

II. Downstream oil products trading business in the PRC (Continued)

(i) *Refined oil business of Henan Yanchang* (Continued)

Putting more effort in market expansion and customer exploration

Since the beginning of 2020, marketing team of Henan Yanchang has paid a great number of visits to Ningxia, Guangdong, Jiangsu, Yunnan, Hunan and Shenzhen in an effort to explore market potential and vigorously broaden new customer base. Business has been expanded to regions beyond Henan Province by further expanding geographical coverage of its sales network with a focus on the expansion towards south-west and north-west of China. Nearly 200 new customers have been acquired in total in the first half of 2020.

Securely building up oil depot network

Firstly, Henan Yanchang has entered into a strategic cooperation with a partner to operate an oil depot in Ningxia for expanding wholesale and trading of refined oil business, substantially developing the north-west market. Secondly, Henan Yanchang intends to expand its network of terminal gas stations in Ningxia by leveraging the strategic cooperative oil depot. At present, it signs a letter of intent for cooperation with a newly-built local gas station. In addition, Henan Yanchang has actively conducted negotiation with 4 local gas stations in Ningxia in an attempt to establish cooperation relationship. Thirdly, Henan Yanchang has initially confirmed with intent for cooperation with 3 gas stations in Zhoukou, Henan.

(ii) *Other oil products trading business*

The Group has established oil products trading companies in Zhoushan, Zhejiang and Shenzhen, China, respectively, for expanding its oil products trading business which will become a new profit driver. Initial achievement has been obtained in the first half of 2020 with aggregate sales revenue of RMB109 million and a total profit of RMB8.96 million.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS (Continued)

III. Financing

On 15 May 2020, Yanchang Petroleum Group exercised the conversion rights attached to the convertible bonds previously subscribed through Yanchang Petroleum HK, its direct wholly-owned subsidiary, to convert the convertible bonds with a principal amount of US\$60 million at a conversion price of HK\$0.076 per share. Conversion of the convertible bonds by Yanchang Petroleum HK at a high premium represents financial and strategic support to the Company offered by the parent company. In particular, against the backdrop of the impacts of the global COVID-19 pandemic, economic downward pressure and wide fluctuation of international oil price, the support will improve and consolidate the capital structure of the Company. Following the conversion, annual interest payment of the Company will be cut by US\$3.60 million, which would significantly release its financial pressure and improve its liquidity.

The Company has actively approached domestic and international funds and banks as well as potential investors for seeking financing cooperation, in order to support the development of the Group. At present, the Company is exploring all possibilities to further improve the capital structure and financial position of the Company.

IV. OUTLOOK

In the second half of 2020, the COVID-19 may subsist and spread further globally. Also, Sino-US tensions will continue. The Company remains cautious about demand for crude oil in the second half of 2020. The Company will stay alert at all time and determinedly implement cost effective and performance enhancement measures to maximize the value of the Company's assets and protect the interests of its shareholders.

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 2020, the Group's turnover was mainly derived from the production of crude oil and natural gas in Canada as well as the trading of oil products 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 222,019 BOE and contributed production income of HK\$38,746,000 during the period under review, as compared to production of 324,343 BOE and production income of HK\$100,419,000 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\$40,116,000 recorded for the exploration, exploitation and operation business for the six months ended 30 June 2020, as compared to an operating loss of HK\$26,034,000 for the previous period.

During the six months ended 30 June 2020, the revenue of oil products trading business in the PRC was HK\$8,122,552,000 as compared to HK\$3,323,308,000 of the previous period. Resulting from the higher sales volume from the previous period of 1.65 million tonnes to the current period of 2.57 million tonnes, that contributed an operating profit of HK\$35,918,000 to the supply and procurement business, as compared to an operating profit of HK\$22,191,000 of the previous period.

Other revenue

Apart from the aforesaid segment results, other revenue of HK\$1,544,000 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\$2,232,000 from HK\$3,776,000 of the previous period.

Purchases

Purchases increased from the previous period of HK\$3,276,440,000 to this period of HK\$8,063,522,000, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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\$13,120,000 to the current period of HK\$5,332,000 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\$27,001,000 this period from the previous period of HK\$35,911,000. 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\$759,000 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 were mainly incurred by Henan Yanchang for the refined oil trading business in the PRC, and the expenses in this period was substantially in line with that in the same period last year.

Administrative expenses

Administrative expenses including Directors' remuneration, staff costs, office rentals, professional fees, business development expenses and listing fee etc, decreased by HK\$15,769,000 to HK\$26,493,000 for the period under review.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation expenses decreased from the previous period of HK\$52,328,000 to the current period of HK\$41,730,000. 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 in Canada during the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Other losses

Other losses of HK\$14,269,000 represented the aggregate of (i) net foreign exchange loss of HK\$12,953,000; (ii) written off of expired exploration and evaluation assets of HK\$2,118,000, after offsetting (iii) gain on disposal of property, plant and equipment of HK\$37,000; and (iv) other gain of HK\$765,000.

Finance costs

Finance costs amounted to HK\$32,536,000 comprised (i) bank borrowing costs of HK\$12,505,000 related to the businesses of Henan Yanchang and interest of the secured term loan drawn down by Novus of HK\$6,789,000; (ii) accretion of HK\$1,128,000 related to the provision of the decommissioning liabilities incurred by Novus; (iii) imputed interest on convertible bonds of HK\$11,852,000 arisen from the issue of 2-year convertible bonds with a principal amount of US\$60,000,000; and (iv) imputed interest of lease liabilities of HK\$262,000 related to the leases of the Group.

