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**延長石油國際有限公司**

**YANCHANG PETROLEUM INTERNATIONAL LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 00346)**

## **CONTINUING CONNECTED TRANSACTIONS**

### **REVISION OF THE ANNUAL CAPS UNDER THE EXISTING SUPPLY AGREEMENT WITH YANCHANG PETROLEUM GROUP**

Reference is made to the announcement dated 12 November 2019 and the circular dated 29 November 2019 of the Company in relation to, among others, the Existing Supply Agreement and transactions contemplated thereunder. Henan Yanchang and Yanchang Petroleum Group entered into the Existing Supply Agreement on 12 November 2019 pursuant to which Yanchang Petroleum Group has agreed to sell and Henan Yanchang has agreed to purchase refined oil for the three years ending 31 December 2022.

On 30 September 2020, Henan Yanchang and Yanchang Petroleum Group entered into the Supplemental Agreement to revise the annual caps for the purchase of refined oil by Henan Yanchang from Yanchang Petroleum Group under the Existing Supply Agreement, i.e. the Original Annual Caps, for the three years ending 31 December 2022.

Henan Yanchang is a non-wholly owned subsidiary of the Company, while Yanchang Petroleum Group, being a substantial Shareholder beneficially holding 12,686,203,231 Shares as at the date of this announcement representing approximately 69.19% of the existing issued share capital of the Company, is a connected person of the Company as defined under the Listing Rules and hence the Transactions will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the amount of the Proposed Revised Annual Caps exceed 5% and the consideration exceeds HK\$10,000,000 on an annual basis, the Transactions are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

The SGM will be convened by the Company to seek approval from the Independent Shareholders for the Transactions by way of poll. As Yanchang Petroleum Group being a substantial Shareholder is a connected person and hence Yanchang Petroleum Group, together with its associates, will abstain from voting at the SGM.

An Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders in relation to, among other things, the Supplemental Agreement and the transactions and matters contemplated thereunder and on how to vote. Astrum Capital Management Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this connection.

A circular containing, amongst other things, (i) details of the Supplemental Agreement and the Proposed Revised Annual Caps; (ii) the recommendation of the Independent Board Committee; (iii) the letter from the Independent Financial Adviser; and (iv) a notice of the SGM will be despatched to the Shareholders as soon as practicable, which is expected to be on or before 9 October 2020.

## **REVISION OF THE ANNUAL CAPS UNDER THE EXISTING SUPPLY AGREEMENT**

### **Background**

Reference is made to the announcement dated 12 November 2019 and the circular dated 29 November 2019 in relation to, among others, the Existing Supply Agreement and transactions contemplated thereunder. Henan Yanchang and Yanchang Petroleum Group entered into the Existing Supply Agreement on 12 November 2019 pursuant to which Yanchang Petroleum Group has agreed to sell and Henan Yanchang has agreed to purchase refined oil for the three years ending 31 December 2022.

The Original Annual Caps under the Existing Supply Agreement for the three years ending 31 December 2022 were determined in 2019 after taking into account: (i) the historical amounts for the purchase of refined oil by Henan Yanchang from Yanchang Petroleum Group for the two years ended 31 December 2018 and the nine months ended 30 September 2019; (ii) the previous forecast amounts of purchases to be made by Henan Yanchang for the three years ending 31 December 2022 made in 2019; (iii) the historical purchase price per tonne of refined oil from Yanchang Petroleum Group, being a discount of approximately 10% to 20% to the selling price range quoted from the National Development and Reform Commission of the PRC of approximately RMB6,800 for the period from January 2017 to September 2019; (iv) the 2019 business scale of Henan Yanchang needed to be backed by the stable and sufficient supply of refined oil from Yanchang Petroleum Group; and (v) Henan Yanchang is holding a valid licence for distribution and sales of refined oil in the whole PRC and Henan Yanchang keeps on its business development, in particular Southwest PRC in the coming future.

