



延長石油國際有限公司

YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 00346



2023

INTERIM REPORT



CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Feng Yinguo (*Chairman*)
Mr. Zhang Jianmin
Mr. Ding Jiasheng

NON-EXECUTIVE DIRECTOR

Mr. Sun Jian

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
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 2023 together with the unaudited comparative figures for the six months ended 30 June 2022 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

		Six months ended 30 June	
	Notes	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Revenue	4	11,467,941	9,336,236
Other revenue	4	10,166	6,401
		11,478,107	9,342,637
Expenses			
Purchases		(11,201,659)	(9,079,141)
Royalties		(29,458)	(28,242)
Field operation expenses		(55,855)	(37,816)
Exploration and evaluation expenses		(1,137)	(1,418)
Selling and distribution expenses		(7,883)	(83,207)
Administrative expenses		(41,707)	(42,676)
Depreciation, depletion and amortisation		(115,790)	(62,998)
Other gains and losses	5	18,147	(8,192)
		(11,435,342)	(9,343,690)
Profit/(loss) from operating activities	6	42,765	(1,053)
Finance costs	7	(25,193)	(24,717)
Profit/(loss) before taxation		17,572	(25,770)
Taxation	8	(4,766)	(10,061)
Profit/(loss) for the period		12,806	(35,831)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Notes	Six months ended 30 June	
		2023	2022
		(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		46,952	(23,138)
Other comprehensive income for the period, with nil tax effect		46,952	(23,138)
Total comprehensive income for the period		59,758	(58,969)
Profit/(loss) for the period attributable to:			
Owners of the Company		15,209	6,435
Non-controlling interests		(2,403)	(42,266)
		12,806	(35,831)
Total comprehensive income for the period attributable to:			
Owners of the Company		48,758	(11,044)
Non-controlling interests		11,000	(47,925)
		59,758	(58,969)
Earnings per share attributable to the owners of the Company			
Basic and diluted, HK cents	10	1.40	0.04

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2023

		30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	1,956,909	1,865,290
Investment properties	12	13,033	13,633
Exploration and evaluation assets	13	9,782	5,273
Right-of-use assets	14	99,583	108,056
Goodwill and intangible asset		58,149	58,149
		2,137,456	2,050,401
Current assets			
Inventories	15	584,099	846,178
Trade receivables	16	373,979	722,285
Prepayments, deposits and other receivables	17	418,015	460,277
Tax recoverable		–	2,453
Restricted cash		258,032	303,406
Cash and bank balances	18	349,898	133,209
		1,984,023	2,467,808
Total assets		4,121,479	4,518,209
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital	19	440,041	366,701
Reserves		662,566	406,255
Total equity attributable to the owners of the Company		1,102,607	772,956
Non-controlling interests		(292,530)	(303,530)
Total equity		810,077	469,426

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2023

		30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
LIABILITIES			
Current liabilities			
Trade and other payables	20	1,525,560	2,167,196
Lease liabilities	21	6,935	6,941
Tax payables		137	–
Bank borrowings and other loans	22	625,094	700,032
Provision for litigations		433,358	453,330
Secured term loans	23	–	273,047
		2,591,084	3,600,546
Non-current liabilities			
Decommissioning liabilities		175,954	169,779
Lease liabilities	21	87,121	94,509
Deferred tax liabilities		10,674	11,249
Secured term loans	23	446,569	172,700
		720,318	448,237
Total liabilities		3,311,402	4,048,783
Total equity and liabilities		4,121,479	4,518,209
Net current liabilities		(607,061)	(1,132,738)
Total assets less current liabilities		1,530,395	917,663

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

	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 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
At 1 January 2023 (Audited)	366,701	2,115,311	6,400,652	(353,266)	24,467	1,821	(7,782,730)	406,255	(303,530)	469,426
Profit/(loss) for the period	-	-	-	-	-	-	15,209	15,209	(2,403)	12,806
Other comprehensive income for the period	-	-	-	33,549	-	-	-	33,549	13,403	46,952
Total comprehensive income for the period	-	-	-	33,549	-	-	15,209	48,758	11,000	59,758
Share subscription	73,340	207,553	-	-	-	-	-	207,553	-	280,893
Transfer of reserves	-	-	-	-	-	3,080	(3,080)	-	-	-
At 30 June 2023 (Unaudited)	440,041	2,322,864	6,400,652	(319,717)	24,467	4,901	(7,770,601)	662,566	(292,530)	810,077

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Cash flows from operating activities		
Cash generated from operations	161,490	240,326
Interest received	8,605	1,940
Tax paid	(291)	(16,282)
Net cash generated from operating activities	169,804	225,984
Cash flows from investing activities		
Purchase of exploration and evaluation assets	(4,357)	(6,140)
Purchase of property, plant and equipment	(167,124)	(105,884)
Net cash used in investing activities	(171,481)	(112,024)
Cash flows from financing activities		
Share subscription	280,893	–
Net cash outflows from bank borrowings	(45,889)	(7,210)
Other cash outflows from financing activities	(18,900)	(14,298)
Net cash generated from/(used in) financing activities	216,104	(21,508)
Net increase in cash and cash equivalents	214,427	92,452
Cash and cash equivalents at the beginning of the period	133,209	394,132
Effect of exchange rate changes	2,262	(9,620)
Cash and cash equivalents at the end of the period	349,898	476,964

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

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 2022 as contained in the Company’s annual report 2022 (the “Annual Report 2022”), 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 25 August 2023.

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 2023 are consistent with those followed in the preparation of the Annual Report 2022 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 2023. A summary of the new or amended HKFRSs are set out as below:

- Amendments to HKAS 1 and HKFRS Practice Statement 2 – Disclosure of Accounting Policies

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Amendments to HKAS 8 – Definition of Accounting Estimates
- Amendments to HKAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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-current¹
- Amendments to HKAS 1 – Non-current Liabilities with Covenants¹
- 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 2024.

