



延長石油國際有限公司

YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 00346



2022 INTERIM REPORT

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Feng Yinguo (*Chairman*)

Mr. Zhang Jianmin

Mr. Ding Jiasheng

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. Feng Yinguo

NOMINATION COMMITTEE

Mr. Ng Wing Ka (*Chairman*)

Mr. Sun Liming

Mr. Feng Yinguo

AUTHORISED REPRESENTATIVES

Mr. Feng Yinguo

Mr. Law Hing Lam

AUDITORS

BDO Limited

Public Interest Entity Auditor registered in
accordance with the Financial Reporting
Council Ordinance

Certified Public Accountants

25th Floor, Wing On Centre

111 Connaught 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

17/F, Far East Finance Centre

16 Harcourt Road

Hong Kong

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited

Industrial and Commercial Bank of China (Asia)
Limited

China Construction Bank (Asia) Corporation
Limited

China Mengsheng Banking Corporation Limited

Shanghai Pudong Development Bank Co., Limited

Bank of China Limited

National Bank of Canada

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Lee Garden One

33 Hysan Avenue

Causeway Bay

Hong Kong

STOCK CODE

00346

WEBSITE

www.yanchanginternational.com

The board (the “Board”) of directors (the “Directors”) of Yanchang Petroleum International Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2022 together with the unaudited comparative figures for the six months ended 30 June 2021 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	Notes	Six months ended 30 June	
		2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Revenue	4	9,336,236	10,208,266
Other revenue	4	6,401	5,128
		9,342,637	10,213,394
Expenses			
Purchases		(9,079,141)	(10,007,551)
Royalties		(28,242)	(7,862)
Field operation expenses		(37,816)	(30,086)
Exploration and evaluation expenses		(1,418)	(1,186)
Selling and distribution expenses		(83,207)	(38,219)
Administrative expenses		(42,676)	(38,578)
Depreciation, depletion and amortisation		(62,998)	(36,417)
Other losses and gains	5	(8,192)	5,917
		(9,343,690)	(10,153,982)
(Loss)/profit from operating activities	6	(1,053)	59,412
Finance costs	7	(24,717)	(37,473)
(Loss)/profit before taxation		(25,770)	21,939
Taxation	8	(10,061)	(9,856)
(Loss)/profit for the period		(35,831)	12,083

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	Notes	Six months ended 30 June	
		2022	2021
		(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		(23,138)	13,801
Other comprehensive income for the period, with nil tax effect		(23,138)	13,801
Total comprehensive income for the period		(58,969)	25,884
Profit/(loss) for the period attributable to:			
Owners of the Company		6,435	3,893
Non-controlling interests		(42,266)	8,190
		(35,831)	12,083
Total comprehensive income for the period attributable to:			
Owners of the Company		(11,044)	16,755
Non-controlling interests		(47,925)	9,129
		(58,969)	25,884
Earnings per share attributable to the owners of the Company			
Basic and diluted, HK cents	10	0.04	0.02

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

		30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	1,516,749	1,480,631
Investment properties	12	14,420	17,890
Exploration and evaluation assets	13	6,687	592
Right-of-use assets	14	92,145	94,334
Goodwill and intangible asset		58,149	58,149
Other non-current assets		1,500	2,000
		1,689,650	1,653,596
Current assets			
Inventories	15	863,575	460,653
Trade receivables	16	1,481,665	664,890
Prepayments, deposits and other receivables	17	1,365,301	1,335,434
Restricted cash		339,798	–
Cash and bank balances	18	476,964	394,132
		4,527,303	2,855,109
Total assets		6,216,953	4,508,705
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital	19	366,701	366,701
Reserves		658,622	669,666
Total equity attributable to the owners of the Company		1,025,323	1,036,367
Non-controlling interests		83,152	131,077
Total equity		1,108,475	1,167,444

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

		30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
LIABILITIES			
Current liabilities			
	20	3,978,496	2,198,499
	21	6,054	5,270
		3,689	5,204
	22	412,333	427,350
	23	274,214	270,298
		4,674,786	2,906,621
Non-current liabilities			
		171,319	169,863
	21	77,857	79,643
		11,816	12,434
	23	172,700	172,700
		433,692	434,640
Total liabilities		5,108,478	3,341,261
Total equity and liabilities		6,216,953	4,508,705
Net current liabilities		(147,483)	(51,512)
Total assets less current liabilities		1,542,167	1,602,084

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	Attributable to owners of the Company									
	Reserves							Sub-total	Non-controlling interests	Total
	Share capital	Share premium	Contribution surplus	Exchange reserve	Statutory reserve	Other reserve	Accumulated losses			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2021 (Audited)	366,701	2,115,311	6,400,652	(310,677)	32,399	3,387	(7,936,648)	304,424	130,011	801,136
Profit for the period	-	-	-	-	-	-	3,893	3,893	8,190	12,083
Other comprehensive income for the period	-	-	-	12,862	-	-	-	12,862	939	13,801
Total comprehensive income for the period	-	-	-	12,862	-	-	3,893	16,755	9,129	25,884
Transfer of reserves	-	-	-	-	(9,547)	1,714	7,833	-	-	-
At 30 June 2021 (Unaudited)	366,701	2,115,311	6,400,652	(297,815)	22,852	5,101	(7,924,922)	321,179	139,140	827,020
At 1 January 2022 (Audited)	366,701	2,115,311	6,400,652	(289,442)	24,544	2,834	(7,584,233)	669,666	131,077	1,167,444
Profit/(loss) for the period	-	-	-	-	-	-	6,435	6,435	(42,266)	(35,831)
Other comprehensive income for the period	-	-	-	(17,479)	-	-	-	(17,479)	(5,659)	(23,138)
Total comprehensive income for the period	-	-	-	(17,479)	-	-	6,435	(11,044)	(47,925)	(58,969)
Transfer of reserves	-	-	-	-	-	1,693	(1,693)	-	-	-
At 30 June 2022 (Unaudited)	366,701	2,115,311	6,400,652	(306,921)	24,544	4,527	(7,579,491)	658,622	83,152	1,108,475

