
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Yanchang Petroleum International Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or the transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



延長石油國際有限公司

YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00346)

CONNECTED TRANSACTION LOAN AGREEMENT

Financial adviser to the Company



紅日資本有限公司

RED SUN CAPITAL LIMITED

**Independent Financial Adviser to the Independent Board Committee and
the Independent Shareholders**



A letter from the Board is set out on pages 5 to 14 of this circular. A letter from the Independent Board Committee containing its recommendation in respect of the Loan Agreement and the transactions contemplated thereunder set out on page 15 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the Loan Agreement and the transactions contemplated thereunder is set out on pages 16 to 35 of this circular.

A notice convening an SGM of the Company to be held at Taishan Room, Level 5, Island Shangri-La, Pacific Place, Supreme Court Road, Central, Hong Kong on Tuesday, 31 August 2021 at 3:30 p.m. is set out on pages 41 to 42 of this circular.

Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy, in accordance with the instructions printed thereon and deposit the same at the Hong Kong branch share registrar of the Company, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

PRECAUTIONARY MEASURES FOR THE SGM

Please refer to page 43 of this circular for precautionary measures being taken to prevent and control the spread of COVID-19 at the SGM, including:

1. compulsory wearing of surgical mask;
2. compulsory body temperature checks; and
3. no refreshments or drinks will be served.

Any person who does not comply with the precautionary measures may be denied entry into the venue of the SGM. The Company also encourages the Independent Shareholders to consider appointing the chairman of the SGM as his/her proxy to vote on the resolution at the SGM as an alternative to attending in person.

CONTENT

| | <i>Page</i> |
|--|-------------|
| Definitions | 1 |
| Letter from the Board | 5 |
| Letter from the Independent Board Committee | 15 |
| Letter from Independent Financial Adviser | 16 |
| Appendix — General Information | 36 |
| Notice of the SGM | 41 |
| Precautionary Measures for the SGM | 43 |

DEFINITIONS

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

| | |
|---------------------------|---|
| “Announcement” | the announcement of the Company dated 30 June 2021 in relation to, among others, the Loan Agreement and transactions contemplated thereunder |
| “associates” | has the meaning ascribed to it under the Listing Rules |
| “Board” | the board of Directors |
| “Borrower” | the Company |
| “Business Day(s)” | any day (other than Saturday and any day on which a tropical cyclone warning signal no.8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “black” rainstorm warning signal is hoisted or remains in effect between 9:00 a.m. and 12:00 noon is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are open for general business |
| “Company” | Yanchang Petroleum International Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 00346) |
| “connected person(s)” | has the meaning ascribed to it under the Listing Rules |
| “Controlling Shareholder” | has the meaning ascribed to it under the Listing Rules |
| “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 |
| “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 Latest Practicable Date |

DEFINITIONS

| | |
|--|---|
| “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 Shareholder on the Loan Agreement and the transactions contemplated thereunder |
| “Independent Financial Adviser” or “Astrum” | Astrum Capital Management Limited, a corporation licensed 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 Loan Agreement |
| “Independent Shareholders” | Shareholders other than Yanchang Petroleum Group and its associates |
| “Latest Practicable Date” | 26 July 2021, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein |
| “Lender” | Yanchang Petroleum HK |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange and as amended from time to time |
| “Loan” | the loan granted to the Company by Yanchang Petroleum HK in a principal amount of US\$22,000,000 (equivalent to approximately HK\$170,675,000) under the Loan Agreement |
| “Loan Agreement” | the agreement in relation to the Loan entered into between the Company and Yanchang Petroleum HK on 30 June 2021 |
| “Novus” | Novus Energy Inc., a company incorporated in Canada with limited liability and is wholly owned by the Company |

DEFINITIONS

| | |
|----------------------------|---|
| “PRC” | the People’s Republic of China, which for the purpose of this circular, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan |
| “SGM” | the special general meeting of the Company to be convened to consider and, if thought fit, approve the Loan Agreement and the transactions contemplated thereunder |
| “share(s)” | existing ordinary share(s) of HK\$0.02 each in the share capital of the Company |
| “Share Charge” | the share charge to be granted by the Company in favour of Yanchang Petroleum HK over 350 shares held by the Company in Sino Union Energy (representing 35% of the issued share capital of Sino Union Energy) as security for the loan facilities under the Loan Agreement |
| “Share Charge Deed” | the deed dated 30 June 2021 entered into by the Company as chargor in favour of Yanchang Petroleum HK as chargee in relation to the Share Charge |
| “Shareholder(s)” | holder(s) of Share(s) |
| “Sino Union Energy” | Sino Union Energy International Limited, a company incorporated with limited liability in the British Virgin Islands and is wholly owned by the Company |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “subsidiary(ies)” | has the meaning ascribed to it under the Listing Rules |
| “Utilisation” | the utilisation of the Loan |
| “Utilisation Date” | date of the utilisation of the Loan, being the date on which the Loan is to be drawn down |
| “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 Controlling Shareholder, through Yanchang Petroleum HK, beneficially holding 12,686,203,231 Shares representing approximately 69.19% of the existing issued share capital of the Company as at the Latest Practicable Date |

DEFINITIONS

| | |
|-------------------------|--|
| “Yanchang Petroleum HK” | Yanchang Petroleum Group (Hong Kong) Co., Limited (延長石油集團(香港)有限公司), a company incorporated in Hong Kong with limited liability and is wholly owned by Yanchang Petroleum Group |
| “CAD” | Canadian Dollars, the lawful currency of Canada |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “US\$” | United States dollars, the lawful currency of the United States of America |
| “%” | per cent. |

For the purpose of this circular, the exchange rate of US\$0.1289=HK\$1.00 and CAD0.1582=HK\$1.00 have been used, where applicable, for the purpose of illustration only and do not constitute a representation that any amount have been, could have been or may be exchanged, at this or any other rates.

Certain English translation of Chinese names or words in this circular are included for information only, and are not official English translations of such Chinese names or words.

** For identification purpose only*

LETTER FROM THE BOARD



延長石油國際有限公司

YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00346)

Executive Directors:

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

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Independent non-executive Directors:

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

*Head office and principal place of
business in Hong Kong:*

Room 3403, 34th Floor
Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

29 July 2021

To the Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION LOAN AGREEMENT

INTRODUCTION

Reference is made to the Announcement in relation to, among others, the Loan Agreement and the transactions contemplated thereunder. On 30 June 2021 (after trading hours), the Company (as the Borrower) entered into the Loan Agreement with Yanchang Petroleum HK (as the Lender), pursuant to which Yanchang Petroleum HK conditionally agreed to provide the Loan of US\$22,000,000 (equivalent to approximately HK\$170,675,000) which is secured by the Share Charge granted by the Company in favour of the Lender in securing the repayment obligation under the Loan Agreement.

As at the Latest Practicable Date, Yanchang Petroleum HK is the Controlling Shareholder holding 12,686,203,231 Shares, representing approximately 69.19% of the existing issued share capital of the Company. Yanchang Petroleum HK is directly and wholly owned by Yanchang Petroleum Group. As such, Yanchang Petroleum HK is a connected person of the Company as defined under the Listing Rules and hence the transactions contemplated under the

LETTER FROM THE BOARD

Loan Agreement will constitute connected transaction of the Company under Chapter 14A of the Listing Rules. As the highest of applicable percentage ratios in respect of the amount of the Loan exceeds 5% and the Loan exceeds HK\$10,000,000, the Loan Agreement is subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Mr. Zhang Jianmin, the executive Director, is also the director of the Yanchang Petroleum HK and an employee of Yanchang Petroleum Group holding none of the shares of the Company, Yanchang Petroleum HK and Yanchang Petroleum Group. For good corporate governance, Mr. Zhang Jianmin had voluntarily abstained from voting on the resolutions of the Board to approve the Loan Agreement and the transactions contemplated thereunder. Save as aforementioned, to the best knowledge, information and belief of the Directors, having made all reasonable enquiries, none of the other Directors has a material interest in the Loan Agreement and the transactions contemplated thereunder, and accordingly is required to abstain from voting on the resolutions of the Board.

As Yanchang Petroleum HK is the Controlling Shareholder, and directly and wholly owned by Yanchang Petroleum Group, Yanchang Petroleum Group and its associates shall abstain from voting in favour of the Loan Agreement and the transactions 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 Loan Agreement and the transactions contemplated thereunder, and accordingly are required to abstain from voting at the SGM.

The purpose of this circular is to provide you with information which includes, among other things, (i) further details in respect of the Loan Agreement; (ii) the letter of recommendation from the Independent Board Committee in respect of the Loan Agreement and the transactions contemplated thereunder; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Loan Agreement and the transactions contemplated thereunder; and (iv) a notice of the SGM.