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 2023

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					
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	231,445	205,222	11,236,496	9,131,014	11,467,941	9,336,236
Segment profit/(loss)	20,068	69,126	2,587	(59,747)	22,655	9,379
Other revenue					10,166	6,401
Reversal of written down of inventories					5,033	-
Net foreign exchange gain/(loss)					13,114	(7,252)
Unallocated corporate expenses					(8,203)	(9,581)
Profit/(loss) from operating activities					42,765	(1,053)
Finance costs					(25,193)	(24,717)
Profit/(loss) before taxation					17,572	(25,770)
Taxation					(4,766)	(10,061)
Profit/(loss) for the period					12,806	(35,831)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

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 2023 and 2022.

Segment profit/(loss) represents the profit earned/loss incurred by each segment without allocation of other revenue, reversal of written down of inventories, net foreign exchange gain/(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 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Segment assets	2,081,735	1,835,313	2,023,500	2,667,969	4,105,235	4,503,282
Unallocated assets					16,244	14,927
Total assets					4,121,479	4,518,209
Segment liabilities	670,999	911,518	2,461,681	3,124,988	3,132,680	4,036,506
Unallocated liabilities					178,722	12,277
Total liabilities					3,311,402	4,048,783

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

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\$11,236,496,000 (six months ended 30 June 2022: HK\$9,131,014,000) are revenue of HK\$7,278,011,000 (six months ended 30 June 2022: HK\$3,487,931,000) which arose from two customers (six months ended 30 June 2022: 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	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Customer A	4,836,425	2,098,286
Customer B (note 1)	2,441,586	4,449
Customer C (note 2)	197,322	1,389,645

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 2022.
- 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 2023.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

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	
	2023	2022
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue		
Sales of crude oil and gas	231,445	205,222
Trading and distribution of oil related products	11,236,496	9,131,014
	11,467,941	9,336,236
Other revenue		
Bank interest income	8,605	1,940
Rental income	658	309
Others	903	4,152
	10,166	6,401

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Net foreign exchange gain/(loss)	13,114	(7,252)
Others	5,033	(940)
	18,147	(8,192)

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Cost of inventories sold	11,201,659	9,079,141
Depreciation and depletion charge:		
– property, plant and equipment	111,816	59,212
– right-of-use assets	3,974	3,786
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2023 and 2022	–	40,085
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	1,495	994
Staff costs (including Directors' remuneration):		
– Salaries and wages	35,173	38,982
– Pension scheme contributions	2,441	2,345

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

7. FINANCE COSTS

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Interest expenses on bank borrowings and secured term loans wholly repayable within five years	20,177	21,258
Interest expenses on lease liabilities	2,425	2,043
Interest expenses on other loans	1,236	–
Accretion expenses of decommissioning liabilities	1,355	1,416
	25,193	24,717

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 2023 is calculated at 16.5% of estimated assessable profits (six months ended 30 June 2022: 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 2023 and 2022 respectively.

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Current tax – Hong Kong Profits Tax		
Provision for the period	–	–
Current tax – Outside Hong Kong		
Provision for the period	4,766	10,061
Deferred tax		
Origination of temporary differences	–	–
	4,766	10,061

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

9. INTERIM DIVIDENDS

The Directors do not recommend the payment of any interim dividends in respect of the six months ended 30 June 2023 (six months ended 30 June 2022: 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	
	2023	2022
	(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

15,209

6,435

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	'000	'000

Number of shares

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

1,087,947

18,335,047

The weighted average number of ordinary shares and basic earnings per share for the six months ended 30 June 2023 have been adjusted to reflect the effect of the share consolidation as described in note 19.

Diluted earnings per share for the six months ended 30 June 2023 and 2022 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 2023 and 2022.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

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 2022 and 1 January 2023 (Audited)	178,446	25,210	15,732	5,318	7,149	3,828,344	114,185	4,174,384
Additions	-	-	127	-	-	166,997	-	167,124
Eliminated on written off	-	-	(9)	-	-	-	-	(9)
Exchange differences	(7,863)	(1,110)	(333)	(233)	(113)	100,262	(5,050)	85,560
At 30 June 2023 (Unaudited)	170,583	24,100	15,517	5,085	7,036	4,095,603	109,135	4,427,059
Accumulated depreciation, depletion and impairment								
At 31 December 2022 and 1 January 2023 (Audited)	59,692	13,144	13,453	3,887	6,875	2,129,617	82,426	2,309,094
Charge for the period	3,272	1,298	622	270	266	106,088	-	111,816
Eliminated on written off	-	-	(9)	-	-	-	-	(9)
Exchange differences	(2,673)	(595)	(263)	(174)	(105)	56,690	(3,631)	49,249
At 30 June 2023 (Unaudited)	60,291	13,847	13,803	3,983	7,036	2,292,395	78,795	2,470,150
Net book value								
At 30 June 2023 (Unaudited)	110,292	10,253	1,714	1,102	-	1,803,208	30,340	1,956,909
At 31 December 2022 (Audited)	118,754	12,066	2,279	1,431	274	1,698,727	31,759	1,865,290

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

12. INVESTMENT PROPERTIES

	HK\$'000
Fair values	
At 31 December 2022 and 1 January 2023 (Audited)	13,633
Exchange differences	(600)
	<hr/>
At 30 June 2023 (Unaudited)	13,033

The Directors consider that the carrying amount of the investment properties are fairly stated as at 30 June 2023.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The Group's investment properties are mainly situated in the PRC and are held under medium term lease.

13. EXPLORATION AND EVALUATION ASSETS

	HK\$'000
Cost	
At 31 December 2022 and 1 January 2023 (Audited)	12,432,827
Additions	4,357
Exchange differences	152
	<hr/>
At 30 June 2023 (Unaudited)	12,437,336
Accumulated impairment	
At 31 December 2022 and 1 January 2023 (Audited) and 30 June 2023 (Unaudited)	12,427,554
	<hr/>
Carrying amount	
At 30 June 2023 (Unaudited)	9,782
	<hr/>
At 31 December 2022 (Audited)	5,273
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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

13. EXPLORATION AND EVALUATION ASSETS (Continued)

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.

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 2023.