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Cash flows from operating activities		
Cash generated from/(used in) operations	240,326	(151,234)
Interest received	1,940	2,928
Tax paid	(16,282)	(9,076)
Net cash generated from/(used in) operating activities	225,984	(157,382)
Cash flows from investing activities		
Payment for exploration and evaluation assets	(6,140)	–
Payment for property, plant and equipment	(105,884)	(29,947)
Net cash used in investing activities	(112,024)	(29,947)
Cash flows from financing activities		
Net cash (outflows)/inflows from bank borrowings	(7,210)	36,246
Other cash outflows from financing activities	(14,298)	(39,325)
Net cash used in financing activities	(21,508)	(3,079)
Net increase/(decrease) in cash and cash equivalents	92,452	(190,408)
Cash and cash equivalents at the beginning of the period	394,132	436,084
Effect of exchange rate changes	(9,620)	5,440
Cash and cash equivalents at the end of the period	476,964	251,116

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

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 2021 as contained in the Company’s annual report 2021 (the “Annual Report 2021”), 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 26 August 2022.

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 2022 are consistent with those followed in the preparation of the Annual Report 2021 except for the impact of the adoption of the new or amended HKFRSs.

In the current period, the Group has applied, for the first time, a number of the new or amended revised HKFRSs issued by the HKICPA which are effective for the Group’s financial period beginning 1 January 2022. A summary of the new or amended HKFRSs are set out as below:

- Annual Improvements to HKFRSs 2018–2020
- Amendments to HKAS 16, Proceeds before Intended Use

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Amendments to HKAS 37, Onerous Contracts – Cost of Fulfilling a Contract
- Amendments to HKFRS 3, Reference to the Conceptual Framework

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

The following new or amended HKFRSs, potentially relevant to the Group's unaudited condensed consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

- Amendments to HKAS 1, Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause¹
- Amendments to HKAS 1 and HKFRS Practice Statement 2, Disclosure of Accounting Policies¹
- Amendments to HKAS 8, Definition of Accounting Estimates¹
- Amendments to HKAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction¹
- Amendments to HKFRS 10 and HKAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture²

¹ Effective for annual periods beginning on or after 1 January 2023.

² The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

3. SEGMENT INFORMATION

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

- the exploration, exploitation and operation business segment involves oil and gas exploration, exploitation, sale and operation; and
- 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					
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	205,222	75,287	9,131,014	10,132,979	9,336,236	10,208,266
Segment profit/(loss)	69,126	1,055	(59,747)	55,670	9,379	56,725
Other revenue					6,401	5,128
Net foreign exchange (loss)/gain					(7,252)	7,612
Unallocated corporate expenses					(9,581)	(10,053)
(Loss)/profit from operating activities					(1,053)	59,412
Finance costs					(24,717)	(37,473)
(Loss)/profit before taxation					(25,770)	21,939
Taxation					(10,061)	(9,856)
(Loss)/profit for the period					(35,831)	12,083

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

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 2022 and 2021.

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

Segment assets and liabilities

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

	Exploration, exploitation and operation		Supply and procurement		Consolidated	
	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Segment assets	1,421,347	1,379,631	4,781,215	3,113,345	6,202,562	4,492,976
Unallocated assets					14,391	15,729
Total assets					6,216,953	4,508,705
Segment liabilities	681,517	676,923	4,419,374	2,658,103	5,100,891	3,335,026
Unallocated liabilities					7,587	6,235
Total liabilities					5,108,478	3,341,261

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

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\$9,131,014,000 (six months ended 30 June 2021: HK\$10,132,979,000) are revenue of HK\$3,487,931,000 (six months ended 30 June 2021: HK\$4,058,856,000) which arose from two customers (six months ended 30 June 2021: 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	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Customer A	2,098,286	2,400,185
Customer B (note 1)	1,389,645	728,167
Customer C (note 2)	–	1,658,671

Note:

- 1 The corresponding revenue from Customer B did not contribute over 10% of the total revenue of the Group during the period ended 30 June 2021.
- 2 The corresponding revenue from Customer C did not contribute over 10% of the total revenue of the Group during the period ended 30 June 2022.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

4. REVENUE AND OTHER REVENUE

Revenue represents the net invoiced value of goods sold which are recognised under point in time under HKFRS 15. All significant intra-group transactions have been eliminated on consolidation.

The Group considers the indicators under the transfer-of-control approach in 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, while 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	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue		
Sales of crude oil and gas	205,222	75,287
Trading and distribution of oil related products	9,131,014	10,132,979
	9,336,236	10,208,266
Other revenue		
Bank interest income	1,940	2,928
Rental income	309	258
Others	4,152	1,942
	6,401	5,128

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

5. OTHER LOSSES AND GAINS

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Net foreign exchange (loss)/gain	(7,252)	7,612
Others	(940)	(1,695)
	(8,192)	5,917

6. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

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

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Cost of inventories sold	9,079,141	10,007,551
Depreciation and depletion charge:		
– property, plant and equipment	59,212	32,494
– right-of-use assets	3,786	3,923
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2022 and 2021	40,085	752
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	994	266
Staff costs (including Directors' remuneration):		
– Salaries and wages	38,982	33,776
– Pension scheme contributions	2,345	2,175

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

7. FINANCE COSTS

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Interest expenses on bank borrowings and secured term loans wholly repayable within five years	21,258	34,072
Interest expenses on lease liabilities	2,043	2,204
Accretion expenses of decommissioning liabilities	1,416	1,197
	24,717	37,473

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 2022 is calculated at 16.5% of estimated assessable profits (six months ended 30 June 2021: 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 25% and 25% for the six months ended 30 June 2022 and 2021 respectively.