Taxation

Taxation of HK\$6,978,000 represented the provision for the PRC corporate income tax on the profit earned from oil products trading business in the PRC.

Loss for the period

Compared to a loss for the last period of HK\$43,103,000, a loss of HK\$61,530,000 was recorded for the period under review. The loss is mainly attributable to the loss of the oil and gas production business in Canada due to the depressed oil prices as a result of the slowing global demand caused by the outbreak and spread of COVID-19.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

The Group funded its operation mainly by its internal resources together with bank borrowings and secured term loan for the six months ended 30 June 2020.

The Group had outstanding variable interest rates bank borrowings amounted to HK\$438,480,000 as at 30 June 2020 (31 December 2019: HK\$257,025,000) under Henan Yanchang. The Group has obtained bank facilities of HK\$493,290,000 (equivalent to RMB450,000,000) from various banks in the PRC.

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 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.

On 15 May 2020, the aggregate principal amount of US\$60,000,000 convertible bonds were fully converted into 6,189,473,684 ordinary shares of HK\$0.02 each at conversion price of HK\$0.076 per share. The new shares issued pari passu with the existing shares in all respects.

Secured term loan has been offered to Novus by Yanchang Petroleum HK for general working capital. On 20 December 2019, Novus drew down an amount of US\$35,000,000 of the secured term loan with interest rate of 4.8% per annum payable in three years.

As at 30 June 2020, the Group had cash and bank balances of HK\$196,070,000 (31 December 2019: HK\$298,688,000). 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 total liabilities as a percentage of total equity, was 116.8% (31 December 2019: 132.8%). The current ratio of the Group, measured on the basis of current assets as a percentage of current liabilities stood at 114.7% as at 30 June 2020 (31 December 2019: 74.4%).

MANAGEMENT DISCUSSION AND ANALYSIS

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 2020.

SIGNIFICANT INVESTMENT

The Group did not hold any significant investments as at 30 June 2020.

CAPITAL COMMITMENT

The Group had capital commitments to property, plant and equipment amounted to HK\$1,755,000 (31 December 2019: HK\$1,713,000) which were contracted but not provided for as at 30 June 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

PLEDGE OF ASSETS

US\$35,000,000 secured term loan granted by Yanchang Petroleum HK available to Novus, is secured by the debenture of US\$70,000,000 with first and fixed charge over all of Novus' right, title and interest, with floating charge over all assets of Novus.

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

CONTINGENT LIABILITY

As at 30 June 2020, the Group had no material contingent liabilities (31 December 2019: Nil).

LITIGATION

As at 30 June 2020, the Group had no material litigations (31 December 2019: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2020, the Group's total number of staff was 173 (31 December 2019: 163). Salaries of employees are maintained at a competitive level with total staff costs for the six months ended 30 June 2020 amounted to HK\$24,658,000 (six months ended 30 June 2019: HK\$36,142,000). 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 2020 and 2019.

INTERIM DIVIDENDS

The Board does not recommend the payment of interim dividends for the six months ended 30 June 2020 and 2019.

OTHER INFORMATION

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 30 June 2020, 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	0.003%
Dr. Mu Guodong ("Dr. Mu")	Personal interest and interest of spouse (note)	Long position	300,000	0.002%

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

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 2020 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 2019 of the Company.

As at 30 June 2020, none of shares in respect of which options had been granted and remained outstanding under the scheme (31 December 2019: Nil), representing 0% (31 December 2019: 0%) of the total number of the Shares of the Company in issue at that date.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2020, 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)	Interest of controlled corporation	Long position	12,686,203,231	69.19%
Yanchang Petroleum HK (note)	Directly owned	Long position	12,686,203,231	69.19%

Note: Yanchang Petroleum Group beneficially held these 12,686,203,231 shares through its direct wholly-owned subsidiary, Yanchang Petroleum HK.

Out of these 12,686,203,231 shares, 6,189,473,684 shares were issued on 15 May 2020. On 15 May 2020, the aggregate principal amount of US\$60,000,000 convertible bonds were fully converted into 6,189,473,684 ordinary shares of HK\$0.02 each at the conversion price of HK\$0.076 per share pursuant to a subscription agreement entered into on 12 October 2018.

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 2020.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2020, 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 2020, except for the following deviation:

1. 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. Bruno Guy Charles 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.
2. code provision A.6.7 of the CG Code provides that independent non-executive Directors and other non-executive Directors should also attend general meetings and develop a balanced understanding of the views of shareholders. One of the independent non-executive Directors, Mr. Ng Wing Ka was unable to attend the annual general meeting ("AGM") of the Company held on 5 June 2020 due to other ad hoc engagements.
3. code provision E.1.2 of the CG Code provides that the chairman of the board should attend the annual general meeting. He should also invite the chairman of the audit, remuneration, nomination and any other committees (as appropriate) to attend. The chairman of the Board, Mr. Li Yi was unable to attend the AGM due to the impact of the COVID-19 pandemic. Besides, the chairman of the nomination committee, Mr. Ng Wing Ka was unable to attend the AGM due to other ad hoc engagements.

OTHER INFORMATION

AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) currently comprises 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 2020.

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 12 November 2019 (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 2022. Further details of the transactions are included in note 28 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

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 2020.

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

Hong Kong, 27 August 2020