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 period ended 30 June 2023, the Group recognised a reversal of impairment loss of HK\$934,000 for the year ended 31 December 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 2022 and the period ended 30 June 2023.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

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 2022 and 1 January 2023 (Audited)	130,528
Exchange differences	(5,200)
	<hr/>
At 30 June 2023 (Unaudited)	125,328
	<hr/>
Accumulated depreciation	
At 31 December 2022 and 1 January 2023 (Audited)	22,472
Charge for the period	3,974
Exchange differences	(701)
	<hr/>
At 30 June 2023 (Unaudited)	25,745
	<hr/>
Net book value	
At 30 June 2023 (Unaudited)	99,583
	<hr/>
At 31 December 2022 (Audited)	108,056
	<hr/>

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 2023

16. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 90 days (31 December 2022: 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 net of allowance for credit losses presented based on the invoice dates at the end of the reporting period:

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
0 to 30 days	263,675	585,905
31 to 60 days	89	86,638
61 to 90 days	543	1,352
Over 90 days	109,672	48,390
	373,979	722,285

As at 30 June 2023, trade receivables of HK\$109,672,000 (31 December 2022: HK\$48,390,000) were past due but not credit-impaired. These related to a number of independent customers for whom there was no recent history of default. The Group does not hold any collaterals or other credit enhancements over these balances.

Ageing of trade receivables which are past due but not credit-impaired at the reporting date is as follows:

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Over 90 days	109,672	48,390

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Prepayments to suppliers of refined oil and by-products	364,603	374,746
Other prepayments	5,667	2,470
VAT recoverable	8,998	66,233
Other deposits	447	6,480
Other receivables	38,300	10,348
	418,015	460,277

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. 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 2023 were amounts in Renminbi ("RMB") equivalent to HK\$376,458,000 (31 December 2022: HK\$368,351,000) which are not freely convertible into other currencies.

As at 30 June 2023, bank balance of HK\$258,032,000 (equivalent to RMB239,273,000) has been frozen by relevant court orders in respect of certain 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 2023

19. SHARE CAPITAL

	Number of shares		Share capital	
	30 June 2023	31 December 2022	30 June 2023 (Unaudited)	31 December 2022 (Audited)
	'000	'000	HK\$'000	HK\$'000
Ordinary shares of HK\$0.4 each Issued and fully paid:				
At the beginning of the period/year	18,335,047	18,335,047	366,701	366,701
Subscription of new shares	3,667,009	–	73,340	–
Share Consolidation	(20,901,953)	–	–	–
At the end of the period/year	1,100,103	18,335,047	440,041	366,701

Share subscription

On 13 January 2023, an aggregate of 3,667,009,346 subscription shares had been allotted and issued to the ChangAn HuiTong Investment (Hong Kong) Company Limited (“ChangAn HuiTong HK”) at the subscription price of HK\$0.0766 per subscription share (the “Subscription”) under the general mandate granted to the Directors by ordinary resolution passed at the annual general meeting of the Company held on 27 May 2022. Upon completion of the Subscription, the total number of issued shares of the Company increased from 18,335,046,733 shares to 22,002,056,079 shares.

Details of the subscription of new shares were set out in the announcements of the Company dated 30 December 2022 and 13 January 2023.

Share consolidation

On 6 April 2023, the Board proposed that every twenty (20) shares in the issued and unissued share capital of the Company be consolidated into one (1) consolidated share (the “Share Consolidation”). The Share Consolidation was approved by the shareholders at the special general meeting of the Company held on 10 May 2023 and the same became effective on 12 May 2023. Upon the Share Consolidation becoming effective, there were 1,100,102,803 consolidation shares in issue which were fully paid or credited as fully paid.

Details of the Share Consolidation were set out in the announcement of the Company dated 6 April 2023 and the circular of the Company dated 18 April 2023.



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

19. SHARE CAPITAL (Continued)

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 27 May 2022, unless otherwise cancelled or amended, will remain in force for ten years from that date.

As at 30 June 2023, none of shares in respect of which options had been granted and remained outstanding under the Scheme (31 December 2022: Nil), representing 0% (31 December 2022: 0%) of the total number of the shares of the Company 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 110,010,280 shares after the Share Consolidation became effective (31 December 2022: 1,833,504,673 shares) (being not more than 10% of the total number of the shares in issue as at the date of adoption of the Scheme), representing 10% (31 December 2022: 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 2023

20. TRADE AND OTHER PAYABLES

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Trade payables	828,240	1,362,027
Contract liabilities (note)	413,024	479,522
Refund liabilities	182,393	207,969
Other payables	101,903	117,678
	1,525,560	2,167,196

Note: Contract liabilities as at 30 June 2023 and 31 December 2022 mainly represented the advance received from customers upon order placement, and were fully recognised as revenue during the period 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\$413,024,000 were recognised as at 30 June 2023 (31 December 2022: HK\$479,522,000) as a result of the receipt of payment during the period 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 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
0 to 30 days	136,565	731,908
31 to 60 days	2,769	97,130
61 to 90 days	9	182,944
Over 90 days	688,897	350,045
	828,240	1,362,027

As at 30 June 2023 and 31 December 2022, the trade payables are non-interest bearing and have an average credit period on purchases of up to 90 days.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

21. LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at 30 June 2023 and 31 December 2022:

	30 June 2023		31 December 2022	
	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	6,935	11,536	6,941	11,910
After 1 year but within 2 years	6,003	10,231	6,605	11,212
After 2 years but within 5 years	14,054	25,299	15,121	27,245
After 5 years	67,064	87,671	72,783	96,122
	87,121	123,201	94,509	134,579
	94,056	134,737	101,450	146,489
Less: total future interest expenses		(40,681)		(45,039)
Present value of lease liabilities		94,056		101,450

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

22. BANK BORROWINGS AND OTHER LOANS

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

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Carrying amount repayable within one year or on demand:		
Unsecured bank borrowings (note 1)	248,032	306,843
Unsecured other loans (note 2)	377,062	393,189
	625,094	700,032

Notes:

1. As at 30 June 2023, Henan Yanchang Petroleum Sales Co., Limited ("Henan Yanchang") has drawn down unsecured bank borrowings of RMB230,000,000 (equivalent to HK\$248,032,000) (31 December 2022: RMB272,000,000 (equivalent to HK\$306,843,000)). 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.
2. The balance represents loan advances from third parties and ultimate holding company of approximately HK\$107,462,000 and HK\$269,600,000 (31 December 2022: HK\$111,164,000 and HK\$282,025,000), respectively. Loan advances from third parties are unsecured, interest-bearing of 0.05% per annum and repayable in December 2022. As at 30 June 2023, the loan advances from third parties were overdue. The lenders did not take any legal action up to 30 June 2023 and the Group will negotiate the extension terms with the third parties. Loan advance from ultimate holding company is unsecured, interest-bearing of 2.65% per annum and repayable in October 2023.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

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.