THE LOAN AGREEMENT

The principal terms of the Loan Agreement are summarised as follows:

| | |
|-------------------|--|
| Date: | 30 June 2021 (after trading hours) |
| Parties: | (1) the Company (as Borrower); and (2) Yanchang Petroleum HK, (as Lender) |
| Principal amount: | US\$22,000,000 (equivalent to approximately HK\$170,675,000). |

LETTER FROM THE BOARD

- Interest rate: 4.8% per annum, which shall be payable every three months from the Utilisation Date, representing US\$264,000 (equivalent to approximately HK\$2,048,000) for every three months. If any interest payment date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next Business Day in that calendar month (if any).
- Term: Commencing from the Utilisation Date and expiring on the third anniversary of the Utilisation Date.
- Principal conditions precedent: The Lender shall not be obliged to advance the Loan to the Borrower unless:
- (a) the Lender having received the executed Loan Agreement;
 - (b) the Lender having received the executed Share Charge Deed and all necessary documents (if any) in relation to the Share Charge Deed;
 - (c) the Borrower having complied with all applicable laws (including but not limited to Hong Kong, PRC and Bermuda) and obtained all necessary approvals in relation to the Loan Agreement and the transactions contemplated under the Listing Rules, including but not limited to, obtaining approvals for the Loan Agreement, the Share Charge Deed and other documents required from the Independent Shareholders at the SGM;
 - (d) all warranties made by the Borrower to the Lender (except for warranties waived by the Lender in accordance with the Loan Agreement) is true and accurate, and not misleading, and there is no fact or situation concerning the Borrower that constitutes or is likely to constitute breach of any warranties made by the Borrower to the Lender in relation to all necessary documents regarding the Loan Agreement and the Share Charge Deed;
 - (e) the Borrower having issued a duly signed certificate (by a representative authorised by the Board) confirming that the Loan and the Share Charge will not result in exceeding in limitation of any other restricted borrowing, mortgage guarantees or similar limits of the Borrower;

LETTER FROM THE BOARD

- (f) the Borrower having issued a duly signed certificate (by a representative authorised by the Board) certifying that all the documents provided by the Borrower are correct, complete and valid, and the Loan Agreement and Share Charge Deed have obtained or completed all the authorization, approval, registration and filing (if necessary) of the government departments or administrative agencies or the third party required; and
- (g) the Board having approved the Loan Agreement and the Share Charge Deed and authorised and confirmed that the Board having signed the Loan Agreement, the Share Charge Deed and the relevant documents.

Repayment arrangement: The principal of the Loan shall be repaid in full by the maturity.

Early repayment: The Borrower can repay all of the Loan that have been drawn but not yet repaid at any time before the planned repayment dates set out in the repayment schedule, provided that the Borrower shall provide a notice of no less than 7 Business Days in advance to the Lender and obtain the written consent of the Lender.

Default: If the Borrower fails to repay the principal and accrued interests of the Loan or commits any of the default events as specified under the Loan Agreement, the Lender shall have the right to declare the Loan, the interests due, and any amounts to be paid under the Loan Agreement to be immediately payable or exercise all or any of the rights or compensation under the Loan Agreement.

Security: 350 ordinary shares of Sino Union Energy held by the Borrower in Sino Union Energy (representing 35% of the issued share capital of Sino Union Energy) under the Share Charge Deed pursuant to which the Borrower agreed to provide a guarantee in favour of the Lender that the Borrower shall procure on the best effort basis the carrying valuation of Henan Yanchang will be not less than US\$104,800,000. In case of breach the such carrying valuation guaranteed, the Borrower and the Lender can negotiate to take remedies within 30 days and the Borrower shall not be deemed to have breached the Share Charge Deed after taking up the remedies.

LETTER FROM THE BOARD

The Lender has the right to make reasonable requests, which the Lender considers appropriate, in relation to the manner and conditions precedent, except for the condition precedent (c) above, to waive all or part of the conditions precedent above, or to extend the time to fulfil the conditions precedent, or to satisfy the conditions precedent in other manners, and if the exemption or extension is made on conditions precedent and any clauses are attached to the conditions precedent, any violation or non-compliance of these clauses will constitute an event of default.

INFORMATION ON THE PARTIES TO THE LOAN AGREEMENT

Yanchang Petroleum HK is a company incorporated in Hong Kong with limited liability which is directly and wholly owned by Yanchang Petroleum Group. As at the Latest Practicable Date, Yanchang Petroleum HK is the Controlling Shareholder holding 12,686,203,231 Shares, representing approximately 69.19% of the issued share capital of the Company. Accordingly, Yanchang Petroleum HK is a connected person of the Company.

The principal activities of Yanchang Petroleum HK are investment holding and trading of crude oil. The principal activities of Yanchang Petroleum Group include oil and gas exploration, engineering construction, technical research and development, equipment manufacturing, oil and gas development, petrochemical engineering, oil refining, comprehensive chemical engineering of oil, gas, coal, and salt, and pipeline transport.

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.

Sino Union Energy is a company incorporated with limited liability in the British Virgin Islands which is wholly owned by the Company. Sino Union Energy is principally engaged in investment holding and being indirectly holding 70% in interest of shares of Henan Yanchang.

REASONS FOR AND BENEFITS OF THE LOAN

As set out in the annual report of the Company for the year ended 31 December 2020 (“**2020 Annual Report**”), the global pandemic of COVID-19 continued its rampage and most of the world’s major economies had experienced negative growth. Novus is engaged in the business of exploration, exploitation and production of oil and natural gas in Western Canada.

Since the beginning of the current year, the effects of global epidemic prevention and control have gradually emerged. As a result of effective control over the COVID-19 pandemic by the current progress of vaccine development and vaccination rollout, the economic operations have maintained restorative growth, especially in the PRC and the United States. In order to seize the favourable opportunity of rising international crude oil prices and of significantly improving market demand for petroleum in North American market, consisting of the United States and Canada, the Company is making effort to optimize production and operation arrangements, as well as increase in the production capacity and sales of crude oil. The Loan

LETTER FROM THE BOARD

Agreement will enable the Company to obtain adequate funds to meet Novus' financial needs for expanding its production capacity. It is expected that the additional production capacity will generate higher income level when the expansion is completed, which is in the interest of the Company as a whole, and is in line with its business strategy and overall interest. The Directors expected that approximately 92.6% of the Loan amount, representing approximately HK\$158.0 million, will be used for the drilling of the 26 new oil wells and approximately 7.4% of the Loan amount, representing approximately HK\$12.7 million, will be used for general working capital of Novus.

According to the unaudited management accounts of Novus for the five months ended 31 May 2021, the cash and net asset value of Novus were amounted to approximately CAD5,552,000 (equivalent to approximately HK\$35,095,000) and CAD51,374,000 (equivalent to approximately HK\$324,741,000) as at 31 May 2021, respectively. Although the Group has approached several individual facility providers and/or banks, such facility providers and/or banks refuse to provide the relevant financing proposal up to the Latest Practicable Date.

According to the 2020 Annual Report, the cash and bank balances of the Group were amounted to approximately HK\$436,084,000 as at 31 December 2020, of which approximately HK\$394,436,000 was maintained in the subsidiaries of the Company in the PRC, which is used for maintaining the daily operation of the subsidiaries of the Company in the PRC, and can only be transferred to countries and regions outside the PRC through burdensome and time-consuming administrative procedures, therefore, it is not expected that the Company would have sufficient internal resources transfer to Novus for its needs of expansion funds.

Besides, the Company has approached several banks in Hong Kong regarding the possibility and feasibility of granting new credit line or loan to the Group, however, the such banks declined to provide financial assistance of sufficient amount to the Group in view of its continuous loss-making position and company leverage. The Company has also considered equity financing, such as placing, rights issue or open offer, the Company will need to undergo a relatively lengthy process in order to (i) identify suitable underwriter(s) and negotiate terms agreeable to the Company; (ii) prepare the requisite compliance and legal documentation, including but not limited to the underwriting agreement(s), announcement(s) and prospectus(es). Also, the Directors consider that the placing, rights issue or open offer would incur more transaction costs including but not limited to placing/underwriting commission and such corporate exercises would have a relatively more time-consuming process including the lengthy process of identifying potential placee(s) and/or underwriter(s), if applicable; and that the lengthy timetable and procedures of implementing placing, rights issue or open offer which may affect the fund raising plan to meet the funding needs of Novus. For other equity financing method such as subscription of Shares, the Company has also tried equity financing that the Company entered into a subscription agreement to propose the issue of 1,210,000,000 Shares at the subscription price of HK\$0.24 per subscription share on 14 June 2016 but the proposed subscription was ceased on 31 December 2017 due to certain conditions of the subscription had not been fulfilled. Please refer to the announcements of the Company dated 16 June 2016, 17 July 2017 and 2 January 2018 for further details. In addition, Yanchang Petroleum HK granted the secured term loan with principal amount of US\$35.0 million to Novus which was completed

LETTER FROM THE BOARD

in December 2019 and there was US\$60.0 million convertible bonds held by Yanchang Petroleum HK which has been fully converted in May 2020. As such, another issuance of convertible bonds short term is not practicable given the lack of interest from potential investors.

The Loan demonstrates the continuous financial support provided by the Controlling Shareholder to the Group. The terms of the Loan Agreement, including the applicable interest rate, are entered into after arm's length negotiations between the parties and taking into account, among others, the prevailing market interest rates and practices. The interest rate of 4.8% per annum under the Loan Agreement was arrived at after arm's length negotiation between the Company and Yanchang Petroleum HK after considering of (i) the banks approached by the Company declined to provide financial assistance of sufficient amount in relation to the new credit line or loan to the Group; (ii) the effective interest rate of the bank borrowings of the Group of approximately 4.9% and 4.5% as at 31 December 2019 and 2020, respectively, and all of the such bank borrowings were provided by the banks in the PRC; and (iii) the interest rate of the loan granted to Novus by Yanchang Petroleum HK at 4.8% per annum under the loan agreement dated 5 November 2019, please refer to the announcement and the circular of the Company dated 5 November 2019 and 29 November 2019, respectively, for further details. In view of the foregoing, the Directors are of the view that the interest rate of 4.8% per annum under the Loan Agreement is fair and reasonable.

