
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 together with the accompanying form of proxy to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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延長石油國際有限公司

YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00346)

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE NEW SUPPLY AGREEMENT AND NOTICE OF THE SGM

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 of the Company



Capitalised terms used on this cover shall have the same meanings as those defined in the section headed "Definitions" in this circular, unless the context requires otherwise.

A letter from the Board is set out on pages 4 to 12 of this circular. A letter from the Independent Board Committee is set out on page 13 of this circular. A letter from the Independent Financial Adviser is set out on pages 14 to 34 of this circular.

A notice convening the SGM of the Company to be held at Room Taishan, Level 5, Island Shangri-La, Pacific Place, Supreme Court Road, Central, Hong Kong on Friday, 30 December 2022 at 3:30 pm is set out on pages 40 to 41 of this circular. A form of proxy for use by the Shareholders at the SGM is enclosed with this circular.

Whether or not you intend to attend the SGM, you are requested to complete and sign the accompanying form of proxy, in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, 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 if you so wish and, in such event, the relevant form of proxy shall be deemed to be revoked.

PRECAUTIONARY MEASURES FOR THE SPECIAL GENERAL MEETING

Please refer to page ii 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;
- (3) no refreshments or drinks will be served; and
- (4) no souvenir will be distributed.

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.

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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;
- (iv) no refreshments or drinks will be served; and
- (v) no souvenir will be distributed.

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.

DEFINITIONS

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

“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Yanchang Petroleum International Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange (stock code: 00346)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transaction(s)”	transaction(s) between Yanchang Petroleum Group and Henan Yanchang for the supply of refined oil and by-products (including chemical products) from Yanchang Petroleum Group to Henan Yanchang with terms and conditions in accordance with the New Supply Agreement
“COVID-19”	an infectious disease caused by a newly discovered coronavirus since December 2019, namely, severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) which has spread globally and resulted in a pandemic
“Director(s)”	the director(s) of the Company
“Existing Supply Agreement”	the agreement dated 12 November 2019 entered into between Henan Yanchang and Yanchang Petroleum Group in respect of the supply of refined oil from Yanchang Petroleum Group to Henan Yanchang for the three years ending 31 December 2022
“Group”	the Company and its subsidiaries from time to time
“Henan Yanchang”	河南延長石油銷售有限公司 (Henan Yanchang Petroleum Sales Co., Limited), a limited company incorporated under the PRC laws which is an indirect non wholly-owned subsidiary of the Company and 70% owned by the Group as at the Latest Practicable Date
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Board Committee”	the independent board committee of the Company, comprising all the independent non-executive Directors to be established to advise the Independent Shareholders on the New Supply Agreement and the transactions and matters contemplated thereunder
“Independent Financial Adviser” or “Astrum Capital Management Limited”	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 SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions
“Independent Shareholders”	Shareholders other than Yanchang Petroleum Group and its associates
“Latest Practicable Date”	1 December 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange and as amended from time to time
“New Supply Agreement”	the new supply agreement dated 18 November 2022 entered into between Henan Yanchang and Yanchang Petroleum Group in respect of the supply of refined oil and by-products (including chemical products) from Yanchang Petroleum Group to Henan Yanchang for the three years ending 31 December 2025
“PRC”	the People’s Republic of China, and for the purpose of this circular, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
“Proposed Annual Cap(s)”	the proposed annual cap(s) for the Continuing Connected Transactions under the New Supply Agreement for each of the three years ending 31 December 2025
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“SGM”	the special general meeting of the Company to be convened for the Independent Shareholders to consider and approve the New Supply Agreement and the respective Proposed Annual Caps for the three years ending 31 December 2025
“Share(s)”	existing ordinary share(s) of HK\$0.02 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the agreement dated 30 September 2020 supplemented to the Existing Supply Agreement entered into between Henan Yanchang and Yanchang Petroleum Group in respect of the revision of the original annual caps for the three years ending 31 December 2022
“Yanchang Petroleum Group”	陝西延長石油(集團)有限責任公司 (Shaanxi Yanchang Petroleum (Group) Co., Limited), a state-owned corporation registered in the PRC with limited liability, being a substantial Shareholder 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, which for the purpose of this circular means Yanchang Petroleum Group and its subsidiaries and associates
“Yanchang Petroleum HK”	Yanchang Petroleum Group (Hong Kong) Co., Limited, a limited company incorporated in Hong Kong, is direct wholly owned by Yanchang Petroleum Group
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of Hong Kong
“%”	per cent

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.