On 6 December 2022, Novus entered into a supplemental facility agreement with Yanchang Petroleum HK to extend the facility. Under the deed of undertaking regarding the secured term loan dated 12 December 2022, the lender agreed to waive the right to exercise its right under the debenture during the period from 20 December 2022 to 17 January 2023. On 17 January 2023, the supplementary facility agreement was approved at the special general meeting by independent shareholders of the Company and become effective as all condition precedents have been fulfilled. The term of the relevant secured term loan was extended for an additional three years and the secured term loan is now due on 17 January 2026.

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 2023, this ratio was 1.24:1 (31 December 2022: 0.43:1).

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 2023, the carrying amount of the secured term loans are HK\$446,569,000 (31 December 2022: HK\$445,747,000).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

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\$1,328,000 (31 December 2022: HK\$8,296,000) which were contracted but not provided for as at 30 June 2023.

26. CONTINGENT LIABILITIES

As at 30 June 2023, the Group had no material contingent liabilities (31 December 2022: Nil).

27. LITIGATION

Yanchang Petroleum (Zhejiang FTZ) Limited (“Yanchang Zhejiang”) is a party to a number of litigations incidental to its business, it faces exposure from actual or potential claims. Yanchang Zhejiang had initially filed the bankruptcy re-organisation application to the Intermediate People’s Court of Guangzhou City, Guangdong Province, the PRC (the “Court”) on 7 November 2022 in order to revive its business and safeguard the interests of the Group. Subsequently, Yanchang Zhejiang had resubmitted a pre-restructuring application on 6 March 2023 in accordance with the pre-restructuring procedures as proposed by the Court in order to have greater flexibilities in handling the debt restructuring of Yanchang Zhejiang. Yanchang Zhejiang received the court’s civil ruling dated 17 March 2023 and the Court accepted the pre-restructuring application. On 7 June 2023, the Court ruled to formally accept the bankruptcy reorganisation of Yanchang Zhejiang and appointed Oriental Kunlun Law Firm (東方崑崙律師事務所) to formally become the administrator of the bankruptcy reorganisation. Further details were set out in the respective announcements of the Company dated 7 November 2022, 17 March 2023 and 25 July 2023.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

28. MATERIAL RELATED PARTIES TRANSACTIONS

Save as disclosed elsewhere in the unaudited condensed consolidated financial statements, during the six months ended 30 June 2023, 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	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Salaries, bonus and allowance	7,093	7,076
Pension Scheme contributions	111	203
	7,204	7,279

Related party transactions

Relationship	Nature of transactions	Six months ended 30 June	
		2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Ultimate holding company	Purchases of refined oil (note 1)	3,561,849	5,290,100
Fellow associates	Sales of refined oil (note 2)	9,860	26,924
Fellow subsidiaries	Sales of refined oil and by-products (note 2)	–	6,115
Immediate holding company	Secured term loan interest expenses	10,849	10,531
Ultimate holding company	Other loan interest expenses	3,639	–

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

28. MATERIAL RELATED PARTIES TRANSACTIONS (Continued)

Related party transactions (Continued)

Notes:

- (1) During the six months ended 30 June 2023, the Group had connected transactions with ultimate holding company arising from the refined oil supply agreement dated 18 November 2022 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 2025.
- (2) During the six months ended 30 June 2023, 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:	2,137 hectares unproved land acquired	Nil
Development activities:	16 wells drilled 13 wells completed	Nil
Production activities:	Average daily net production Oil: 2,290 bbl Gas: 2,656 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	1,137	–	1,137
Development costs	166,997	–	166,997
Production costs (<i>note</i>)	55,855	–	55,855

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

In the first half of 2023, under the impact of factors such as the Sino-US strategic rivalry and the escalation of geopolitical conflicts, global economic growth lost momentum, and the demand for oil and gas consumption continued to decline. Meanwhile, the influence of Russo-Ukrainian war on international oil prices becomes lessen as the international oil and gas market has basically assimilated this single major geopolitical incident. Therefore, international oil prices declined gradually, dropping by about 16% as compared to 2022. The Company strives to overcome the fluctuation and decline in international crude oil prices and has increased its capital expenditures for new drilling appropriately, actively propelled the increase in oil and gas reserves and production and maintained the growth in oil and gas production.

Upstream oil and gas production business in Canada

Novus developed steadily and healthily with continuous increases in production and income, and the efficiency of scale production is apparent. In context of fluctuating international oil prices and serious inflation in Canada, the profitability of Novus oilfield is consolidated, and its operating conditions have been improved continuously. In the first half of 2023, a total of 495,000 barrels of oil and gas were produced, representing an increase of 164,000 barrels year-on-year (331,000 barrels in the same period of 2022), up by 49.5%. A total of 500,000 barrels of oil and gas were sold, representing a year-on-year increase of 55%. As of the end of June 2023, sales revenue recorded CAD39.29 million, representing a year-on-year increase of 17%, with a net profit of CAD3.08 million.