Based on the unaudited consolidated management accounts for the year ended 31 December 2019 and 2020, the profit attributable to the owners of Sino Union Energy was approximately HK\$19.3 million and HK\$12.5 million, respectively. Based on the unaudited consolidated management accounts as at 31 May 2021, the net asset value attributable to the owners of Sino Union Energy was approximately HK\$284.5 million and hence the 35% interest of net asset value attributable to the owners of Sino Union Energy represents approximately HK\$99.6 million (HK\$284.5 million multiplied by 35%), which would be about 0.6 times of the Loan of US\$22,000,000 (equivalent to approximately HK\$170.7 million). Besides, the 100% value of Henan Yanchang (which is 70% beneficially held by Sino Union Energy) was approximately RMB682.6 million (equivalent to approximately HK\$819.1 million), based on a valuation report as at 31 December 2020 conducted by an independent valuer for the audit purpose of the consolidated financial statements of the Group for the year ended 31 December 2020. Based on the above valuation, the 24.5% interest of Henan Yanchang represents approximately HK\$200.7 million (HK\$819.1 million multiplied by 70% then multiplied by 35%) which would be about 1.2 times of the Loan of US\$22,000,000 (equivalent to approximately HK\$170.7 million). Given that the Group is in the absence of any immediate new credit line or loan to the Group, the Directors considered that there is compelling need for the financing under the Loan Agreement which terms are on normal commercial terms and are fair and reasonable to the shareholders and to the Company as a whole under the circumstance.

Taking into account (i) the financial situation of Novus and expansion plan for its production capacity as discussed above; (ii) the cash level to be maintained for the daily operation of the subsidiaries of the Company in the PRC; and (iii) the alternative funding tried and considered by Novus and the Company and the imposition of foreign exchange control in

LETTER FROM THE BOARD

the PRC that the Group is not able to transfer its funding from the PRC to Novus, respectively, as discussed above; the Directors (including all the independent non-executive Directors) are of the view that the transactions contemplated under the Loan Agreement, although are not in the ordinary and usual course of business, are entered into on normal commercial terms, fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

IMPLICATION UNDER THE LISTING RULES

As at the Latest Practicable Date, Yanchang Petroleum HK is the Controlling Shareholder holding 12,686,203,231 Shares, representing approximately 69.19% of the existing issued share capital of the Company. Yanchang Petroleum HK is directly and wholly owned by Yanchang Petroleum Group. As such, Yanchang Petroleum HK is a connected person of the Company as defined under the Listing Rules and hence the transactions contemplated under the Loan Agreement will constitute connected transaction of the Company under Chapter 14A of the Listing Rules. As the highest of applicable percentage ratios in respect of the amount of the Loan exceeds 5% and the Loan exceeds HK\$10,000,000, the Loan Agreement is subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Mr. Zhang Jianmin, the executive Director, is also the director of the Yanchang Petroleum HK and an employee of Yanchang Petroleum Group holding none of the shares of the Company, Yanchang Petroleum HK and Yanchang Petroleum Group. For good corporate governance, Mr. Zhang Jianmin had voluntarily abstained from voting on the resolutions of the Board to approve the Loan Agreement and the transactions contemplated thereunder. Save as aforementioned, to the best knowledge, information and belief of the Directors, having made all reasonable enquiries, none of the other Directors has a material interest in the Loan Agreement and the transactions contemplated thereunder, and accordingly is required to abstain from voting on the resolutions of the Board.

As Yanchang Petroleum HK is the Controlling Shareholder, and directly and wholly owned by Yanchang Petroleum Group, Yanchang Petroleum Group and its associates shall abstain from voting in favour of the Loan Agreement and the transactions 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 Loan Agreement and the transactions 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 Loan Agreement and the transactions contemplated thereunder and on how to vote. Astrum has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in these regards.

LETTER FROM THE BOARD

SGM

The SGM will be convened by the Company to seek the approval from the Independent Shareholders for the Loan Agreement and the transactions contemplated thereunder by way of poll. As at the Latest Practicable Date, Yanchang Petroleum HK, being a Controlling Shareholder 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.

The notice convening the SGM to be held at Taishan Room, Level 5, Island Shangri-La, Pacific Place, Supreme Court Road, Central, Hong Kong on Tuesday, 31 August 2021 at 3:30 p.m. is set out on pages 41 to 42 of this circular. An ordinary resolution will be proposed at the SGM to approve, among other things, the Loan Agreement and the transactions contemplated thereunder. The resolution proposed to be approved at the SGM will be taken by poll and an announcement will be made by the Company after the SGM on the result of the SGM.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM in person, you are requested to complete the form of proxy enclosed and return it to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or at any adjournment meeting thereof if you so wish and, in such event, the form of proxy shall be deemed to be revoked.

Mr. Zhang Jianmin, the executive Director, is also the director of the Yanchang Petroleum HK and an employee of Yanchang Petroleum Group holding none of the shares of the Company, Yanchang Petroleum HK and Yanchang Petroleum Group. For good corporate governance, Mr. Zhang Jianmin had voluntarily abstained from voting on the resolutions of the Board to approve the Loan Agreement and the transactions contemplated thereunder. Save as aforementioned, to the best knowledge, information and belief of the Directors, having made all reasonable enquiries, none of the other Directors has a material interest in the Loan Agreement and the transactions contemplated thereunder, and accordingly is required to abstain from voting on the resolutions of the Board.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, as at the Latest Practicable Date, 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. Save for the above, no other Shareholders or any of their respective associates have any interests in the transaction contemplated under the Loan Agreement and are required to abstain from

LETTER FROM THE BOARD

voting at the SGM in relation to the resolution regarding the Loan Agreement and the transactions contemplated thereunder.

RECOMMENDATIONS

Taking into account the reasons as set out in the paragraph headed “Reasons for and benefits of the Loan” above, the Directors (including the independent non-executive Directors) consider that the terms of the Loan Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the ordinary resolution be proposed at the SGM to approve the Loan Agreement.

The Independent Board Committee, having considered the advice of the Independent Financial Adviser, is of the view that the terms of the Loan Agreement and the transactions contemplated thereunder are on normal commercial basis, fair and reasonable, and in the best interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the SGM to approve the Loan Agreement and the transactions contemplated thereunder.

Your attention is drawn to (i) the letter from the Independent Board Committee; and (ii) the letter from the Independent Financial Adviser contained in this circular.

The Shareholders and potential investors should be aware that the Loan Agreement and the transactions contemplated thereunder are subject to the fulfilment of the conditions precedent to Utilisation as contemplated under the Loan Agreement. Accordingly, the Loan may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully,
By order of the Board
Yanchang Petroleum International Limited
Mr. Feng Yinguo
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of recommendation, prepared for the purpose of incorporation in the circular, from the Independent Board Committee to the Independent Shareholders in relation to the Loan Agreement and the transactions contemplated thereunder.



延長石油國際有限公司

YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00346)

29 July 2021

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION LOAN AGREEMENT

We refer to the circular (the “**Circular**”) dated 29 July 2021 issued by the Company of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless specified otherwise.

We have been formed to advise the Independent Shareholders in relation to the terms of Loan Agreement and the transactions contemplated thereunder. Astrum has been appointed by the Company as the Independent Financial Adviser to advise us in these regards. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving its advice, are contained in its letter set out on pages 16 to 35 of the Circular. Your attention is also drawn to the letter from the Board and the additional information set out in the appendix to the Circular.

After taking into account the factors and reasons considered by the Independent Financial Adviser and its conclusion and advice, we concur with its views and consider that the terms of the Loan Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders should vote in favor of the resolution to be proposed at the SGM to approve the Loan Agreement and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of the

Independent Board Committee

Mr. Ng Wing Ka

Mr. Leung Ting Yuk

Mr. Sun Liming

Dr. Mu Guodong

Independent non-executive Directors

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from the Independent Financial Adviser setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Loan Agreement and the transactions contemplated thereunder which has been prepared for the purpose of inclusion in this circular.



Room 2704, 27/F, Tower 1, Admiralty Centre,
18 Harcourt Road, Admiralty, Hong Kong

29 July 2021

*To the Independent Board Committee and
the Independent Shareholders of*
Yanchang Petroleum International Limited

Dear Sirs,

CONNECTED TRANSACTION LOAN AGREEMENT

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the independent board committee (the “**Independent Board Committee**”) and the independent shareholders (the “**Independent Shareholders**”) of Yanchang Petroleum International Limited (the “**Company**”) in relation to the entering into of the loan agreement (the “**Loan Agreement**”) between the Company and Yanchang Petroleum Group (Hong Kong) Co., Limited (“**Yanchang Petroleum HK**”) dated 30 June 2021 in respect of the loan granted to the Company by Yanchang Petroleum HK in the principal amount of US\$22,000,000 (the “**Loan**”). The details of the Loan Agreement is disclosed in the announcement of the Company dated 30 June 2021 (the “**Announcement**”) and in the letter from the Board (the “**Letter from the Board**”) set out on pages 5 to 14 of the circular of the Company dated 29 July 2021 (the “**Circular**”) to its shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise defined.