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Current tax – Hong Kong Profits Tax		
Provision for the period	–	–
Current tax – Outside Hong Kong		
Provision for the period	10,061	9,113
Deferred tax		
Origination of temporary differences	–	743
	10,061	9,856

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

9. INTERIM DIVIDENDS

The Directors do not recommend the payment of any interim dividends in respect of the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

10. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000

Profit

Profit for the period attributable to the owners of the Company for the purpose of basic and diluted earnings per share

6,435	3,893
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	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	'000	'000

Number of shares

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

18,335,047	18,335,047
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Diluted earnings per share for the six months ended 30 June 2022 and 2021 were the same as the basic earnings per share as the Company had no dilutive potential ordinary shares in existence during the six months ended 30 June 2022 and 2021.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

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 2021 and 1 January 2022 (Audited)	190,606	17,525	15,992	5,764	7,070	3,588,694	123,981	3,949,632
Additions	-	-	317	9	-	105,558	-	105,884
Transfer from investment property (note 12)	2,696	-	-	-	-	-	-	2,696
Eliminated on written off	-	-	(76)	-	-	-	-	(76)
Exchange differences	(8,270)	(759)	(502)	(250)	(117)	(29,963)	(5,395)	(45,256)
At 30 June 2022 (Unaudited)	185,032	16,766	15,731	5,523	6,953	3,664,289	118,586	4,012,880
Accumulated depreciation, depletion and impairment								
At 31 December 2021 and 1 January 2022 (Audited)	57,179	11,789	12,956	3,615	5,103	2,316,553	61,806	2,469,001
Charge for the period	3,492	606	798	289	1,115	52,912	-	59,212
Eliminated on written off	-	-	(76)	-	-	-	-	(76)
Exchange differences	(2,484)	(512)	(383)	(156)	(54)	(25,737)	(2,680)	(32,006)
At 30 June 2022 (Unaudited)	58,187	11,883	13,295	3,748	6,164	2,343,728	59,126	2,496,131
Net book value								
At 30 June 2022 (Unaudited)	126,845	4,883	2,436	1,775	789	1,320,561	59,460	1,516,749
At 31 December 2021 (Audited)	133,427	5,736	3,036	2,149	1,967	1,272,141	62,175	1,480,631

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

12. INVESTMENT PROPERTIES

	HK\$'000
Fair values	
At 31 December 2021 and 1 January 2022 (Audited)	17,890
Transfer to property, plant and equipment (<i>note 11</i>)	(2,696)
Exchange differences	(774)
	<hr/>
At 30 June 2022 (Unaudited)	14,420

The Directors consider that the carrying amount of the investment properties are fairly stated as at 30 June 2022.

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 2022

13. EXPLORATION AND EVALUATION ASSETS

	HK\$'000
Cost	
At 31 December 2021 and 1 January 2022 (Audited)	12,429,080
Additions	6,140
Exchange differences	(45)
	<u>12,435,175</u>
At 30 June 2022 (Unaudited)	12,435,175
Accumulated impairment	
At 31 December 2021 and 1 January 2022 (Audited) and 30 June 2022 (Unaudited)	<u>12,428,488</u>
Carrying amount	
At 30 June 2022 (Unaudited)	<u>6,687</u>
At 31 December 2021 (Audited)	<u>592</u>

The exploration and evaluation assets represent (i) the unproved properties and capitalised exploration, drilling and completion costs which are pending the determination of commercial viability in Canada ("E&E in Canada"); and (ii) the oil and gas exploration, exploitation and operation rights and profit sharing rights at the Exploration Block 2104 and the Exploration Block 3113 ("Two Exploration Blocks") in Madagascar, onshore sites for oil and gas exploration, exploitation and operation, together with the expenditure paid for provision of services on activities relating to evaluation of the technical feasibility and commercial viability of extracting oil and gas in the Two Exploration Blocks in Madagascar.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

13. EXPLORATION AND EVALUATION ASSETS (Continued)

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 2022.

The Group is required to assess at the end of each reporting period any indication 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.

Impairment test – E&E in Canada

The Group assessed E&E in Canada for any indication of impairment due to industry pricing fundamentals. Based on recent land sales and future drilling plans, there was no impairment loss or reversal of impairment recognised for the year ended 31 December 2021 and the period ended 30 June 2022.

Impairment test – Two Exploration Blocks

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.

The Two Exploration Blocks in Madagascar were fully impaired during the year ended 31 December 2016. In November 2017, the rights to explore in the Two Exploration Blocks were expired. There was no impairment loss or reversal of impairment recognised for the year ended 31 December 2021 and the period ended 30 June 2022.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

14. RIGHT-OF-USE ASSETS

The Group entered into a number of lease agreements for use of offices and gas stations, the leases of offices and gas stations contain minimum annual lease payment terms that are fixed.

	HK\$'000
Cost	
At 31 December 2021 and 1 January 2022 (Audited)	109,231
Additions	5,620
Exchange differences	(4,473)
	<u>110,378</u>
At 30 June 2022 (Unaudited)	<u>110,378</u>
Accumulated depreciation	
At 31 December 2021 and 1 January 2022 (Audited)	14,897
Charge for the period	3,786
Exchange differences	(450)
	<u>18,233</u>
At 30 June 2022 (Unaudited)	<u>18,233</u>
Net book value	
At 30 June 2022 (Unaudited)	<u>92,145</u>
At 31 December 2021 (Audited)	<u>94,334</u>

15. INVENTORIES

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

16. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 90 days (31 December 2021: 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 ageing analysis of trade receivables presented based on the invoice dates at the end of the reporting period:

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
0 to 30 days	1,040,302	597,539
31 to 60 days	2,878	64,151
61 to 90 days	9,142	1,402
Over 90 days	429,343	1,798
	1,481,665	664,890

As at 30 June 2022, trade receivables of HK\$429,343,000 (31 December 2021: HK\$1,798,000) were past due but not impaired. These related to a number of independent customers for whom there was no recent history of default. The Directors believe that no loss allowance is necessary in respect of these balances as there has not been a change in credit quality of these debtors and the balances are still considered recoverable. Once so far evidence to demonstrate such trade receivables customers not to settle the outstanding receivables or indicate any recoverability issues, the Group will seek legal advice for the legal actions against such customers. The Group does not hold any collaterals or other credit enhancements over these balances.