Facing the adverse impact of extremely cold weather on production in the first quarter, Novus fully monitored the production performance of old wells, fully unleashed their production capacity, accelerated the production progress of new wells, and increased the contribution of new well production capacity. In the first half of 2023, Novus overcame unfavourable factors such as the "road closure order" during snowmelt and the difficulties in equipment and material procurement. Novus acted early and quickly to accelerate the construction progress and managed to drill 16 new wells, frack 13 wells, and put 13 wells into production. Novus controlled its on-site operating expenses at CAD18.97 per barrel, representing a year-on-year decrease of CAD0.17 per barrel, a drop of 0.89%. Novus controlled its administrative expenses at CAD5.72 per barrel, representing a year-on-year decrease of CAD1.72 per barrel, with a decrease of 23.12%. The relative controllable cost (excluding foreign exchange gains and losses, royalties, resource taxes, and depreciation and amortization) was CAD29.88 per barrel, representing a year-on-year decrease of CAD4 per barrel, with a decrease of 11.81%, and barrel oil revenue was CAD6.15 per barrel. The cost control effectiveness has been significant. Despite a decline in international crude oil prices and the rise in rigid expenses such as depreciation, mining rights tax, and financial expenses, Novus oilfield was able to maintain a profitable operation.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS (Continued)

Upstream oil and gas production business in Canada (Continued)

Novus always prioritizes safety production, strengthens on-site safety production management, timely organizes employee safety training, updates emergency response plans, and promotes safety production through system establishment. In the first half of 2023, its on-site construction was safe and orderly, with no hazardous production incident or environmental issue and no construction time lost, laying a safety foundation for drilling and production throughout the year. Meanwhile, Novus continues to communicate and cooperate with the local government to accelerate pipeline construction permission to reduce carbon emissions. In the first half of 2023, Novus completed the construction of a 5,500-meter pipeline connecting to 11 wells, reducing carbon dioxide emissions by 9,102 tonnes, and saving Novus a fine of CAD590,000. It is expected that Novus will save about 1 million CAD by the end of 2023. Novus has completed the reclamation of 11 abandoned wells, effectively fulfilling the decommissioning obligations addressed by the government.

Based on geological research, Novus improves the oil and gas extraction efficiency through technological innovation. Firstly, Novus scientifically prepared the 2023 Exploration and Development Deployment Plan, enhanced geological support, and rigorously demonstrated the rationality of well locations. In response to the formation conditions where “Viking” and “Success” reservoirs are only 3–4 meters thin, all the 34 wells are developed by horizontal well technology, with a single well horizontal length of 600–1,400 meters, of which 82% are extended wells (37% in 2022), and 62% of the well locations are deployed in the 1P and 2P reserves area, which greatly ensures the mining efficiency. Secondly, the 18.17 square kilometers of 3D collection and seismic data were successfully implemented in the Court block, providing effective technical data support for well location deployment and depth design, which can greatly improve the drilling success rate and reduce drilling costs. Thirdly, Novus used technology to accelerate and increase production, scientifically organized the construction of small surface drilling rigs, strengthened the geological guidance monitoring while drilling, optimized the multi-stage closed fracking sleeve technology and the number of fracking stages and took engineering technical indicators to a new level. In the first half of 2023, 16 wells (with total penetration exceeding 30,000 meters) were drilled, including 12 extended wells, accounting for 75%, with the drilling cycle controlled at around 4 days, and the oil reservoir drilling rate was as high as 99%, the number of designed fracking stages was 268, the number of successful fracking stages was 262, the success rate of fracking was 98%, the designed sand addition volume was 3,484 tonnes, and the actual injected sand addition volume was 3,461 tonnes. The design sand completion rate was 99%.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS (Continued)

Upstream oil and gas production business in Canada (Continued)

Novus keeps a close eye on market dynamics and diversifies its assets while putting exploration as the top priority and studying reservoir trends strenuously to keep its corporate resources sustainable. In the first half of 2023, Novus acquired a land area of 21.4 square kilometers in Plato, Major and other blocks through mergers and acquisitions and leases. In addition, the acquisition of 6.5 community blocks, totalling 16.84 square kilometers, in Major is in progress and is expected to be completed by the end of July. The block area has been increased from 399 square kilometers at the end of 2022 to 415 square kilometers, a net increase of 16 square kilometers, and plans to deploy two wells in the Sparky formation of the Major block, aiming to develop the block into one of Novus' important core assets. Meanwhile, Novus plans to submit a bid for approximately 27.84 square kilometers of 10.75 community blocks in Major block in October, which will further enrich Novus' asset portfolio.

Downstream oil sales business in China

In the first half of 2023, international commodity prices went down in general, market demand for industrial products in China was generally weak, demand for refined oil, especially diesel, as the basic energy source for industrial production, remained sluggish, and prices fell all the way, resulted in a shrinkage in volume sales of oil products of Henan Yanchang and making it difficult to make a profit. As of 30 June 2023, Henan Yanchang recorded a cumulative oil sales volume of 1,412,500 tonnes, including 775,900 tonnes of strategic trade, 288,300 tonnes of railway distribution, 98,800 tonnes of highway direct sales, 68,300 tonnes of inventory sales, 7,400 tonnes of terminal sales and 173,800 tonnes of external sourcing. In the first half of 2023, Henan Yanchang recorded an operating revenue of RMB10.284 billion, representing a year-on-year decrease of 23.47%, and a total profit of RMB5,337,800, representing a year-on-year decrease of 82.83%.

1. *Recalibrating and Regulating the Entire Business Process of Strategic Trade*

Henan Yanchang recalibrated the strategic trade business comprehensively, optimized the business process, regulated and sorted out relevant materials and documents, and achieved a sales volume of 775,900 tonnes in the first half of 2023, accomplishing 38.8% of the annual target of 2 million tonnes.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS (Continued)

Downstream oil sales business in China (Continued)

2. *Discovering New Direct Sales Business and Expanding New Distribution Channels*