On 30 June 2021 (after trading hours), the Company (as the borrower) entered into the Loan Agreement with Yanchang Petroleum HK (as the lender), pursuant to which Yanchang Petroleum HK conditionally agreed to provide the Loan of US\$22,000,000 (equivalent to approximately HK\$170.7 million) to the Company for a term commencing from the Utilisation Date and expiring on the third anniversary of the Utilisation Date. The Loan is secured by the Share Charge granted by the Company in favour of the Lender in securing the repayment obligation under the Loan Agreement.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, Yanchang Petroleum HK was the Controlling Shareholder holding 12,686,203,231 Shares, representing approximately 69.19% of the existing issued share capital of the Company. Yanchang Petroleum HK is directly and wholly owned by Yanchang Petroleum Group. As such, Yanchang Petroleum HK is a connected person of the Company as defined under the Listing Rules and hence the transactions contemplated under the Loan Agreement will constitute connected transaction of the Company under Chapter 14A of the Listing Rules. As the highest of the applicable percentage ratios in respect of the amount of the Loan exceeds 5% and the Loan exceeds HK\$10,000,000, the Loan Agreement is subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Mr. Zhang Jianmin, the executive Director, is also the director of Yanchang Petroleum HK and an employee of Yanchang Petroleum Group holding none of the shares of the Company, Yanchang Petroleum HK and Yanchang Petroleum Group. For good corporate governance, Mr. Zhang Jianmin had voluntarily abstained from voting on the resolutions of the Board to approve the Loan Agreement and the transactions contemplated thereunder. Save as aforementioned, to the best knowledge, information and belief of the Directors, having made all reasonable enquiries, none of the other Directors has a material interest in the Loan Agreement and the transactions contemplated thereunder, and accordingly is required to abstain from voting on the resolutions of the Board.

As Yanchang Petroleum HK is the Controlling Shareholder, and is directly and wholly owned by Yanchang Petroleum Group, Yanchang Petroleum Group and its associates shall abstain from voting in favour of the Loan Agreement and the transactions 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 Loan Agreement and the transactions contemplated thereunder, and accordingly are required to abstain from voting at the SGM.

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Ng Wing Ka, Mr. Leung Ting Yuk, Mr. Sun Liming and Dr. Mu Guodong, has been established to advise the Independent Shareholders as to whether the terms of the Loan Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and as to voting in respect thereof at the SGM. We, Astrum Capital Management Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

INDEPENDENCE DECLARATION

As at the Latest Practicable Date, we were not aware of any relationships or interests between Astrum Capital Management Limited, the Company, Yanchang Petroleum HK and/or any of their respective substantial shareholders, directors or chief executive, or any of their respective associates. In the last two years, save for the appointment as the independent financial adviser of the Company in respect of (i) the entering into of the loan agreement between the Group and Yanchang Petroleum HK (details of which were set out in the circular of the Company dated 29 November 2019); (ii) the renewal of continuing connected transactions (details of which were set out in the circular of the Company dated 29 November 2019); (iii) the revision of annual caps for the continuing connected transactions (details of which were set out in the circular of the Company dated 9 October 2020); and (iv) the continuing connected transactions in respect of sales of refined oil and by-products (details of which were set out in the circular of the Company dated 7 June 2021), there was no other engagement between the Group and Astrum Capital Management Limited. Apart from the normal advisory fees payable to us for the relevant engagement in relation to the Loan Agreement and the transactions contemplated thereunder, no other arrangement exists whereby we will receive any fees and/or benefits from the Group. Accordingly, Astrum Capital Management Limited is independent as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Loan Agreement and the transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have reviewed, *inter alia*, the Loan Agreement, the Announcement, the Circular, and the annual reports of the Company for the financial years ended 31 December 2019 and 31 December 2020 (the “**2019 Annual Report**” and the “**2020 Annual Report**”, respectively). We have also reviewed certain information provided by the management of the Company (the “**Management**”) relating to the operations and prospects of the Group. We have also (i) considered such other information, analyses and market data which we deemed relevant; and (ii) conducted verbal discussion with the Management regarding the terms of the Loan Agreement and the transactions contemplated thereunder, the businesses and future prospects of the Group. We have assumed that such information and statements, and any representation made to us, are true, accurate and complete in all material respects as of the date hereof and we have relied upon them in formulating our opinion.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

All Directors collectively and individually accept full responsibility for the purpose of giving information with regard to the Company in the Announcement and the Circular and, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Announcement and the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters not contained in the Announcement and the Circular, the omission of which would make any statement herein or in the Announcement and the Circular misleading. We consider that we have performed all necessary steps to enable us to reach an informed view regarding the terms of the Loan Agreement and the transactions contemplated thereunder and to justify our reliance on the information provided so as to provide a reasonable basis of opinion. We have no reasons to suspect that any material information has been withheld by the Directors or the Management, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date. This letter is issued to provide the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the terms of the Loan Agreement and the transactions contemplated thereunder. Except for the inclusion in the Circular, this letter shall not be quoted or referred to, in whole or in part, nor shall it be used for any other purposes, without our prior written consent.

For illustration purpose only, amounts denominated in US\$ and CAD have been converted to HK\$ at a rate of US\$0.1289 to HK\$1.0000 and CAD0.1582 to HK\$1.0000.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Loan Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

1. Information of the Group

A. Principal business of the Group

According to the 2020 Annual Report, the Group is principally engaged in supply and procurement operation of oil related products in the PRC as well as oil and gas exploration, exploitation, sale and operation in Canada and Madagascar.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

B. Financial information of the Group

The following table sets out the audited financial information of the Group for the three financial years ended 31 December 2018, 31 December 2019 and 31 December 2020 (“FY2018”, “FY2019” and “FY2020”, respectively) as extracted from the 2019 Annual Report and the 2020 Annual Report:

Table 1: Financial information of the Group

| | FY2018 | FY2019 | FY2020 |
|---|--------------------------|--------------------|--------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (audited) | (audited) | (audited) |
| | <i>(Note 1)</i> | <i>(Note 1)</i> | |
| Revenue | 5,933,388 | 8,197,422 | 27,256,800 |
| – <i>Exploration, exploitation and operation</i> | 272,895 | 228,803 | 95,827 |
| – <i>Supply and procurement</i> | 5,660,493 | 7,968,619 | 27,160,973 |
| Gross profit <i>(Note 2)</i> | 220,143 | 218,059 | 183,258 |
| Profit/(loss) from operating activities | 99,676 | (310,254) | (728,483) |
| Profit/(loss) before taxation | 40,479 | (372,104) | (779,496) |
| (Loss) for the year attributable to owners of the Company | (741) | (443,742) | (795,765) |
| | As at 31 December | | |
| | 2018 | 2019 | 2020 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (audited) | (audited) | (audited) |
| | <i>(Note 1)</i> | <i>(Note 1)</i> | |
| Total assets | 2,989,682 | 2,545,384 | 2,636,012 |
| Non-current assets | 2,096,430 | 1,776,739 | 1,136,873 |
| Current assets | 893,252 | 768,645 | 1,499,139 |
| – <i>Cash and bank balances</i> | 316,768 | 298,688 | 436,084 |
| Total (liabilities) | (1,518,745) | (1,452,038) | (1,834,876) |
| Non-current (liabilities) | (603,896) | (419,108) | (510,122) |
| Current (liabilities) | (914,849) | (1,032,930) | (1,324,754) |
| – <i>Total (borrowings) (Note 3)</i> | (889,986) | (724,780) | (572,112) |
| Total equity attributable to the owners of the Company | 1,364,040 | 964,061 | 671,125 |

Sources: the 2019 Annual Report and the 2020 Annual Report

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Notes:

1. According to the 2019 Annual Report, the Group applied HKFRS 16 (Lease) to replace HKAS 17 (Lease) using the modified retrospective method for the preparation of the consolidated financial statement for FY2019. However, the consolidated financial statement for FY2018 has not been restated.
2. Gross profit is calculated based on revenue minus the sum of (i) purchase; (ii) royalties; (iii) field operation expenses; and (iv) exploration and evaluation expenses.
3. Total borrowings include bank borrowings and convertible bonds.

(i) For the year ended 31 December 2019 (i.e. FY2019)

In FY2019, the Group recorded revenue of approximately HK\$8,197.4 million, representing a significant increase of approximately 38.2% as compared to approximately HK\$5,933.4 million in FY2018. As disclosed in the 2019 Annual Report, such increase was mainly attributable to the increase in revenue generated from supply and procurement business from approximately HK\$5,660.5 million in FY2018 to approximately HK\$7,968.6 million in FY2019 due to the increase in sales volume of refined oil from approximately 3.2 million tonnes in FY2018 to approximately 3.7 million tonnes in FY2019.

Notwithstanding the significant increase in revenue, the Group recorded loss attributable to owners of the Company of approximately HK\$443.7 million in FY2019, representing a drastic increase of approximately 600 times as compared to approximately HK\$0.7 million in FY2018. Such deterioration was mainly attributable to the recognition of impairment loss on property, plant and equipment of approximately HK\$286.0 million in FY2019 (FY2018: reversal of impairment loss of approximately HK\$104.5 million).

As at 31 December 2019, the Group's cash and bank balances amounted to approximately HK\$298.7 million whereas the Group's total borrowings amounted to approximately HK\$724.8 million. The Group's total assets and total liabilities as at 31 December 2019 amounted to approximately HK\$2,545.4 million (31 December 2018: approximately HK\$2,989.7 million) and approximately HK\$1,452.0 million (31 December 2018: approximately HK\$1,518.7 million), respectively. Equity attributable to owners of the Company decreased from approximately HK\$1,364.0 million as at 31 December 2018 to approximately HK\$964.1 million as at 31 December 2019. Such decrease was primarily due to loss attributable to owners of the Company of approximately HK\$443.7 million in FY2019, which was partially offset by the gain derived from exchange differences on translation of financial statements of subsidiaries outside Hong Kong of approximately HK\$43.4 million in FY2019.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

(ii) *For the year ended 31 December 2020 (i.e. FY2020)*

In FY2020, the Group recorded revenue of approximately HK\$27,256.8 million, representing a substantial increase of approximately 232.5% as compared to approximately HK\$8,197.4 million in FY2019. As advised by the Management, such increase was mainly attributable to the increase in revenue generated from supply and procurement operation of refined oil and by-products from approximately HK\$7,968.6 million in FY2019 to approximately HK\$27,161.0 million in FY2020 due to the increase in sales volume of refined oil and by-products from approximately 3.7 million tonnes in FY2019 to approximately 6.4 million tonnes in FY2020.