## Proposed Revised Annual Caps under the Supplemental Agreement

According to the interim report of the Group for the six months ended 30 June 2020 (“**2020 Interim Report**”), the Group’s revenue from trading and distribution of oil related products was increased by approximately HK\$4,799.2 million or 144.4% from approximately HK\$3,323.3 million for the six months ended 30 June 2019 to approximately HK\$8,122.6 million for the six months ended 30 June 2020. In view of the above, the Directors anticipate that a larger demand of refined oil in the market will be noted and the Directors expect that the sales of refined oil will be increased in the second half year of 2020 as the PRC economic activities have been recovered from the outbreak of COVID-19.

In light of the foregoing, Henan Yanchang and Yanchang Petroleum Group expect that the maximum purchase amount of refined oil by Henan Yanchang from Yanchang Petroleum Group under the Existing Supply Agreement for the each of the three years ending 31 December 2022 will exceed the Original Annual Caps. In this connection and in order to make room for the increase in purchase amounts of refined oil by Henan Yanchang from Yanchang Petroleum Group, on 30 September 2020, Henan Yanchang and Yanchang Petroleum Group entered into the Supplemental Agreement to revise the Original Annual Caps as follows:

	For the year ending 31 December		
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
Original Annual Caps	4,020,000	4,020,000	4,020,000
Proposed Revised Annual Caps	7,102,400	9,675,000	12,600,000

### Basis of determining the Proposed Revised Annual Caps

The Proposed Revised Annual Cap for the year ending 31 December 2020 is determined with reference to (i) the historical transaction amounts under Existing Supply Agreement for the eight months ended 31 August 2020 was approximately RMB3,223 million, representing approximately 80.2% of Original Annual Caps for the year ending 31 December 2020; (ii) prevailing market demand of refined oil with reference to the increase in sales volume of refined oil of Henan Yanchang which was increased by approximately 0.84 million tonnes or 50.9% from approximately 1.65 million tonnes for the six months ended 30 June 2019 to approximately 2.49 million tonnes for the six months ended 30 June 2020; (iii) the percentage of refined oil purchased by Henan Yanchang from Yanchang Petroleum Group of Henan Yanchang’s total purchase for the remaining period of the year ending 31 December 2020; (iv) the estimated purchase price of refined oil from Yanchang Petroleum Group; and (v) the expected increase in purchase amount of refined oil by Henan Yanchang from Yanchang Petroleum Group for the remaining period of the year ending 31 December 2020 as marketing team of Henan Yanchang has paid a great number of visits to Ningxia, Guangdong, Jiangsu, Yunnan, Hunan and Shenzhen in an effort to explore market potential and vigorously broaden new customer base during the first half of 2020 and the Group’s business has been expanded

to regions beyond Henan Province by further expanding geographical coverage of its sales network with a focus on the expansion towards south-west and north-west of PRC and nearly 244 new customers have been acquired in total for the eight months ended 31 August 2020.

Based on Henan Yanchang's total purchase of refined oil for the five months ended 31 August 2020 of approximately 2.9 million tonnes, the average monthly purchase volume was approximately 0.58 million. The Directors estimate the total purchase volume of refined oil shall be approximately 3.0 million tonnes for the four months ending 31 December 2020 with 30% buffer considered as appropriate. The Directors estimate that the percentage of refined oil purchased from Yanchang Petroleum Group of Henan Yanchang's total purchase shall be approximately 29% and the estimated purchase price of refined oil from Yanchang Petroleum Group shall be RMB4,500 per tonne for the four months ending 31 December 2020, which is determined with reference to the average weekly selling price of refined oil quoted from the National Development and Reform Commission of the PRC during the period from April to August 2020.

Having considered (i) the total estimated purchase volume of refined oil of Henan Yanchang was approximately 3.0 million tonnes for the four months ending 31 December 2020; (ii) approximately 29% of Henan Yanchang's total purchase volume of refined oil from Yanchang Petroleum Group for the four months ending 31 December 2020; (iii) the estimated purchase price of refined oil from Yanchang Petroleum Group at RMB4,500 per tonne; and (iv) the historical transaction amounts for the purchase of refined oil by Henan Yanchang from Yanchang Petroleum Group under the Existing Supply Agreement amounted to approximately RMB3,223 million for the eight months ended 31 August 2020, the Revised Proposed Cap for the year ending 31 December 2020 was therefore determined at approximately RMB7,102 million.