- (i) **Highway direct sales.** Firstly, Henan Yanchang actively conducted ethanol business, achieving a total sales volume of 6,490 tonnes of ethanol in the first half of 2023. Currently, Henan Yanchang have already sold ethanol products to Hebei, Shandong, Hubei and other regions, and obtained 5 downstream users. Secondly, Henan Yanchang strived to maintain pre-factory prices, implement price push, and achieve increases in both volume and price. The highway direct sales recorded a cumulative sales volume of 97,800 tonnes (direct sales: 91,300 tonnes, ethanol sales: 6,500 tonnes), accomplishing 65.20% of the annual target of 150,000 tonnes. Thirdly, Henan Yanchang extensively laid out the oil depot business in Weinan, Hanzhong and Baoji, explored the locked price and quantity business with Yanchang Depot of the State Oil Reserve (國儲延長油庫), and expanded the second growth point of price spread by enhancing market research and judgment.
- (ii) **Further expanding railway distribution channels.** Henan Yanchang continued to increase its market development efforts in Hunan and Hubei. In the first half of 2023, the Hunan market recorded a cumulative sales volume of 15,600 tonnes, while the Hubei market recorded an annual sales volume of 30,400 tonnes, and these two markets achieved a cumulative sales volume of 46,000 tonnes of refined oil. In the first half of 2023, the sales volume reached 273,700 tonnes, accomplishing 54.74% of the annual target of 500,000 tonnes. At the same time, Henan Yanchang actively communicated with customers to conduct online account opening transactions, obtained a total of 9 online account opening customers and achieved cumulative online transactions of 17,500 tonnes, accomplishing 25% of the annual target of 70,000 tonnes, and it is expected that a total of 70,000 tonnes of online transactions will be conducted by the end of the year.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS (Continued)

Downstream oil sales business in China (Continued)

3. *Developing Inventory Sales by Multiple Measures*

- (i) **Henan region:** Firstly, increased the development of new customers: in the first half of 2023, Henan Yanchang developed over 40 new customers, including 7 quality customers who purchased more than 300 tonnes of oil. Henan Yanchang also improved customer files to grasp key data such as customers' purchase frequency, purchase volume and recent purchase time, and carried out maintenance and sales work for key customers. Secondly, actively explored new business models: in the first half of 2023, taking advantage of the premise that Xinzheng oil depot of Henan Yanchang has railway delivery conditions, Henan Yanchang actively liaised with upstream and downstream customers, carried out railway sales business, and sold 3,000 tonnes of oil products. In the first half of 2023, Henan Yanchang sold a total of 35,300 tonnes of oil products, accomplishing 33.6% of the annual target of 105,000 tonnes.
- (ii) **Hunan region:** In terms of resources, from carrying out inventory sales relying on railway resources to enriching regional low-cost resources relying on external sourcing, Henan Yanchang actively liaised and negotiated with certain quality suppliers such as Hubei Jin'ao (湖北金澳), Jiangsu Nantong Fuel (江蘇南通燃料), Shenghong Petrochemical (盛宏石化), and Anhui Yifeng (安徽益豐), and total transaction volume achieved 8,000 tonnes with Central China Branch of Sinopec (中石化華中公司). At the same time, Henan Yanchang inquired and communicated with the railway department and Central China Branch of Sinopec on the warehousing business, aiming to communicate about the storage location and cost of further external sourcing, improve the role of the warehousing business to Hunan Marketing Department, and ensure the continuous advancement of external sourcing business. Currently, Henan Yanchang achieved a sales volume of 11,400 tonnes of oil products (gasoline: 11,400 tonnes), accomplishing 32.6% of the annual target.
- (iii) **Ningxia region:** From January to June 2023, the Ningxia region achieved an oil sales volume of 22,700 tonnes (diesel: 17,500 tonnes, gasoline: 5,200 tonnes), accomplishing 16% of the annual target.



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS (Continued)

Downstream oil sales business in China (Continued)

4. *Compliant Operation of External Sourcing in Facilitating High-Quality Development*

Firstly, Henan Yanchang intensified the cooperative relationship with major customers to ensure the stable development of trade. Through cooperating with major customers such as Sinopec Northwest (中石化西北), Beijing Zhonglin (北京中林), Hubei State Oil Reserve (湖北國儲), etc., Henan Yanchang ensured the safe and smooth operation of the business. Secondly, Henan Yanchang increased efforts in developing new customers and constantly expanding market coverage. Henan Yanchang also actively visited Hunan, Hubei, Henan and other regions, through targeted marketing strategies and the positive influence of existing customers, to develop more customer groups in a multi-faceted manner. In the first half of 2023, Henan Yanchang developed a total of 7 new customers and 10 new suppliers for external sourcing. Thirdly, Henan Yanchang continued to advance business transformation and explore the development of a centralized procurement business. Henan Yanchang implemented the centralized procurement business according to the deployment, strengthened the communications with upstream suppliers, visited target markets, took multiple measures to open up procurement and sales channels, and accomplished the centralized procurement business of 5,000 tonnes in the first half of 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS (Continued)

Downstream oil sales business in China (Continued)

5. *Improving Quality and Volume of Terminal Retail and Enhance Brand Influence in the Region*

Firstly, Henan Yanchang improved the membership regime to enhance the market competitiveness of gas stations in Xinzheng and Xiangcheng. Henan Yanchang expanded the surrounding markets focusing on gas stations and communicated with local customers intensively to effectively grasp the actual customer needs. At the same time, Henan Yanchang formulated corresponding marketing strategies according to different market conditions while constantly developing new customer resources, and adjusted gas station promotions on 3 occasions. Prepaid card customers achieved a cumulative recharge amount of more than RMB25.28 million, ensuring continuous and stable sales of gas stations. Secondly, Henan Yanchang increased cross-industry collaboration and alliance and collaborated with third-party companies such as DiDi (滴滴), Chezhubang (車主幫), Wanjin Oil (萬金油) and Tuhu (途虎養車) to effectively increase inbound vehicle guidance. Thirdly, Henan Yanchang formed cross-industry alliances with third-party companies to effectively target customers through joint promotions and mutual concessions. Fourthly, Henan Yanchang cooperated with Ping An Insurance Division (平安保險事業部), Henan Yijian (河南一建公司), Zhoukou Port (周口港), Yuxiang Transportation (豫祥運輸), etc., to promote Henan Yanchang's oil cards to third parties for promotion, so as to ensure that Henan Yanchang can achieve benefits and increase sales. This measure has effectively ensured the achievement of Henan Yanchang's annual profit. Fifthly, Henan Yanchang expanded the small-scale distribution business. In the first half of 2023, taking gas stations as the center, Henan Yanchang expanded small-scale distribution business to construction sites, factories and enterprises and other gas stations within a 10 kilometers distance, achieved a sales volume of 1,500 tonnes, improved brand influence, and enhanced the position of Yanchang Petroleum in the industry.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS (Continued)

Outlook

The world's oil demand will maintain a recovery growth as the impact of the pandemic abates. Under the circumstances that OPEC+ maintains the existing production policy, Russian oil has limited volume reduction, and Iranian oil has not returned, it is expected that the international oil and gas market will maintain a tight balance in the second half of 2023. At the same time, it is expected that the US dollar interest rate hike cycle will end, the PRC's financial environment will continue to be loose, the real economy will enter a slow recovery stage, and international oil prices are expected to fluctuate in the range of US\$75 to US\$85 per barrel. The Company will continue to prevent and resolve various risks according to annual indicators and key tasks, actively promote the optimization of business structure, and formulate scientific and appropriate investment strategies.