Notwithstanding the increase in revenue, loss attributable to owners of the Company increased from approximately HK\$443.7 million for FY2019 to approximately HK\$795.8 million for FY2020, representing an increase of approximately 79.3%. Such deterioration was mainly due to (i) the increase in impairment loss on property, plant and equipment of approximately HK\$406.5 million; and (ii) the increase in selling and distribution expenses of approximately HK\$32.7 million, which was partially offset by the decrease in depreciation, depletion and amortisation by approximately HK\$47.4 million.

As at 31 December 2020, the Group's cash and bank balances amounted to approximately HK\$436.1 million whereas the Group's total borrowings amounted to approximately HK\$572.1 million. The Group's total assets and total liabilities as at 31 December 2020 amounted to approximately HK\$2,636.0 million (31 December 2019: approximately HK\$2,545.4 million) and approximately HK\$1,834.9 million (31 December 2019: approximately HK\$1,452.0 million), respectively. Equity attributable to owners of the Company decreased from approximately HK\$964.1 million as at 31 December 2019 to approximately HK\$671.1 million as at 31 December 2020. Such decrease was primarily due to loss attributable to owners of the Company of approximately HK\$795.8 million in FY2020, which was partially offset by the increase in share capital and reserve of approximately HK\$469.1 million due to the issue of Shares upon conversion of convertible bonds in FY2020.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

C. Financial information of Novus

The following table sets out the audited financial information of Novus for FY2018, FY2019 and FY2020 as extracted from the audited financial statements of Novus for FY2019 and FY2020:

Table 2: Financial information of Novus

| | FY2018 | FY2019 | FY2020 |
|--|--------------------|--------------------|--------------------|
| | <i>CAD'000</i> | <i>CAD'000</i> | <i>CAD'000</i> |
| | (audited) | (audited) | (audited) |
| Revenue | 46,809 | 38,649 | 15,839 |
| Profit/(loss) from operating activities | 19,744 | (55,607) | (107,898) |
| Profit/(loss) before taxation | 17,237 | (58,209) | (109,491) |
| Profit/(loss) for the year attributable to owners of Novus | 12,570 | (71,310) | (109,491) |
| | As at | As at | As at |
| | 31 December | 31 December | 31 December |
| | 2018 | 2019 | 2020 |
| | <i>CAD'000</i> | <i>CAD'000</i> | <i>CAD'000</i> |
| | (audited) | (audited) | (audited) |
| Non-current assets | 288,875 | 222,274 | 117,759 |
| Current assets | 5,391 | 9,963 | 5,056 |
| Non-current (liabilities) | (66,602) | (67,320) | (68,503) |
| Current (liabilities) | (5,367) | (3,930) | (2,816) |
| Net current assets | 24 | 6,033 | 2,240 |
| Total equity attributable to the owners of Novus | 222,297 | 160,987 | 51,496 |

Sources: the audited financial statements of Novus for the two years ended 31 December 2019 and 31 December 2020 (all prepared in accordance with International Financial Reporting Standards)

During FY2019, Novus recorded revenue of approximately CAD38.6 million, representing an annual decrease of approximately 17.4% as compared to approximately CAD46.8 million in FY2018. Loss attributable to owners of Novus amounted to approximately CAD71.3 million in FY2019, as compared to gain of approximately CAD12.6 million in FY2018. Such deterioration was mainly driven by (i) the substantial increase in depletion, depreciation and impairment of approximately CAD66.3 million; and (ii) the decrease in revenue of approximately CAD8.2 million. As at 31 December 2019, Novus' total assets and total liabilities amounted to

LETTER FROM INDEPENDENT FINANCIAL ADVISER

approximately CAD232.2 million (31 December 2018: approximately CAD294.3 million) and approximately CAD71.3 million (31 December 2018: approximately CAD72.0 million), respectively. Novus recorded equity attributable to shareholders of Novus of approximately CAD161.0 million as at 31 December 2019, as compared to approximately CAD222.3 million as at 31 December 2018. Such decrease in equity attributable to owners of Novus was primarily due to loss attributable to owners of Novus of approximately CAD71.3 million recorded in FY2019.

During FY2020, Novus recorded revenue of approximately CAD15.8 million, representing a notable decrease of approximately 59.0% as compared to approximately CAD38.6 million in FY2019. Such deterioration was mainly attributable to the decline in production of oil and gas by approximately 37.9% from approximately 746,000 barrels of oil equivalent in FY2019 to approximately 463,000 barrels of oil equivalent in FY2020. Loss attributable to owners of Novus further increased from approximately CAD71.3 million in FY2019 to approximately CAD109.5 million. Such deterioration was mainly driven by (i) the increase in depletion, depreciation and impairment of approximately CAD39.4 million; and (ii) the decrease in revenue of approximately CAD22.8 million. As at 31 December 2020, Novus' total assets and total liabilities amounted to approximately CAD122.8 million (31 December 2019: approximately CAD232.2 million) and approximately CAD71.3 million (31 December 2019: approximately CAD71.3 million), respectively. Novus recorded equity attributable to shareholders of Novus of approximately CAD51.5 million as at 31 December 2020, as compared to approximately CAD161.0 million as at 31 December 2019. Such decrease in equity attributable to owners of Novus was due to loss attributable to owners of Novus of approximately CAD109.5 million recorded in FY2020.

2. Background of, reasons for, and benefits of the entering into of the Loan Agreement

In January 2014, the Group tapped into the business of acquisition, exploration, development and production of petroleum and natural gas reserves in Western Canada through the acquisition of the then entire issued shares of Novus (the “**Acquisition**”) at a consideration of approximately CAD232 million (equivalent to approximately HK\$1.72 billion based on the then exchange rate of CAD1.00 to HK\$7.40). According to the circular of the Company dated 7 December 2013 (the “**Acquisition Circular**”), Novus is primarily engaged in the development of the Viking light oil resource play in Saskatchewan, Canada and has a leading land position in that oil resource play. The strategy of Novus involves the production of high netback, light, sweet crude oil via horizontal drilling and Novus has drilled over 200 horizontal Viking oil wells since inception in 2009. Novus were listed and posted for trading on the TSX Venture Exchange in Canada under the symbol “NVS” and was subsequently delisted after completion of the Acquisition. For further details of the Acquisition, please refer to the Acquisition Circular.

On 5 November 2019 (after trading hours), Novus (as the borrower) entered into a loan agreement (the “**Previous Loan Agreement**”) with Yanchang Petroleum HK (as the

LETTER FROM INDEPENDENT FINANCIAL ADVISER

lender) pursuant to which Yanchang Petroleum HK conditionally agreed to provide a loan of US\$35 million (the “**Previous Loan**”) to Novus for a term of three years. The Previous Loan was secured by a debenture with the principal sum of US\$70 million with (i) first and fixed charge over all of Novus’ right, title and interest; (ii) a first priority security interest to and over all of Novus’ present and after-acquired personal property; and (iii) a floating charge over all of Novus’ property. The Company successfully obtained the shareholder’s approval on the Previous Loan Agreement at its special general meeting on 19 December 2019. Subsequently, on 20 December 2019, Novus drew down the Previous Loan for the purpose of the repayment of the then credit facility and its general working capital. As at the Latest Practicable Date, the principal amount of the Previous Loan was still outstanding. For further details of the Previous Loan, please refer to the circular of the Company dated 29 November 2019.

Since the outbreak of the Coronavirus pandemic (the “**COVID-19**”) in late 2019, the global economy has been severely hampered by the slowdown in economic activities, which undoubtedly suppressed the demand for oil and led to a slump in international crude oil prices. However, with the implementation of various lockdown measures, coupled with mass-scale vaccine injection worldwide, the international crude oil prices and the demand for oil have shown signs of recovery, especially the North American and Canadian market in which Novus operates in. According to Bloomberg, the Brent Oil futures price has bounced from a relatively low level of approximately US\$21.5 per barrel in April 2020 to over US\$70 per barrel in June 2021. Furthermore, according to the short-term energy outlook published by the U.S. Energy Information Administration (a statistical agency of the Department of Energy of the U.S. Government), it is expected the total consumption of petroleum and other liquids in the United States of America will increase from approximately 18.12 million barrels per day in 2020 to approximately 19.61 million barrels per day and approximately 20.61 million barrels per day in 2021 and 2022, respectively. In order to capture the opportunities arising from the increasing international crude oil prices and leveraging on the recovery from COVID-19 that fuels demand for petroleum and crude oil, Novus intends to expand its oil and gas production capacity by drilling 26 new oil wells in Canada. As advised by the Management, such new wells are expected to produce 281,000 barrels of oil and 338 million standard cubic feet of gas per year. As advised by the Management, it is expected that approximately CAD25 million (equivalent to approximately HK\$158 million) will be required for the drilling of the new oil wells. According to the latest unaudited management accounts of Novus, the cash balance of Novus amounted to approximately CAD5.6 million (equivalent to approximately HK\$35.1 million) as at 31 May 2021. It is expected that the Loan of US\$22 million (equivalent to approximately HK\$170.7 million) will enable the Company to obtain a sufficient amount of funds to satisfy Novus’ expansion needs.