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

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Over 90 days	429,343	1,798

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Prepayments to suppliers of refined oil and by-products	1,335,017	1,289,698
Other prepayments	11,130	17,541
Other deposits	1,728	1,035
Other receivables	17,426	27,160
	1,365,301	1,335,434

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 2022 and 31 December 2021. 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 2022 were amounts in Renminbi ("RMB") equivalent to HK\$761,427,000 (31 December 2021: HK\$321,718,000) which are not freely convertible into other currencies.

As at 30 June 2022, bank balance of HK\$339,798,000 (equivalent to RMB290,078,000) has been frozen by relevant court orders in respect of certain pending litigations against the Company's 51% indirectly owned subsidiary, namely Yanchang Petroleum (Zhejiang FTZ) Limited ("Yanchang Zhejiang").

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

19. SHARE CAPITAL

Number of shares		Share capital	
30 June 2022	31 December 2021	30 June 2022 (Unaudited)	31 December 2021 (Audited)
'000	'000	HK\$'000	HK\$'000
Ordinary shares of HK\$0.02 each Issued and fully paid:			
At the beginning of the period/year, and at the end of the period/year			
18,335,047	18,335,047	366,701	366,701

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 expired during the period ended 30 June 2022 and a new share option scheme (the "New Scheme") was adopted on 27 May 2022, unless otherwise cancelled or amended, will remain in force for ten years from that date.

As at 30 June 2022, none of shares in respect of which options had been granted and remained outstanding under the Scheme or the New Scheme (31 December 2021: Nil), representing 0% (31 December 2021: 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 New Scheme of the Company is 1,833,504,673 (31 December 2021: 684,557,304) shares (being not more than 10% of the total number of the shares in issue as at the date of adoption of the New Scheme), representing 10.0% (31 December 2021: 3.7%) 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 2022

20. TRADE AND OTHER PAYABLES

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Trade payables	1,881,863	315,589
Contract liabilities (note)	1,883,147	1,565,757
Other payables	213,486	317,153
	3,978,496	2,198,499

Note: Contract liabilities as at 30 June 2022 and 31 December 2021 mainly represented the advance received from customers upon order placement, and were fully recognised as revenue during the 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\$1,883,147,000 were recognised as at 30 June 2022 (31 December 2021: HK\$1,565,757,000) 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.

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

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
0 to 30 days	1,409,019	242,785
31 to 60 days	314,600	34,126
61 to 90 days	27,645	850
Over 90 days	130,599	37,828
	1,881,863	315,589

As at 30 June 2022 and 31 December 2021, the trade payables are non-interest bearing and have an average credit period on purchases of one to three months.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

21. LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at 30 June 2022 and 31 December 2021:

	30 June 2022		31 December 2021	
	Present value of the lease payments (Unaudited) HK\$'000	Total lease payments (Unaudited) HK\$'000	Present value of the lease payments (Audited) HK\$'000	Total lease payments (Audited) HK\$'000
Within 1 year	6,054	10,169	5,270	9,388
After 1 year but within 2 years	5,816	9,649	3,987	7,915
After 2 years but within 5 years	13,125	22,952	11,943	22,469
After 5 years	58,916	78,211	63,713	85,441
	77,857	110,812	79,643	115,825
	83,911	120,981	84,913	125,213
Less: total future interest expenses		(37,070)		(40,300)
Present value of lease liabilities		83,911		84,913

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

22. BANK BORROWINGS

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

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Carrying amount repayable within one year or on demand:		
Unsecured bank borrowings (<i>note</i>)	412,333	427,350

Note: As at 30 June 2022, Henan Yanchang Petroleum Sales Co., Limited (“Henan Yanchang”) has drawn down unsecured bank borrowings of RMB352,000,000 (equivalent to HK\$412,333,000) (31 December 2021: RMB349,000,000 (equivalent to HK\$427,350,000)). 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 2022

23. SECURED TERM LOANS

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 Group (Hong Kong) Co., Limited (“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 relevant 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 relevant 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 2022, this ratio was 0.27:1 (31 December 2021: 0.31:1). The Group did not fulfil the financial covenant as required in the loan agreement, the lender is contractually entitled to request immediate repayment. The relevant secured term loan is presented as a current liability as at 30 June 2022 and 31 December 2021.

On 3 September 2021, the Company drew down a secured term loan of US\$22,000,000, pursuant to the loan agreement between the Company and Yanchang Petroleum HK signed on 30 June 2021. The relevant secured term loan denominated in US dollars bears interest rate at 4.8% per annum and repayable in three years.

The relevant secured term loan is secured by 350 ordinary shares of Sino Union Energy International Limited (“Sino Union Energy”) (representing 35% of the issued share capital of Sino Union Energy which is a direct wholly-owned subsidiary of the Company) under the share charge deed pursuant to which the Company agreed to provide a guarantee in favour of Yanchang Petroleum HK that the Company shall procure on the best effort basis the carrying valuation of Henan Yanchang will be not less than US\$104,800,000.

As at 30 June 2022, the carrying amount of the secured term loans are HK\$446,914,000 (31 December 2021: HK\$442,998,000).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

24. 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).

25. CAPITAL COMMITMENTS

The Group had capital commitments to property, plant and equipment amounted to HK\$5,311,000 (31 December 2021: HK\$4,144,000) which were contracted but not provided for as at 30 June 2022.