The Proposed Revised Annual Caps for the two years ending 31 December 2022 are determined based on approximately 36% and 30% annual growth rate for the year ending 31 December 2021 and 2022, respectively. In current business development of Henan Yanchang, Henan Yanchang has expanded its business to regions beyond Henan Province by further expanding geographical coverage of its sales network with a focus on the expansion towards south-west and north-west of PRC. In order to develop the north-west market of PRC, Henan Yanchang has entered into a strategic cooperation with a partner to operate an oil depot in Ningxia for expanding wholesale and trading of refined oil business. Henan Yanchang intends to expand its network of terminal gas stations in Ningxia by leveraging the strategic cooperative oil depot and Henan Yanchang has signed a letter of intent for cooperation with a newly-built local gas station. In addition, Henan Yanchang has actively conducted negotiation with four local gas stations in Ningxia in an attempt to establish cooperation relationship. For the continuing business development in Henan region, Henan Yanchang has initially confirmed with intent for cooperation with three gas stations in Zhoukou, Henan. With the above efforts on market expansion and new customers exploration, Henan Yanchang has acquired nearly 244 new customers for the eight months ended 31 August 2020 which contributed total revenue of approximately RMB 8,526 million by sales of refined oil of approximately 2.0 million tonnes, representing approximately 53% of total revenue and 56% of total sales volume of refined oil. The Group will focus on further expansion during the two years ending 31 December 2022 with the current business expansions plan.

Having considered (i) the abovementioned business expansions of Henan Yanchang; (ii) the prevailing market demand and expected increase in sales volume of refined oil of Henan Yanchang with reference to the historical growth rate of approximately 50.9% of sales volume of refined oil of Henan Yanchang compared with the six months ended 30 June 2019 and 2020; (iii) the expected increase in purchase amount of refined oil by Henan Yanchang from Yanchang Petroleum Group for the two years ending 31 December 2022 due to the Group's successful expansion in geographical coverage of sales network from Henan Province towards south-west and north-west of PRC, the Directors are of the view that the Proposed Revised Annual Caps for the two years ending 31 December 2022 determined based on approximately 36% and 30% annual growth rate for the year ending 31 December 2021 and 2022, respectively, are fair and reasonable.

Due to the uncertainty of the amount required of refined oil for the purpose of the Group's business, additional buffer to the historical amount is included when determining the Proposed Revised Annual Caps to avoid any undue disruption and detriment to the business operations of the Group if any annual caps is to be revised and re-approved by Independent Shareholders.

Save for the revision to the Original Annual Caps set out above, the other terms of the Existing Supply Agreement remain unchanged and effective.

### **Condition Precedent**

The revision of the Original Annual Caps for the three years ending 31 December 2022 contemplated under the Supplemental Agreement (together with the Proposed Revised Annual Caps for the three years ending 31 December 2022) will take effect conditional upon the Independent Shareholders' approval having been obtained at the SGM.

In the event that the Supplemental Agreement does not become effective, the Existing Supply Agreement will remain in full force and binding on Henan Yanchang and Yanchang Petroleum Group.

### **Historical amounts**

The relevant historical transaction amounts of refined oil purchased by Henan Yanchang from Yanchang Petroleum Group under the Previous Supply Agreement and Existing Supply Agreement are set out as follows:

	<b>For the year ended 31 December</b>			<b>For the eight months ended</b>
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>31 August</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Historical transaction amounts	920	2,804	2,900	3,223

For each of the three years ended 31 December 2019, the historical transaction amounts under the Previous Supply Agreement were approximately RMB920 million, RMB2,804 million and RMB2,900 million, respectively. The increase in transaction amounts under the Previous Supply Agreement from the year ended 31 December 2017 to the year ended 31 December 2019 was mainly due to the increase in amount of Henan Yanchang's overall purchases.

For the eight months ended 31 August 2020, the historical transaction amounts under the Existing Supply Agreement were approximately RMB3,223 million, representing approximately 80.2% of the Original Annual Cap for the year ending 31 December 2020. The Directors estimate that the aggregate purchase amount of refined oil by Henan Yanchang from Yanchang Petroleum Group under the Existing Supply Agreement for each of the three years ending 31 December 2022 will exceed the Original Annual Caps for each of the three years ending 31 December 2022 of RMB4,020 million.