As mentioned in the sub-paragraph headed “*B. Financial information of the Group*” under the paragraph headed “*1. Information of the Group*” above, the cash and bank balances of the Group amounted to approximately HK\$436.1 million as at 31 December 2020. As advised by the Management, cash and bank balances of approximately HK\$394.4 million (the “**Cash in PRC**”) was maintained in the accounts of the Group’s

LETTER FROM INDEPENDENT FINANCIAL ADVISER

subsidiaries in the PRC for maintaining their daily operation, and could only be transferred to countries and/or regions outside the PRC through burdensome and time-consuming administrative procedures. After deducting the Cash in PRC of approximately HK\$394.4 million, the remaining cash and bank balances of the Group amounted to HK\$41.7 million as at 31 December 2021, which would not be sufficient for financing the development plan of Novus as discussed above. In addition, the Group incurred net loss attributable to owners of the Company of approximately HK\$795.8 million for FY2020 and recorded financial liabilities totaling approximately HK\$841.5 million as at 31 December 2020 that are on demand or have a contractual maturities within one year. As stated in Note 3(b) “Basis of preparation of the consolidated financial statements” to the audited condensed consolidated financial statements of the Group for FY2020 as contained in the 2020 Annual Report, these facts and circumstances indicated the existence of material uncertainties which may cast significant doubt on the Group’s ability to continue as a going concern (the “**Going Concern Issue**”) and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. In view of the above, in particular, (i) the cash and bank balances of the Group (after deducting the Cash in PRC) as at 31 December 2020 only amounted to approximately HK\$41.7 million; and (ii) the Group incurred net loss attributable to owners of the Company of approximately HK\$795.8 million for FY2020 and recorded financial liabilities totaling approximately HK\$841.5 million that are on demand or have a contractual maturities within one year, which triggered the Group’s Going Concern Issue where the Group may be unable to realise its assets and discharge its liabilities in the normal course of business, we concur with the Management’s opinion that the Group might not have sufficient internal resources to fulfill Novus’ expansion needs.

Pursuant to the Loan Agreement, Yanchang Petroleum HK conditionally agreed to provide the Loan of US\$22,000,000 (equivalent to approximately HK\$170.7 million) to the Company for a term commencing from the Utilisation Date and expiring on the third anniversary of the Utilisation Date. According to the Letter from the Board, approximately 92.6% of the Loan amount, representing approximately HK\$158.0 million, will be used for the drilling of the 26 new oil wells and approximately 7.4% of the Loan amount, representing approximately HK\$12.7 million, will be used for general working capital of Novus. Taking into consideration the facts that (i) the Group might not have sufficient internal resources to fulfill Novus’ expansion needs; and (ii) the Loan will provide immediate liquidity to the Group to capture the opportunities arising from the increasing international crude oil prices and the recovery from COVID-19 that is expected to raise oil demand, we are of the view that the Loan is in the interests of the Company and the Independent Shareholders as a whole.

Upon enquiry, the Management advised us that the Group had considered alternative methods (including but not limited to borrowings from banks or other financial institutions, placing, rights issue, open offer and direct subscription of Shares) for raising sufficient fund to meet the expansion needs of Novus, before the entering into of the Loan Agreement. In respect of borrowings from banks, the Group has approached several banks in Hong Kong regarding the possibility and feasibility of granting new credit line or loan to the Group. However, such banks declined to provide financial assistance of sufficient

LETTER FROM INDEPENDENT FINANCIAL ADVISER

amount to the Group in view of its continuous loss-making position and company leverage. As regards equity fund-raising exercises (such as placing, rights issue and/or open offer), the Company will need to undergo a relatively lengthy process to (i) identify suitable underwriter(s) and negotiate terms agreeable to the Company; and (ii) prepare the requisite compliance and legal documentation (including but not limited to the underwriting agreement(s), announcement(s) and prospectus(es)), and thus the Group may not be able to complete the whole process of fund-raising exercise in a timely manner and meet the expansion timeline of Novus in order to capture the opportunities arising from the rising international crude oil prices and the recovery from COVID-19. Furthermore, the ultimate fund-raising size of equity financing substantially depends on the market sentiment. Having considered (i) the loss-making position of the Group since the financial year ended 31 December 2014; (ii) the unsatisfactory price performance of Shares which demonstrated a diminishing trend since February 2021 and up to the date of the Loan Agreement; and (iii) the low trading liquidity of the Shares, the Management expected that it is difficult to attract investors and/or Shareholders to participate in the equity fund-raising exercises without adopting a substantial discount of the subscription price as compared to the then prevailing market price of the Shares. As to direct subscription of Shares, the Management believes that it is hard for the Company to identify a subscriber to subscribe a large amount of Shares without adopting a substantial discount on the subscription price in view of the Group's unsatisfactory financial performance and position as detailed above. On the contrary, the Loan will (i) provide immediate liquidity for the Group to satisfy Novus' expansion needs; (ii) not incur a dilution effect on the shareholding of the existing Shareholders; and (iii) demonstrate the continuous financial support from the Controlling Shareholder (i.e. Yanchang Petroleum HK) to the Group. In view of the above, the Directors consider, and we agree with them, that the Loan is the most feasible and suitable fund-raising method to the Company.

Having considered the facts that (i) the international crude oil prices rebounded from the low level in April 2020 and the demand for oil is expected to increase; (ii) the cash and bank balances of the Group (after deducting the Cash in PRC) would not be sufficient for financing the development plan of Novus; (iii) the Group incurred net loss attributable to owners of the Company of approximately HK\$795.8 million for FY2020 and recorded financial liabilities totaling approximately HK\$841.5 million that are on demand or have a contractual maturities within one year, which triggered the Group's Going Concern Issue where the Group may be unable to realise its assets and discharge its liabilities in the normal course of business; (iv) the Loan will provide immediate liquidity to the Group to capture the opportunities arising from the increasing international oil prices and the recovery from COVID-19; (v) the Loan is the most feasible and suitable fund-raising method for the Group to raise sufficient fund to meet the expansion needs of Novus; and (vi) the terms of the Loan Agreement are fair and reasonable (please refer to our analysis as set out in the section headed "*3. Principal terms of the Loan Agreement*" below), we concur with the Directors' view that the entering into of the Loan Agreement is in the interests of the Company and the Shareholders as a whole.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

3. Principal terms of the Loan Agreement

According to the Letter from the Board, the principal terms of the Loan Agreement are as follows:

| | |
|---------------------------------|--|
| Date: | 30 June 2021 (after trading hours) |
| Parties: | (1) the Company (as Borrower); and (2) Yanchang Petroleum HK (as Lender) |
| Principal amount: | US\$22,000,000 (equivalent to approximately HK\$170.7 million) |
| Interest rate: | 4.8% per annum, which shall be payable every three months from the Utilisation Date, representing US\$264,000 (equivalent to approximately HK\$2,048,000) for every three months. If any interest payment date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next Business Day in that calendar month (if any) |
| Term: | Commencing from the Utilisation Date and expiring on the third anniversary of the Utilisation Date |
| Principal conditions precedent: | The Lender shall not be obliged to advance the Loan to the Borrower unless: (a) the Lender having received the executed Loan Agreement; (b) the Lender having received the executed Share Charge Deed and all necessary documents (if any) in relation to the Share Charge Deed; (c) the Borrower having complied with all applicable laws (including but not limited to Hong Kong, PRC and Bermuda) and obtained all necessary approvals in relation to the Loan Agreement and the transactions contemplated under the Listing Rules, including but not limited to, obtaining approvals for the Loan Agreement, the Share Charge Deed and other documents required from the Independent Shareholders at the SGM; |

LETTER FROM INDEPENDENT FINANCIAL ADVISER

- (d) all warranties made by the Borrower to the Lender (except for the warranties waived by the Lender in accordance with the Loan Agreement) is true and accurate, and not misleading, and there is no fact or situation concerning the Borrower that constitutes or is likely to constitute breach of any warranties made by the Borrower to the Lender in relation to all necessary documents regarding the Loan Agreement and Share Charge Deed;
- (e) the Borrower having issued a duly signed certificate (by a representative authorised by the Board) confirming that the Loan and the Share Charge will not result in exceeding in limitation of any other restricted borrowing, mortgage guarantees or similar limits of the Borrower;
- (f) the Borrower having issued a duly signed certificate (by a representative authorised by the Board) certifying that all the documents provided by the Borrower are correct, complete and valid, and the Loan Agreement and Share Charge Deed have obtained or completed all the authorization, approval, registration and filing (if necessary) of the government departments or administrative agencies or the third party required; and
- (g) the Board having approved the Loan Agreement and the Share Charge Deed and authorised and confirmed that the Board having signed the Loan Agreement, the Share Charge Deed and the relevant documents.

Repayment arrangement: The principal of the Loan shall be repaid in full by the maturity.

Early repayment: The Borrower can repay all of the Loan that have been drawn but not yet repaid at any time before the planned repayment dates set out in the repayment schedule, provided that the Borrower shall provide a notice of no less than 7 Business Days in advance to the Lender and obtain the written consent of the Lender.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

- Default: If the Borrower fails to repay the principal and accrued interests of the Loan or commits any of the default events as specified under the Loan Agreement, the Lender shall have the right to declare the Loan, the interests due, and any amounts to be paid under the Loan Agreement to be immediately payable or exercise all or any of the rights or compensation under the Loan Agreement.
- Security: 350 ordinary shares of Sino Union Energy held by the Borrower in Sino Union Energy (representing 35% of the issued share capital of Sino Union Energy) under the Share Charge Deed pursuant to which the Borrower agreed to provide a guarantee in favour of the Lender that the Borrower shall procure on the best effort basis the carrying valuation (the “**Guaranteed Carrying Valuation**”) of Henan Yanchang will be not less than US\$104,800,000. In case of breach the such carrying valuation guaranteed, the Borrower and the Lender can negotiate to take remedies within 30 days and the Borrower shall not be deemed to have breached the Share Charge Deed after taking up the remedies.