26. CONTINGENT LIABILITIES

As at 30 June 2022, the Group had contingent liabilities approximately RMB493,419,000 (equivalent to HK\$578,336,000) (31 December 2021: HK\$ Nil) arising from the disputed claims against the Company's 51% indirectly owned subsidiary, namely Yanchang Zhejiang, for processing fees, purchase procurement fees and relevant costs and interests.

27. LITIGATION

Yanchang Zhejiang is a party to a number of pending litigations incidental to its business, it faces exposure from actual or potential claims. Up to the date of this report, claims were made by various plaintiffs against Yanchang Zhejiang for processing fees, purchase procurement fees, transportation fees, purchases amounts and relevant costs and interests of approximately RMB760,028,000 (equivalent to HK\$890,829,000) in aggregate. The assets of Yanchang Zhejiang in the amount of RMB457,863,000 (equivalent to HK\$536,661,000) have been frozen by relevant court orders.

Please refer to the Company's announcements dated 2 June 2022, 9 June 2022, 8 July 2022, 22 July 2022, 3 August 2022, 12 August 2022 and 19 August 2022 for further details of the litigations.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

28. MATERIAL RELATED PARTIES TRANSACTIONS

Save as disclosed elsewhere in the unaudited condensed consolidated financial statements, during the six months ended 30 June 2022, 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	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Salaries, bonus and allowance	7,076	4,219
Pension Scheme contributions	203	18
	7,279	4,237

Purchases and sales of refined oil and by-products

Relationship	Nature of transactions	Six months ended 30 June	
		2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Ultimate holding company	Purchases of refined oil (note 1)	5,290,100	2,468,281
Fellow associates	Sales of refined oil (note 2)	26,924	26,896
Fellow subsidiaries	Sales of refined oil and by-products (note 2)	6,115	1,167

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

28. MATERIAL RELATED PARTIES TRANSACTIONS (Continued)

Purchases and sales of refined oil and by-products (Continued)

Notes:

- (1) During the six months ended 30 June 2022, the Group had connected transactions with ultimate holding company arising from the refined oil supply agreement dated 12 November 2019 and the supplemental agreement to the supply agreement dated 30 September 2020 entered into between Henan Yanchang and Yanchang Petroleum Group in respect of the purchases of refined oil from Yanchang Petroleum Group by Henan Yanchang for the three years ending 31 December 2022.
- (2) During the six months ended 30 June 2022, the Group had connected transactions with a fellow associate and a fellow subsidiary arising from the sales of refined oil and by-products. Henan Yanchang entered into sales agreements with Yanchang Shell Henan Petroleum Limited ("Yanchang Shell Henan") and Shaanxi Yanchang Petroleum Yanan Energy Chemical Company Limited ("Yanan Energy Chemical"), respectively on 13 May 2021 and with effect from 1 July 2021 in respect of the sales of refined oil and by-products from Henan Yanchang to Yanchang Shell Henan and Yanan Energy Chemical, respectively for the three years ending 31 December 2023.
- (3) The above transactions constitute continuing connected transactions under Chapter 14A of the Listing Rules.

SUPPLEMENTAL INFORMATION ON OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES

This section provides supplemental information on oil and gas activities in accordance with the Chapter 18 of the Listing Rules.

A. MAJOR EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES

The following table summarised the major exploration, development and production activities during the reporting period:

	Canada	Madagascar
Exploration activities:	7,381 hectares unproved land acquired	Nil
Development activities:	16 wells drilled 9 wells completed	Nil
Production activities:	Average daily net production Oil: 1,444 bbl Gas: 2,337 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	1,418	–	1,418
Development costs	105,558	–	105,558
Production costs (<i>note</i>)	37,816	–	37,816

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

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2022, international crude oil prices continued to surge and reached their new heights since 2014, which was mainly due to, among others, the geopolitical concerns over the supply risks in the international crude oil market. At the same time, the demand for oil continued to increase as the global economy accelerated its recovery pace in the post-pandemic era. In actively responding to market changes, the Company continued to improve its quality, reduce costs and increase efficiency. Benefiting from high international oil prices and cost control, the Company's profitability improved significantly in the first half year, if excluding the loss of business suspension in Yanchang Zhejiang due to litigations.

UPSTREAM OIL AND GAS PRODUCTION BUSINESS IN CANADA

The operation of Novus in the first half of 2022 was adversely affected by higher costs, tight service resources and other adverse factors. Despite the above, its overall operation remained stable as it overcame various market uncertainties and actively implemented its 2022 production ramp-up programme. Novus reported a cumulative after-tax revenue of CAD28.90 million with expenses of CAD17.58 million in the first half of 2022, and net operating income of CAD11.32 million. Net income in the first half year was CAD8.13 million, representing an increase of CAD8.06 million as compared with the corresponding period in 2021. Novus' net revenue per barrel in the first half year was CAD25.2 per barrel, the highest ever and was 96% higher than the second highest year in 2014.

Production, Sales and Operation

Novus maintains a good corporate image of being a responsible enterprise and endeavours to maintain good relationships with local communities and governments. Such kind of long-standing mutual trust has enabled Novus to obtain early approval or shorten approval process for various projects. Novus received 3 new drilling permits ahead of schedule as well as the short-term road use permit after the start of the snowmelt period in the first half year. Novus achieved the emissions reduction target set by the local government by reducing 20,000 tonnes of CO₂ emissions. It also planned in advance to ensure that the wellhead gas pipeline was installed before a new well was put into production, thereby reduced the CO₂ emissions of new well by 90%.

Novus' 9 new wells were put into production in the first half of 2022 and 16 wells have completed drilling to date, with their production due to commence in the third quarter. As of June 2022, Novus had 434.6 net horizontal wells and 69.7 net vertical wells. By the end of June 2022, Novus produced 331,000 barrels of crude oil in aggregate, which was 76% more than of the corresponding period in 2021. The oil and gas cumulative sales were 323,000 barrels of equivalent ("BOE"), up by 59% than in the corresponding period in 2021, of which 266,000 barrels were crude oil and 9.52 million cubic metres were natural gas.