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 2023, 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.

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 499,885 BOE and contributed income of HK\$231,445,000 during the period under review, as compared to sale volume of 322,754 BOE and income of HK\$205,222,000 of the previous period. Novus contributed an operating profit of HK\$20,068,000 for the six months ended 30 June 2023, as compared to an operating profit of HK\$69,126,000 for the previous period.

During the six months ended 30 June 2023, although the sales volume of oil and by-products trading business in the PRC decreased from the previous period of 1.88 million tonnes to the current period of 1.41 million tonnes, the revenue increased to HK\$11,236,496,000 of the current period from HK\$9,131,014,000 of the previous period. Henan Yanchang remained profitable for the period under review, the supply and procurement business recorded an operating profit of HK\$2,587,000, as compared to an operating loss of HK\$59,747,000 of the previous period.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Other revenue

Apart from the aforesaid segment results, other revenue of HK\$10,166,000 which mainly represented interest income from bank deposits and rental income from the PRC for the period under review, increased by HK\$3,765,000 from HK\$6,401,000 of the previous period.

Purchases

Purchases increased from the previous period of HK\$9,079,141,000 to this period of HK\$11,201,659,000 and the increase was consistent with the growth in 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\$28,242,000 to the current period of HK\$29,458,000 as a result of higher revenue.

Field operation expenses

Field operation expenses increased to HK\$55,855,000 this period from the previous period of HK\$37,816,000. The increase in expenses was mainly due to the increase in production. 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\$1,137,000 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, decreased from the previous period of HK\$83,207,000 to current period of HK\$7,883,000, were mainly incurred by Henan Yanchang for the oil and by-products trading business in the PRC. The decrease in expenses was mainly due to the business suspension of Yanchang Zhejiang during the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Administrative expenses

Administrative expenses included Directors' remuneration, staff costs, office rentals, professional fees and listing fee etc, decreased by HK\$969,000 to HK\$41,707,000 for the period under review.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation expenses increased from the previous period of HK\$62,998,000 to the current period of HK\$115,790,000. The increase was mainly due to the increase in depletion of petroleum and natural gas properties incurred by Novus in Canada resulting from the increase in production during the period under review.

Other gains and losses

The amount of HK\$18,147,000 represented the aggregate of (i) net foreign exchange gain of HK\$13,114,000 and (ii) reversal of written down of inventories of HK\$5,033,000.

Finance costs

Finance costs amounted to HK\$25,193,000 comprised (i) bank borrowing costs of HK\$9,328,000 related to the businesses of Henan Yanchang and interest of the secured term loans drawn down by Novus and the Company of HK\$10,849,000; (ii) accretion of HK\$1,355,000 related to the provision of the decommissioning liabilities incurred by Novus; (iii) imputed interest of lease liabilities of HK\$2,425,000 related to the leases of the Group and (iv) interest expenses on other loans of HK\$1,236,000.

Taxation

Taxation of HK\$4,766,000 represented the provision for the PRC corporate income tax on the profit earned from oil and by-products trading business in the PRC.

Profit/(loss) for the period

The oil and gas producing business in Canada performed satisfactorily and the oil and by-products trading business in the PRC remained profitable, the Group recorded a profit of HK\$12,806,000 for the period under review, as compared to a loss of HK\$35,831,000 in the previous period.

MANAGEMENT DISCUSSION AND ANALYSIS

SHARE SUBSCRIPTION

On 13 January 2023, an aggregate of 3,667,009,346 subscription shares, representing approximately 16.7% of the enlarged issued share capital of the Company, had been allotted and issued to ChangAn Huitong HK at the subscription price of HK\$0.0766 per subscription share under the general mandate granted to the Directors by ordinary resolution passed at the annual general meeting of the Company held on 27 May 2022. The net proceeds, after deduction of the related expenses, of approximately HK\$280,373,000 was fully used for the development of upstream oil and gas production business in Canada operated by Novus.

Details of the subscription of new shares were set out in the announcements of the Company dated 30 December 2022 and 13 January 2023.

SHARE CONSOLIDATION

On 6 April 2023, the Board proposed that every twenty (20) shares in the issued and unissued share capital of the Company be consolidated into one (1) consolidated share. The Share Consolidation was approved by the shareholders at the special general meeting of the Company held on 10 May 2023 and the same became effective on 12 May 2023. Upon the Share Consolidation becoming effective, there were 1,100,102,803 consolidation shares in issue which were fully paid or credited as fully paid.

Details of the Share Consolidation were set out in the announcement of the Company dated 6 April 2023 and the circular of the Company dated 18 April 2023.

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 2023.

The Group had outstanding variable interest rates bank borrowings amounted to HK\$248,032,000 as at 30 June 2023 (31 December 2022: HK\$306,843,000) under Henan Yanchang. The Group has obtained bank facilities of HK\$862,720,000 (equivalent to RMB800,000,000) 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. On 6 December 2022, Novus entered into a supplemental facility agreement with Yanchang Petroleum HK, pursuant to which Novus has renewed the secured term loan of US\$35,000,000 on 18 January 2023 which bears interest rate at 4.8% per annum and repayable in 3 years. The principal amount of the secured term loan was still outstanding as at 30 June 2023.



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 2023.