Pursuant to the Loan Agreement, the Lender has the right to make reasonable requests, which the Lender considers appropriate, in relation to the manner and conditions precedent, except for the condition precedent (c) above, to waive all or part of the conditions precedent above, or to extend the time to fulfil the conditions precedent, or to satisfy the conditions precedent in other manners, and if the exemption or extension is made on conditions precedent and any clauses are attached to the conditions precedent, any violation or non-compliance of these clauses will constitute an event of default.

According to the Letter from the Board, the terms of the Loan Agreement (including the applicable interest rate) were determined after arm’s length negotiations between the parties of the Loan Agreement and after taking into account, among others, the prevailing market interest rates and practices.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

In assessing the fairness and reasonableness of the terms of the Loan Agreement, we have compared the terms of the Loan with that of the loan facilities provided by connected person(s) to companies listed on the Stock Exchange. In view of the feature of the Loan (particularly with term to maturity of three years and secured by the Share Charge), we identified all loan facilities provided by connected person(s) to companies listed on the Stock Exchange which (i) the term to maturity is not less than one year; (ii) loans are secured; (iii) companies initially announced the loans during the 6-month period immediately before the date of the Loan Agreement; and (iv) had not lapsed as at the Latest Practicable Date. Nevertheless, to the best of our knowledge and as far as we are aware of, we could only locate three secured loan facilities which met the said criteria. In this regard, we have relaxed the selection criteria to all loan facilities (whether or not secured) provided by connected person(s) to companies listed on the Stock Exchange which (i) the term to maturity is not less than one year; (ii) companies initially announced during the 12-month period immediately before the date of the Loan Agreement; and (iii) had not lapsed as at the Latest Practicable Date. To the best of our knowledge and as far as we are aware of, we have identified a list of eight comparable loans (the “**Comparable Loans**”) which met the said criteria.

Shareholders should note that the businesses, operations and prospects of the Company are not the same as the relevant listed companies obtaining the Comparable Loans and thus the comparison of the principal terms of the Loan with that of the Comparable Loans may not represent an identical comparison. We, however, consider that such comparison could be treated as an indication as to the fairness and reasonableness of the Loan. The relevant details of the Comparable Loans are set forth in Table 3 below:

Table 3: Details of the Comparable Loans

| Date of initial announcement | Company name (Stock code) | Term to maturity (in years) | Interest (per annum) | Security | Loan-to-Security Ratio (times) <i>(Note 6)</i> |
|------------------------------|---|-----------------------------|--------------------------|---|---|
| 24/03/2021 | Beijing Enterprises Water Group Limited (371) (“ Beijing Enterprises Water ”) | 12.0 | 4.90% <i>(Note 1)</i> | (i) pledge of financial accounts receivable from the borrower; and (ii) a guarantee given by a subsidiary of Beijing Enterprises Water with respect to the payment obligations of the borrower | No information available |
| 11/03/2021 | Yida China Holdings Limited (3639) (“ Yida China ”) | 1.8 | 8.00% | (i) the land use rights of two plots of land owned by a subsidiary of Yida China; and (ii) the property and land use rights of the land owned by a subsidiary of Yida China | 0.57 |

LETTER FROM INDEPENDENT FINANCIAL ADVISER

| Date of initial announcement | Company name (Stock code) | Term to maturity (in years) | Interest (per annum) | Security | Loan-to-Security Ratio (times) <i>(Note 6)</i> |
|------------------------------|--|-----------------------------|---------------------------------|---|---|
| 05/02/2021 | Beijing Enterprises Water (371) | 12.0 | 4.90% <i>(Note 2)</i> | (i) pledge of financial accounts receivable from the borrower; and (ii) a guarantee given by a subsidiary of Beijing Enterprises Water with respect to the payment obligations of the borrower | No information available |
| 30/11/2020 | Beijing Enterprises Water (371) | 15.0 | 4.05% <i>(Note 3)</i> | (i) pledge of expected earnings from a public-private-partnership project; and (ii) guarantee given by a subsidiary of Beijing Enterprises Water with respect to the payment obligations of the borrower | 2.27 |
| 04/09/2020 | Hang Tai Yue Group Holdings Limited (8081) | 1.0 | 5.00% | 51% of the total issued share capital of the borrower | No information available |
| 26/08/2020 | Beijing Properties (Holdings) Limited (925) (“Beijing Properties”) | 10.0 | 4.90% <i>(Note 4)</i> | (i) all the land use rights and assets (if any) on a land owned by the borrower; and (ii) a guarantee equivalent to the total amount of the loan given by Beijing Properties | 9.30 |
| 10/08/2020 | China Billion Resources Limited (274) (“China Billion”) | 1.0 | 24.0% <i>(Note 5)</i> | a charge of over 80% equity interest in a non-wholly owned subsidiary of China Billion | 0.58 |
| 06/07/2020 | New Century Real Estate Investment Trust (1275) | 5.0 | 3.40% | None | N/A |
| | Maximum | 15.0 | 8.00% <i>(Note 5)</i> | | 9.30 |
| | Minimum | 1.0 | 3.40% <i>(Note 5)</i> | | 0.57 |
| | Median | 7.5 | 4.90% <i>(Note 5)</i> | | 1.43 |
| | Average | 7.2 | 5.02% <i>(Note 5)</i> | | 3.18 |
| | The Company | 3.0 | 4.80% | | 1.71 <i>(Note 7)</i> |

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Notes:

1. According to the announcement of Beijing Enterprises Water dated 24 March 2021, the interest rate of the loan is the relevant loan prime rate for a period longer than 5 years as announced by the National Interbank Funding Centre (“NIFC”) on the date immediately preceding the drawdown date plus 0.25% and shall be adjusted for each 12 months with reference to the then latest loan prime rate for a period long than 5 years. Based on the rate as published on the website of the NIFC, the loan prime rate for a period longer than 5 years was 4.65% as at the Latest Practicable Date. Therefore, for our analysis, we assume that the interest rate of the loan is 4.90% (i.e. 4.65% + 0.25%).
2. According to the announcement of Beijing Enterprises Water dated 5 February 2021, the interest rate of the loan is the 5-year loan prime rate as announced by the NIFC on the date immediately preceding the drawdown date plus 0.25%. Based on the rate as published on the website of the NIFC, the 5-year loan prime rate was 4.65% as at the Latest Practicable Date. Therefore, for our analysis, we assume that the interest rate of the loan is 4.90% (i.e. 4.65% + 0.25%).
3. According to the announcement of Beijing Enterprises Water dated 30 November 2020, the interest rate of the loan is the 5-year loan prime rate as announced by the NIFC on the date immediately preceding the drawdown date minus 0.6%. Based on the rate as published on the website of the NIFC, the 5-year loan prime rate was 4.65% as at the Latest Practicable Date. Therefore, for our analysis, we assume that the interest rate of the loan is 4.05% (i.e. 4.65% - 0.6%).
4. According to the announcement of Beijing Properties dated 26 August 2020, the interest rate of the loan is determined with reference to the prevailing interest rates quoted by the commercial banks in the PRC and the benchmark rate provided by the People’s Bank of China. Based on the rate as published on the website of the People’s Bank of China, the loan prime rate for a period of over five years was 4.90% as at the Latest Practicable Date. Therefore, for our analysis, we assume that the interest rate of the loan is 4.90%.
5. As the interest rate of the loan of China Billion is exceptionally high as compared with those of other Comparable Loans, we consider that the interest rate of the loan of China Billion is an outlier and have excluded it from our analysis for the interest rate represented by the Comparable Loans.
6. Loan-to-security value ratio (the “**Loan-to-Security Ratio(s)**”) is calculated by dividing the principal amount of the respective Comparable Loans by the aggregate value of the respective securities as disclosed in the respective announcements.
7. The Loan-to-Security Ratio of the Loan is calculated by dividing the principal amount of the Loan (i.e. US\$22,000,000 (equivalent to approximately HK\$170,675,000)) by 35% of the consolidated net asset attributable to the shareholders of Sino Union Energy as at 31 May 2021 (approximately HK\$284,000,000 x 35%).

(i) Term

As shown in Table 3 above, the terms of maturity of the Comparable Loans range from 1.0 year to 15.0 years, with a median of 7.5 years and an average of approximately 7.2 years. The term of the Loan of 3.0 years is within the range of the Comparable Loans.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

(ii) Interest rate

As shown in Table 3 above, the interest rates of the Comparable Loans range from 3.40 to 8.00%, with a median of approximately 4.90% and an average of approximately 5.02%. The interest rate of the Loan of approximately 4.80% is within the range and lower than the median and average of the interest rates of the Comparable Loans. Accordingly, we consider that the interest rate of the Loan is fair and reasonable so far as the Independent Shareholders are concerned.