MANAGEMENT DISCUSSION AND ANALYSIS

UPSTREAM OIL AND GAS PRODUCTION BUSINESS IN CANADA (Continued)

Production, Sales and Operation (Continued)

The global oil prices continued to escalate in the first half of 2022 due to a number of factors including inflation, regional conflicts and demands, but such rapid increase in oil prices also led to tight local service resources, increased the cost of drilling and well constructions by approximately 30%. At the same time, the cost of raw materials increased significantly, with the price of diesel and steel having the biggest increment, posing a negative impact on Novus' operating costs. Novus managed to curb its costs to the greatest extent possible through advanced planning and good relationships with service providers. At the beginning of the year, Novus forecasted the shortages and price increases in the oil casing market upon its market analysis and therefore brought together its capital resources to purchase oil casing in advance, benefited a cost saving of CAD1.8 million at current market prices. The operating expenses in well fields were CAD6.18 million in the first half of 2022, with average operating costs of CAD19.2 per barrel, representing a decrease of 15.5% as compared with the corresponding period in 2021, and the operating costs per barrel as a percentage of revenue from sales was 19%, falling below the 20% mark for the first time since 2016.

During the first half of 2022, in line with market analysis, Novus reasonably adjusted its inventory and development programmes to control costs and optimise economic efficiency. The average selling price of crude oil was CAD120 per barrel and the selling price of natural gas was CAD0.20 per cubic metre, resulting in cumulative sales revenue of CAD33.53 million, which represented an increase of CAD21.68 million or 182% as compared with the corresponding period in 2021. Novus studied the market trends, dynamically tracked the changes in crude oil prices and prepared a staggered sales strategy to gradually increase its crude oil inventories by 17,000 barrels from January to April. It sold 13,500 barrels of inventory at high crude oil prices in May and increased its sales revenue by CAD340,000.

DOWNSTREAM OIL SALES BUSINESS IN CHINA

(i) Henan Yanchang refined oil business

In the first half of 2022, Henan Yanchang sold a total of 1.76 million tonnes of refined oil products cumulatively, achieved an operating revenue of RMB7.35 billion with total profit of RMB31.098 million. Its receivables were fully recovered and it implemented integrated controls on production and financial operations in a safe and efficient manner with zero accident issue reported.

MANAGEMENT DISCUSSION AND ANALYSIS

DOWNSTREAM OIL SALES BUSINESS IN CHINA (Continued)

(i) Henan Yanchang refined oil business (Continued)

Direct sales and distribution

It actively participated in market competition, established quality and stable customer relationships and continued to optimise its business processes. It achieved “the objectives of over 50% accomplishment” in direct sales and distribution sales segments one month ahead of schedule.

Depot and storage

Firstly, it enhanced its strategic customer marketing services. In the first half year, sales to CNAF reached 2,950 tonnes, representing an increase of 408% as compared with the corresponding period in 2021, while its distribution sales to Shell was 2,083 tonnes, representing an increase of 14.96% as compared with the corresponding period in 2021. Secondly, it fully leveraged its oil depot resources and reached cooperation with Shaanxi Xing Hua on ethanol sales and also oil product storage with Sinofer Henan (中化河南) to increase new profit drivers. Thirdly, it vigorously promoted business expansion in Hunan market and reached cooperation with a number of premier enterprises such as Hunan Guochu (湖南國儲) and other listed companies for storage, and successfully entered the Hunan high-speed service region as a supplier of refined oil products. In the first half year, the cumulative sales volume in the Hunan and Hubei markets was 95,400 tonnes, with sales revenue of nearly RMB800 million.

Terminal development

The gas stations were quite affected by the static-pandemic control relatively. While vigorously exploring the market, Henan Yanchang actively explored opportunities for incremental growth, completed over 3,500 tonnes of small-volume deliveries and developed one franchised gas station in the first half of the year.

Trading business

Henan Yanchang conducted comprehensive calibration and reform as required and tightened up new businesses development appropriately. At the same time, Henan Yanchang continued to strengthen the cooperation with major customers such as Sinopec Northwest and CNAF, and actively explored the markets in Yunnan, Hunan and Hubei, so as to ensure maintaining its trade volume at a relatively stable level.

MANAGEMENT DISCUSSION AND ANALYSIS

DOWNSTREAM OIL SALES BUSINESS IN CHINA (Continued)

(ii) Yanchang Zhejiang Oil Product Business

Yanchang Zhejiang sold 125,000 tonnes of oil products in total in the first half of 2022, which were mainly bitumen products, with sales revenue of RMB442 million. Of which RMB385 million was achieved from the domestic trading of raw oil and RMB58 million were from the sales of finished products from plant. A loss of RMB87 million was recorded in the first half of the year.

In the first half year, the processing business of Yanchang Zhejiang came to a halt due to the litigation issue of its processing plant, whereby it also affected other trading businesses and led to litigations over other businesses. Yanchang Zhejiang is actively handling the litigation issue and is striving to resolve it as quickly as possible.

OUTLOOK

In the second half of 2022, the geopolitical crisis in Eastern Europe will probably take a positive turn, the Iranian situation may also have a chance to mitigate, and the Organization of Petroleum Exporting Countries is expected to maintain its production increase strategy or even have new plans to increase production. Given that the interest rate hikes of US Federal Reserve will persist in the future and global economic growth is under tremendous pressure, the international crude oil market is clearly under pressure. The Company will seize the opportunity of the current high oil prices to accelerate its growth in production in an efficient and effective manner, and at the same time, conduct in-depth optimisation of the entire industrial chain and strengthen risk management to ensure high quality development to the greatest extent.