### **REASONS FOR AND BENEFITS OF THE REVISION OF THE ANNUAL CAPS UNDER THE EXISTING SUPPLY AGREEMENT**

The Group is principally engaged in investment in the oil, gas and energy related business; oil and gas exploration, exploitation and operation; and trading and distribution of oil related products.

Henan Yanchang is principally engaged in the wholesale, retail, storage and transportation of refined oil (gasoline, diesel oil, paraffin fuel oil, lubricating oil, grease and asphalt). Henan Yanchang has been granted a valid licence since 21 December 2006 (without expiry date) for the distribution and sale of refined oil in the PRC.

Yanchang Petroleum Group is principally engaged in oil and gas exploration, exploitation, processing, pipeline transportation and sales of oil and gas; chemical engineering of oil, gas and coal, machinery manufacturing, project construction and oil and gas research and development. Yanchang Petroleum Group owns the right for exploration, exploitation and operation of oil and natural gas resources and has refining facilities in the PRC, and owns oil and natural gas resource assets in the PRC and abroad.

The Existing Supply Agreement was entered into in the usual and ordinary course of the Group's business and the terms of which were negotiated based on normal commercial terms and the prices were determined after arm's length negotiation and on terms which the Group considers to be no less favourable to the Group than terms offered by independent third party suppliers to the Group for such oil of comparable product type, quality and quantity at the relevant time.

With the revision of the Original Annual Caps under the Existing Supply Agreement, the historical transaction amounts under the Existing Supply Agreement was approximately RMB3,223 million for the eight months ended 31 August 2020, representing approximately 80.2% of the Original Annual Caps for the year ending 31 December 2020, and the Group will continue to leverage its purchase of refined oil from Yanchang Petroleum Group as one of major suppliers with terms of which were negotiated based on normal commercial terms and the prices were determined after arm's length negotiation and on terms which the Group considers to be no less favourable to the Group than terms offered by independent third party suppliers to the Group for such oil of comparable product type, quality and quantity at the relevant time.

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

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

In view of (i) the continuing support from Yanchang Petroleum Group with secured supply of refined oil; (ii) Henan Yanchang's effective strategies in market expansion and customer exploration for distribution and sales of refined oil in the whole PRC, the Group would be able to expand its refined oil business as well as its sales network in the PRC; and (iii) the no less favourable price of refined oil offered by Yanchang Petroleum Group as compared with the independent third party suppliers, the Directors estimate that the total purchase of the refined oil from Yanchang Petroleum Group for each of the three years ending 31 December 2022 will exceed the Original Annual Caps.

The Board (excluding the independent non-executive Directors whose view will be rendered upon receiving the advice of the Independent Financial Adviser) is of the opinion that the terms of the Supplemental Agreement are fair and reasonable so far as the Independent Shareholders are concerned and the entering into the Supplemental Agreement is in the interests of the Company and the Shareholders as a whole.

## **IMPLICATION UNDER THE LISTING RULES**

Henan Yanchang is a non wholly-owned subsidiary of the Company and Yanchang Petroleum Group, being a substantial Shareholder beneficially holding 12,686,203,231 Shares representing approximately 69.19% of the existing issued share capital of the Company, is a connected person of the Company as defined under the Listing Rules and hence the Transactions will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the amount of the Proposed Revised Annual Caps exceed 5% and the consideration exceeds HK\$10,000,000 on an annual basis, the Transactions are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

None of the Directors have a material interest in the Supplemental Agreement and the transactions contemplated thereunder. Yanchang Petroleum Group and its associates shall abstain from voting in favour of the Supplemental Agreement and the transactions and matters contemplated thereunder at the SGM. Save for Yanchang Petroleum Group, to the best knowledge, information and belief of the Directors, no other Shareholders or any of their respective associates have a material interest in the Supplemental Agreement and the transactions and matters contemplated thereunder, and accordingly are required to abstain from voting at the SGM.