(iii) Security

According to the Loan Agreement, the Loan is secured by the Share Charge granted by the Company in favour of the Lender in securing the repayment obligation under the Loan Agreement. Pursuant to the Share Charge Deed, the Company agreed to provide a guarantee in favour of the Lender that the Company shall procure on the best effort basis the Guaranteed Carrying Valuation of Henan Yanchang will be not less than US\$104,800,000. As advised by the Management, the Guaranteed Carrying Valuation of Henan Yanchang was determined based on the carrying valuation of Henan Yanchang of approximately US\$104,800,000 as at 31 December 2020 conducted by an independent valuer for the audit purpose of the consolidated financial statements of the Group for FY2020.

As shown in Table 3 above, seven out of eight of the Comparable Loans were secured by collateral or guarantee including a first floating charge over the undertaking, property, assets and rights of the company, security interests, property and/or assets of the borrowers and share charge of a subsidiary (the “**Secured Comparable Loans**”). We consider that it is a common market practice for requiring the borrowers to provide collateral or guarantee as securities for the loans. In addition, the Loan-to-Security Ratios of the Secured Comparable Loans range from 0.57 time to 9.30 times, with a median of approximately 1.43 times and an average of approximately 3.18 times. The Loan-to-Security Ratio of the Loan of approximately 1.71 times is within the range and higher than the median of the Loan-to-Security Ratios of the Secured Comparable Loans.

Having considered that (i) it is a common market practice for requiring the borrowers to provide collateral or guarantee as securities for the loans; and (ii) the Loan-to-Security Ratio of the Loan of approximately 1.71 times is within the range and higher than the median of the Loan-to-Security Ratios of the Secured Comparable Loans, we consider that the provision of the Share Charge as a security of the Loan is fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

(iv) Conclusion

Having considered the above, we are of the view that the terms of the Loan Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

OPINION

Having taken into account the above principal factors and reasons, we consider that notwithstanding that the entering into of the Loan Agreement is not conducted in the ordinary and usual course of business of the Company, the terms of the Loan Agreement are on normal commercial terms, fair and reasonable, and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favor of the relevant resolution(s) at the SGM to approve the entering into of the Loan Agreement and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of

Astrum Capital Management Limited

Hidulf Kwan

Managing Director

Rebecca Mak

Director

Note: Mr. Hidulf Kwan has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under the SFO since 2006 and has participated in and completed various independent financial advisory transactions.

Ms. Rebecca Mak has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under the SFO since 2011 and has participated in and completed various independent financial advisory transactions.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the following Directors had interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers:

| Name | Nature of interest | Long position/ Short position | Number of Shares held | Approximate percentage of the total issued share capital of the Company |
|------------------------------|---|----------------------------------|--------------------------|--|
| Mr. Sun Liming | Personal interest | Long position | 600,000 | 0.003% |
| Dr. Mu Guodong ("Dr. Mu") | Personal interest and interest of spouse ^(Note) | Long position | 300,000 | 0.002% |

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

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders

So far as was known to the Directors, as at the Latest Practicable Date, the following persons (not being a Director or the chief executive of the Company) had an interest or short position, if any, in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or who/which was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

| Name | Nature of interest | Long position/ Short position | Number of Shares held | Approximate percentage of the total issued share capital of the Company |
|---|---------------------------------------|----------------------------------|--------------------------|--|
| Yanchang Petroleum Group ^(Note) | Interest of controlled corporation | Long position | 12,686,203,231 | 69.19% |
| Yanchang Petroleum HK ^(Note) | Directly owned | Long position | 12,686,203,231 | 69.19% |

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

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 10% or more of the issued share capital of the Company as at the Latest Practicable Date.

3. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and his respective associates were considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses to which the Directors were nominated and appointed as directors and/or senior management to represent the interests of the Company and/or the Group.

4. NO MATERIAL INTERESTS

As at the Latest Practicable Date, none of the Directors has any interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any members of the Group since 31 December 2020, being the date to which the latest published audited financial statements of the Group were made up.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries, which was subsisting and was significant in relation to the business of the Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service agreement with any member of the Group (excluding contracts expiring or determinable by the Company within one year without payment of compensation (other than statutory compensation)).

6. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration or claims which would materially and adversely affect the operations of the Company and no litigation, arbitration or claims which would materially and adversely affect the operations of the Company is known to the Directors to be pending or threatened by or against any members of the Group.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2020 being the date to which the latest published audited consolidated accounts of the Group were made up.

8. EXPERT'S QUALIFICATION AND CONSENT

The following is the expert, and its qualification, who has given opinion contained in this circular:

| Name | Qualification |
|-----------------------------------|---|
| 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 SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Loan Agreement and the transactions contemplated thereunder |

Astrum has given and confirmed that it has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, advice, opinion and/or reports and references to its name in the form and context in which they respectively appeared.

As at the Latest Practicable Date, Astrum was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group nor did it have any interests, either direct or indirect, in any assets which have been, since 31 December 2020 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

9. MISCELLANEOUS

- (i) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.
- (ii) The head office and principal place of business of the Company in Hong Kong is at Room 3403, 34th Floor, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong.
- (iii) The company secretary of the Company is Mr. Law Hing Lam, who is a member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants.
- (iv) The Company's branch share registrar and transfer office in Hong Kong is Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (v) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Company's head office in Hong Kong at Room 3403, 34th Floor, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong during normal business hours on any Business Day from the date of this circular up to and including the date of the SGM:

- (a) the Loan Agreement;
- (b) the letter from the Independent Board Committee, the text of which is set out on page 15 of this circular;
- (c) the letter from Astrum to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 16 to 35 of this circular;
- (d) the memorandum of association and the bye-laws of the Company;

- (e) the annual report of the Company for the year ended 31 December 2020;
- (f) the written consents referred to in the paragraph headed “Expert’s qualification and consent” in this appendix; and
- (g) this circular.

NOTICE OF THE SGM



延長石油國際有限公司

YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00346)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “**SGM**”) of Yanchang Petroleum International Limited (the “**Company**”) will be held at Taishan Room, Level 5, Island Shangri-La, Pacific Place, Supreme Court Road, Central, Hong Kong on Tuesday, 31 August 2021 at 3:30 p.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT:

subject to the fulfilment of the terms and conditions set out in the loan agreement dated 30 June 2021 (the “**Loan Agreement**”) entered into between the Company and Yanchang Petroleum Group (Hong Kong) Co., Limited (“**Yanchang Petroleum HK**”) (a copy of the Loan Agreement having been produced to the meeting and marked “A” and initialled by the chairman of the meeting for the purpose of identification) in respect of the provision of the Loan of US\$22,000,000 (equivalent to approximately HK\$170,675,000) from Yanchang Petroleum HK to the Company for a term commencing from the Utilisation Date and expiring on the third anniversary of the Utilisation Date:

- (i) the Loan Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (ii) any one director of the Company be and is hereby authorised for and on behalf of the Company to do all such acts and things and execute all such documents which he considers necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Loan Agreement and the transactions contemplated thereunder and to agree to such variations, amendments or waivers of

NOTICE OF THE SGM

matters relating thereto that are of administrative nature and ancillary to the implementation of the Loan Agreement and any other transactions contemplated under or incidental to the Loan Agreement.”

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

Hong Kong, 29 July 2021

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

*Head office and principal place of
business in Hong Kong:*
Room 3403, 34th Floor
Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the SGM is entitled to appoint one or, if he is the holder of two or more shares, more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
2. In the case of joint holders of shares in the Company, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s), seniority being determined by the order in which names stand in the register of members.
3. In order to be valid, the form of proxy must be in writing under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal, or under the hand of an officer or attorney or other person duly authorized, and must be deposited with the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (together with the power of attorney or other authority, if any, under which it is signed or a certified copy thereof) not less than 48 hours before the time fixed for holding of the SGM.
4. Completion and return of the form of proxy will not preclude members from attending and voting at the SGM.
5. For determining the entitlement to attend and vote at the SGM or any adjournment thereof, the record date is fixed on Wednesday, 25 August 2021. Shareholders whose names appear on the register of members of the Company at the close of business on the record date will be entitled to attend and vote at the SGM. In order to be entitled to attend and vote at the SGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share register in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 25 August 2021.

PRECAUTIONARY MEASURES FOR THE SGM

In view of the ongoing COVID-19 epidemic and recent requirements, if any, for prevention and control of its spread, the Company will implement the following preventive measures at the SGM:

- (i) compulsory wearing of surgical face masks by all attendees prior to admission to the meeting venue and throughout the SGM;
- (ii) compulsory temperature check will be conducted on every attendee, any person with a body temperature of over 37.2 degrees Celsius, or has flu-like symptoms or is otherwise unwell will not be admitted to the meeting venue;
- (iii) maintenance of a safe distance between seats, and the Company may limit the number of attendees at the SGM as may be necessary to avoid over-crowding; and
- (iv) no refreshments or drinks will be served.

To the extent permitted under the laws of Hong Kong, the Company reserves the right to deny entry into the meeting venue or require any person to leave the meeting venue in order to ensure the safety of the attendees at the SGM.

Subject to the development of the COVID-19 situation, the Company may implement additional precautionary measures as and when appropriate.

In the interest of all stakeholders' health and safety and consistent with recent COVID-19 guidelines for prevention and control, the Company reminds all Shareholders that physical attendance in person at the SGM is not necessary for the purpose of exercising voting rights. As an alternative to attending the SGM in person, Shareholders are encouraged to consider appointing the chairman of the SGM as their proxy to vote on the resolutions at the SGM by submitting the form of proxy with voting instructions inserted.

If you are not a registered Shareholder (if your shares are held via banks, brokers, custodians or the Hong Kong Securities Clearing Company Limited), you should consult directly with your banks or brokers or custodians (as the case may be) to assist you in the appointment of proxy.