Despite the rapid recovery of the oil and gas industry this year, however, the Company recognises that the dual-carbon policy is pushing a deep decarbonisation of the global energy system and a change in the development of the oil and gas industry is underway. The Company will adhere to the development strategy of “focusing on both production and trading, oil and gas and new energy”, and leverage on the advantages of its controlling shareholder, the Yanchang Petroleum Group, so as to actively expand its wind energy and photovoltaic business layout and strive to build a first-class integrated green and low-carbon energy service provider.

FINANCIAL REVIEW

Segment 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 2022, 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 and by-products in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Segment revenue and segment results (Continued)

Novus is engaged in the business of exploration, exploitation and production of crude oil and natural gas in Western Canada. Novus achieved sale volume of oil and gas of 322,754 BOE and contributed income of HK\$205,222,000 during the period under review, as compared to sale volume of 202,530 BOE and contributed income of HK\$75,287,000 of the previous period. As a result of higher commodity prices as well as higher production, Novus contributed an operating profit of HK\$69,126,000 for the six months ended 30 June 2022, as compared to an operating profit of HK\$1,055,000 for the previous period.

During the six months ended 30 June 2022, the sales volume decreased from the previous period of 2.71 million tonnes to the current period of 1.88 million tonnes, while the revenue of oil and by-products trading business in the PRC was HK\$9,131,014,000 as compared to HK\$10,132,979,000 of the previous period. Although Henan Yanchang performed well and remained profitable for the period under review, due to the substantial loss of Yanchang Zhejiang which has involved in a number of pending litigations, the supply and procurement business recorded an operating loss of HK\$59,747,000, as compared to an operating profit of HK\$55,670,000 of the previous period.

Other revenue

Apart from the aforesaid segment results, other revenue of HK\$6,401,000 which mainly represented interest income from bank deposits, rental income and tax refund from the PRC for the period under review, increased by HK\$1,273,000 from HK\$5,128,000 of the previous period.

Purchases

Purchases decreased from the previous period of HK\$10,007,551,000 to this period of HK\$9,079,141,000 and the decrease has in line with the drop of sales.

Royalties

Royalties, including crown, freehold and overriding royalties incurred by Novus for crude oil and natural gas production in Canada, increased from the previous period of HK\$7,862,000 to the current period of HK\$28,242,000 as a result of higher of revenue.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Field operation expenses

Field operation expenses increased to HK\$37,816,000 this period from the previous period of HK\$30,086,000. 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

Exploration and evaluation expenses amounted to HK\$1,418,000 represented the holding costs, mainly lease rentals, on the interests of non-producing lands incurred by Novus.

Selling and distribution expenses

Selling and distribution expenses, increased from the previous period of HK\$38,219,000 to current period of HK\$83,207,000, were mainly incurred by Henan Yanchang and Yanchang Zhejiang for the oil and by-products trading business in the PRC.

Administrative expenses

Administrative expenses included Directors' remuneration, staff costs, office rentals, professional fees and listing fee etc. In the absence of provincial subsidy programs offered to Novus, administrative expenses increased by HK\$4,098,000 to HK\$42,676,000 for the period under review.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation expenses increased from the previous period of HK\$36,417,000 to the current period of HK\$62,998,000. The increase was mainly due to the increase in depletion of petroleum and natural gas properties incurred by Novus resulting from the increase in production in Canada during the period under review.

Other losses and gains

The amount of HK\$8,192,000 represented the aggregate of (i) net foreign exchange loss of HK\$7,252,000 and (ii) other loss of HK\$940,000.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Finance costs

Finance costs amounted to HK\$24,717,000 comprised (i) bank borrowing costs of HK\$10,726,000 related to the businesses of Henan Yanchang and interest of the secured term loans drawn down by Novus and the Company of HK\$10,532,000; (ii) accretion of HK\$1,416,000 related to the provision of the decommissioning liabilities incurred by Novus; and (iii) imputed interest of lease liabilities of HK\$2,043,000 related to the leases of the Group.

Taxation

Taxation of HK\$10,061,000 represented the provision for the PRC corporate income tax on the profit earned from oil and by-products trading business in the PRC.

(Loss)/profit for the period

Compared to a profit for the last period of HK\$12,083,000, a loss of HK\$35,831,000 was recorded for the period under review. The interim loss was mainly attributable to the loss of the Company's 51% indirectly owned subsidiary in the PRC, Yanchang Zhejiang, which has involved in a number of pending litigations.

LIQUIDITY AND FINANCIAL RESOURCES

The Group funded its operation mainly by its internal resources together with bank borrowings and secured term loans for the six months ended 30 June 2022.

The Group had outstanding variable interest rates bank borrowings amounted to HK\$412,333,000 as at 30 June 2022 (31 December 2021: HK\$427,350,000) under Henan Yanchang. The Group has obtained bank facilities of HK\$585,700,000 (equivalent to RMB500,000,000) from various banks in the PRC.

A 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. The principal amount of the secured term loan was still outstanding as at 30 June 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES (Continued)

On 3 September 2021, the Company drew down a secured term loan of US\$22,000,000, granted by Yanchang Petroleum HK which bears interest rate at 4.8% per annum and repayable in three years. The secured term loan granted to the Company by Yanchang Petroleum HK as general working capital for operation. The principal amount of the secured term loans was still outstanding as at 30 June 2022.

As at 30 June 2022, bank balance of HK\$339,798,000 (equivalent to RMB 290,078,000) has been frozen by relevant court orders in respect of certain pending litigations against the Company's 51% indirectly owned subsidiary, namely Yanchang Zhejiang.

As at 30 June 2022, the Group had cash and bank balances of HK\$476,964,000 (31 December 2021: HK\$394,132,000). 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 460.8% (31 December 2021: 286.2%). The current ratio of the Group, measured on the basis of current assets as a percentage of current liabilities stood at 96.8% as at 30 June 2022 (31 December 2021: 98.2%).