As at 30 June 2023, bank balance of HK\$258,032,000 (equivalent to RMB239,273,000) has been frozen by relevant court orders in respect of litigations against the Company's 51% indirectly owned subsidiary, namely Yanchang Zhejiang.

As at 30 June 2023, the Group had cash and bank balances of HK\$349,898,000 and restricted cash of HK\$258,032,000 respectively (31 December 2022: HK\$133,209,000 and HK\$303,406,000). 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 408.8% (31 December 2022: 862.5%). The current ratio of the Group, measured on the basis of current assets as a percentage of current liabilities stood at 76.6% as at 30 June 2023 (31 December 2022: 68.5%).

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 2023.

SIGNIFICANT INVESTMENT

The Group did not hold any significant investments as at 30 June 2023.

CAPITAL COMMITMENT

The Group had capital commitments related to property, plant and equipment amounted to HK\$1,328,000 (31 December 2022: HK\$8,296,000) which were contracted but not provided for as at 30 June 2023.

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.

CONTINGENT LIABILITY

As at 30 June 2023, the Group did not have any significant contingent liabilities (31 December 2022: HK\$ Nil).



MANAGEMENT DISCUSSION AND ANALYSIS

LITIGATION

Yanchang Zhejiang is a party to a number of litigations incidental to its business, it faces exposure from actual or potential claims. Yanchang Zhejiang had initially filed the bankruptcy re-organisation application to the Court on 7 November 2022 in order to revive its business and safeguard the interests of the Group. Subsequently, Yanchang Zhejiang had resubmitted a pre-restructuring application on 6 March 2023 in accordance with the pre-restructuring procedures as proposed by the Court in order to have greater flexibilities in handling the debt restructuring of Yanchang Zhejiang. Yanchang Zhejiang received the court's civil ruling dated 17 March 2023 and the Court accepted the pre-restructuring application. On 7 June 2023, the Court ruled to formally accept the bankruptcy reorganisation of Yanchang Zhejiang and appointed Oriental Kunlun Law Firm (東方崑崙律師事務所) to formally become the administrator of the bankruptcy reorganisation. Further details were set out in the respective announcements of the Company dated 7 November 2022, 17 March 2023 and 25 July 2023.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2023, the Group's total number of staff was 208 (31 December 2022: 229). Salaries of employees are maintained at a competitive level with total staff costs for the six months ended 30 June 2023 amounted to HK\$37,614,000 (six months ended 30 June 2022: HK\$41,327,000). 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 2023 and 2022.

INTERIM DIVIDENDS

The Board does not recommend the payment of interim dividends for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

OTHER INFORMATION

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 30 June 2023, 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	30,000	0.003%
Dr. Mu Guodong ("Dr. Mu")	Personal interest and interest of spouse (note)	Long position	15,000	0.001%

Note: Out of these 15,000 Shares, Dr. Mu personally held 11,500 Shares and his spouse held 3,500 Shares. Dr. Mu is deemed to be interested in these 3,500 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 2023 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 27 May 2022. The Scheme expired on the tenth anniversary of its adoption (i.e. 27 May 2032). For details, please refer to the circular of the Company dated 21 April 2022 and the announcement of the Company dated 27 May 2022.

As at 30 June 2023, none of shares in respect of which options had been granted and remained outstanding under the Scheme (31 December 2022: Nil), representing 0% (31 December 2022: 0%) of the total number of the Shares of the Company in issue at that date.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2023, the interests of persons, other than a Director or chief executive of the Company, in the shares of the Company as recorded in the register maintained pursuant to Section 336 of the SFO were as follows:

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

Name	Capacity	Long position/ Short position	Number of ordinary shares of the Company held	Approximate percentage of the total issued ordinary share capital of the Company
Yanchang Petroleum Group (note 1)	Interest of controlled corporation	Long position	634,310,161	57.66%
Yanchang Petroleum HK (note 1)	Directly owned	Long position	634,310,161	57.66%
Chang An Huitong Co., Limited ("Chang An Huitong") (note 2)	Interest of controlled corporation	Long position	183,350,467	16.67%
ChangAn Huitong HK (note 2)	Directly owned	Long position	183,350,467	16.67%

Notes:

1. Yanchang Petroleum Group beneficially held these 634,310,161 shares through its direct wholly-owned subsidiary, Yanchang Petroleum HK.
2. Chang An Huitong beneficially held these 183,350,467 shares through its directly wholly-owned subsidiary, ChangAn Huitong 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 2023.



OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2023, 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 2023, except for the following deviation:

1. code provision B.2.4(b) of the CG Code provides that all the independent non-executive Directors have served more than nine years on the Board, the Company should appoint a new independent non-executive Director on the Board. Mr. Ng Wing Ka, Mr. Leung Ting Yuk, Mr. Sun Liming and Dr. Mu Guodong have served as the independent non-executive Directors for more than nine years. The Company would appoint an additional new independent non-executive Director as soon as practicable as the Company needs time to identify a qualified and suitable candidate. As at the date of this report, the Company has not yet identified a suitable candidate to assume the role of the new independent non-executive Director as provided by the code provision B.2.4(b).
2. code provision C.1.6 of the CG Code provides that the independent non-executive Directors and other non-executive Directors should also attend general meetings and develop a balanced understanding of the views of shareholders. The independent non-executive Directors namely Mr. Ng Wing Ka and Mr. Leung Ting Yuk were unable to attend the special general meeting of the Company held on 17 January 2023 due to other ad hoc engagements.

The non-executive Director, Mr. Sun Jian and the independent non-executive Directors namely Mr. Ng Wing Ka and Dr. Mu Guodong were unable to attend the special general meeting of the Company held on 10 May 2023 due to other ad hoc engagements.

OTHER INFORMATION

- 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, non-executive Director 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.
- 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 30 June 2023 due to other ad hoc engagements.

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 2023.

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.



OTHER INFORMATION

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 18 November 2022, pursuant to which Yanchang Petroleum Group agreed to supply and Henan Yanchang agreed to purchase refined oil for the three years ending 31 December 2025.

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.

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 2023.

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

Hong Kong, 25 August 2023