### **Independent Board Committee**

An Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders in relation to, among other things, the Supplemental Agreement and the transactions and matters contemplated thereunder and on how to vote. Astrum Capital Management Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in these regards.

### **SGM**

The SGM will be convened by the Company to seek approval from the Independent Shareholders for the Supplemental Agreement and the transactions and matters contemplated thereunder by way of poll. As at the date of this announcement, Yanchang Petroleum Group, being a substantial Shareholder beneficially holding 12,686,203,231 Shares representing approximately 69.19% of the existing issued share capital of the Company, is a connected person and hence Yanchang Petroleum Group, together with its associates, will abstain from voting at the SGM.



## General

A circular containing, amongst other things, (i) details of the Supplemental Agreement and the Proposed Revised Annual Caps; (ii) the recommendation of the Independent Board Committee; (iii) the letter from the Independent Financial Adviser; and (iv) a notice of the SGM will be despatched to the Shareholders as soon as practicable, which is expected to be on or before 9 October 2020.

## DEFINITIONS USED IN THIS ANNOUNCEMENT

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“associates”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Company”	Yanchang Petroleum International Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange (stock code: 00346)
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Continuing Connected Transaction(s)”	transaction(s) between Yanchang Petroleum Group and Henan Yanchang for the supply of refined oil from Yanchang Petroleum Group to Henan Yanchang with terms and conditions in accordance with the Existing Supply Agreement
“COVID-19”	an infectious disease caused by a newly discovered coronavirus since December 2019, namely, severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) which has spread globally and resulted in a pandemic
“Director(s)”	the director(s) of the Company
“Existing Supply Agreement”	the agreement dated 12 November 2019 entered into between Henan Yanchang and Yanchang Petroleum Group in respect of the supply of refined oil from Yanchang Petroleum Group to Henan Yanchang for the three years ending 31 December 2022
“Group”	the Company and its subsidiaries from time to time

“Henan Yanchang”	河南延長石油銷售有限公司 (Henan Yanchang Petroleum Sales Co., Limited), a limited company incorporated under the PRC laws which is an indirect non-wholly owned subsidiary of the Company and 70% owned by the Group as at the date of this announcement
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company, comprising all the independent non-executive Directors to be established to advise the Independent Shareholders on the Supplemental Agreement and the transactions and matters contemplated thereunder
“Independent Financial Adviser”	Astrum Capital Management Limited, a licensed corporation to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transactions
“Independent Shareholders”	Shareholders other than Yanchang Petroleum Group and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Original Annual Caps”	the annual caps for the Continuing Connected Transactions under the Existing Supply Agreement for each of the three years ending 31 December 2022
“PRC”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Previous Supply Agreement”	the agreement dated 30 December 2016 entered into between Henan Yanchang and Yanchang Petroleum Group in respect of the supply of refined oil from Yanchang Petroleum Group to Henan Yanchang for the three years ended 31 December 2019

“Proposed Revised Annual Caps”	the proposed revised annual caps for the Continuing Connected Transactions under the Supplemental Agreement supplemented to the Existing Supply Agreement for each of the three years ending 31 December 2022
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, approve the Supplemental Agreement and the transactions and matters contemplated thereunder
“Share(s)”	existing ordinary share(s) of HK\$0.02 each in the share capital of the Company
“Shareholder(s)”	the registered holder(s) of issued Share(s) from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement dated 30 September 2020 supplemented to the Existing Supply Agreement entered into between Henan Yanchang and Yanchang Petroleum Group in respect of the revision of the Original Annual Caps for the three years ending 31 December 2022
“Transactions”	transactions contemplated under the Supplemental Agreement (together with the Proposed Revised Annual Caps)
“Yanchang Petroleum Group”	陝西延長石油(集團)有限責任公司 (Shaanxi Yanchang Petroleum (Group) Co., Limited), a state-owned corporation registered in the PRC with limited liability, being a substantial Shareholder beneficially holding 12,686,203,231 Shares representing approximately 69.19% of the existing issued share capital of the Company as at the date of this announcement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC

“%”

per cent.

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

Hong Kong, 30 September 2020

***Executive Directors:***

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

***Independent Non-Executive Directors:***

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