TREASURY MANAGEMENT AND POLICIES

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITION AND DISPOSAL

The Group had no material acquisitions and disposals for the six months ended 30 June 2022.

SIGNIFICANT INVESTMENT

The Group did not hold any significant investments as at 30 June 2022.

CAPITAL COMMITMENT

The Group had capital commitments related to property, plant and equipment amounted to HK\$5,311,000 (31 December 2021: HK\$4,144,000) which were contracted but not provided for as at 30 June 2022.

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.

Pursuant to a loan agreement dated 30 June 2021 entered into between Yanchang Petroleum HK and the Company, US\$22,000,000 secured term loan granted by Yanchang Petroleum HK available to the Company, is secured by 350 ordinary shares of Sino Union Energy International Limited ("Sino Union Energy") (representing 35% of the issued share capital of Sino Union Energy which is a direct wholly-owned subsidiary of the Company) under the share charge deed pursuant to which the Company agreed to provide a guarantee in favour of Yanchang Petroleum HK that the Company shall procure on the best effort basis the carrying valuation of Henan Yanchang will be not less than US\$104,800,000.

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

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITY

As at 30 June 2022, the Group had contingent liabilities approximately RMB493,419,000 (equivalent to HK\$578,336,000) arising from the disputed claims against the Company's 51% indirectly owned subsidiary, namely Yanchang Zhejiang, for processing fees, purchase procurement fees and relevant costs and interests (31 December 2021: HK\$ Nil).

LITIGATION

Yanchang Zhejiang is a party to a number of pending litigations incidental to its business, it faces exposure from actual or potential claims. Up to the date of this report, claims were made by various plaintiffs against Yanchang Zhejiang for processing fees, purchase procurement fees, transportation fees, purchases amounts and relevant costs and interests of approximately RMB760,028,000 (equivalent to HK\$890,829,000) in aggregate. The assets of Yanchang Zhejiang in the amount of RMB457,863,000 (equivalent to HK\$536,661,000) have been frozen by relevant court orders. The Group has been in the course of seeking legal advice on the claims and will take every possible step to defend the claims vigorously from the plaintiffs, reserve the rights to take legal actions against the plaintiffs for any damages.

Please refer to further details of the litigations in the Company's announcements dated 2 June 2022, 9 June 2022, 8 July 2022, 22 July 2022, 3 August 2022, 12 August 2022 and 19 August 2022.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2022, the Group's total number of staff was 238 (31 December 2021: 240). Salaries of employees are maintained at a competitive level with total staff costs for the six months ended 30 June 2022 amounted to HK\$41,327,000 (six months ended 30 June 2021: HK\$35,951,000). 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 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 2022 and 2021.

INTERIM DIVIDENDS

The Board does not recommend the payment of interim dividends for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

OTHER INFORMATION

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 30 June 2022, 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 2022 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 adopted the Scheme pursuant to the resolution passed by the Shareholders at the annual general meeting held on 25 May 2012. The Scheme expired on the tenth anniversary of its adoption (i.e. 25 May 2022). For details, please refer to the circular of the Company dated 25 April 2012 and the announcement of the Company dated 25 May 2012.

In order to enable the Company to continue to grant share options to eligible participants as incentives or rewards for their contributions or potential contribution to the success of the Group, the Board adopts of the New Scheme. Further details of which are set out in the announcement dated 25 March 2022 and circular dated 21 April 2022 respectively.

As at 30 June 2022, none of shares in respect of which options had been granted and remained outstanding under the Scheme or the New Scheme (31 December 2021: Nil), representing 0% (31 December 2021: 0%) of the total number of the Shares of the Company in issue at that date.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2022, 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 (<i>note</i>)	Interest of controlled corporation	Long position	12,686,203,231	69.19%
Yanchang Petroleum HK (<i>note</i>)	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.

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 2022.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2022, 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 long-term value 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 2022, except for the following deviation:

1. code provision C.2.1 of the CG Code provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The position of the chief executive officer of the Company was 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. In addition, the Board considers that the balance of power and authority, accountability and independent decision making under present arrangement is not impaired because of the diverse background and experience of the executive Directors and independent non-executive Directors. The audit committee of the Company has free and direct access to the Company's senior management, external auditors and independent professional advisers when it considers necessary. Therefore, the Board considers that the deviation from code provision C.2.1 of the CG Code is not significant in such circumstance.
2. code provision F.2.2 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. Feng Yinguo was unable to attend the annual general meeting held on 27 May 2022 due to the impact of the COVID-19 pandemic.

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 2022.

AUDITORS

With effect from 8 October 2020, KPMG ("KPMG") resigned as the auditors of the Company. Following the resignation of KPMG, BDO Limited ("BDO") was appointed as the new auditors of the Company with the recommendation of the Audit Committee on 9 October 2020. Considering that BDO had been the auditors of the Company since 2020, 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 and the supplemental agreement to the supply agreement dated 30 September 2020, 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.

Besides, Henan Yanchang had connected transactions with a fellow subsidiary and a fellow associate arising from the sale of refined oil and by-products. On 13 May 2021, Henan Yanchang entered into sales agreements with Yanan Energy Chemical and Yanchang Shell Henan respectively and with effect from 1 July 2021 in respect of the sales of refined oil and by-products from Henan Yanchang to Yanan Energy Chemical and Yanchang Shell Henan, respectively for the three years ending 31 December 2023.

Further details of the transactions are included in note 28 to the unaudited condensed consolidated financial statements.

OTHER INFORMATION

The independent non-executive Directors of the Company have reviewed the continuing connected transactions disclosed in note 28 to the unaudited condensed consolidated financial statements mentioned above and have confirmed that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

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 2022.

By Order of the Board
Yanchang Petroleum International Limited
Mr. Feng Yinguo
Chairman

Hong Kong, 26 August 2022