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:

Feng Yinguo (*Chairman*)

Zhang Jianmin

Ding Jiasheng

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Independent non-executive Directors:

Ng Wing Ka

Leung Ting Yuk

Sun Liming

Mu Guodong

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

Room 3403, 34 Floor

Lee Garden One

33 Hysan Avenue

Causeway Bay

Hong Kong

6 December 2022

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO
THE NEW SUPPLY AGREEMENT**

INTRODUCTION

References are made to the announcements of the Company dated 12 November 2019, 30 September 2020 and 18 November 2022 in relation to, among others, the Existing Supply Agreement, the Supplemental Agreement and the transactions and matters contemplated thereunder, and the New Supply Agreement and the transactions and matters contemplated thereunder. Henan Yanchang and Yanchang Petroleum Group entered into the Existing Supply Agreement on 12 November 2019, pursuant to which Yanchang Petroleum Group has agreed to sell and Henan Yanchang has agreed to purchase refined oil and by-products (including chemical products) for the three years ending 31 December 2022.

LETTER FROM THE BOARD

As the Existing Supply Agreement will expire on 31 December 2022, Henan Yanchang and Yanchang Petroleum Group entered into the New Supply Agreement on 18 November 2022 pursuant to which Yanchang Petroleum Group will supply refined oil and by-products (including chemical products) to Henan Yanchang for the three years ending 31 December 2025.

As at the Latest Practicable Date, Henan Yanchang is a non-wholly owned subsidiary of the Company, while Yanchang Petroleum Group, being a substantial Shareholder beneficially holding 12,686,203,231 Shares representing approximately 69.19% of the existing issued share capital of the Company, is a connected person of the Company as defined under the Listing Rules and hence the transactions contemplated under the New Supply Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Proposed Annual Caps exceed 5% and the consideration exceeds HK\$10,000,000 on an annual basis, the New Supply Agreement and the transactions and matters contemplated thereunder are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The purpose of this circular is to provide you with the information, among other things, (i) details of the New Supply Agreement (including the Proposed Annual Caps) and the transactions and matters contemplated thereunder; (ii) the letter of recommendations from the Independent Board Committee to the Independent Shareholders in respect of the New Supply Agreement (including the Proposed Annual Caps) and the transactions and matters contemplated thereunder; (iii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the New Supply Agreement (including the Proposed Annual Caps) and the transactions and matters contemplated thereunder; and (iv) the notice of the SGM.

THE NEW SUPPLY AGREEMENT

The principal terms of the New Supply Agreement are set out as follows:

Date	:	18 November 2022
Parties	:	(i) Henan Yanchang; and (ii) Yanchang Petroleum Group
Subject	:	Yanchang Petroleum Group has agreed to sell and Henan Yanchang has agreed to purchase refined oil and by-products (including chemical products) on normal commercial terms.
Term	:	The New Supply Agreement shall subsist for three years commencing from 1 January 2023 until 31 December 2025, and is renewable for another term of three years under negotiation between both parties at least 90 days prior to the expiry date, subject to the compliance with the Listing Rules.

LETTER FROM THE BOARD

- Pricing basis : The purchase price of refined oil and by-products (including chemical products) shall be the actual trading price quoted by Yanchang Petroleum Group to customers and the purchase price paid by Henan Yanchang shall not be higher than that offered by Yanchang Petroleum Group to its independent third-party customers for the comparable product type and quantity at the relevant time.
- Payment terms : The purchase price of refined oil and by-products (including chemical products) shall be paid in advance by Henan Yanchang before delivery of the refined oil and by-products (including chemical products). The payment terms offered by Yanchang Petroleum Group to Henan Yanchang should not be less favourable than those offered by Yanchang Petroleum Group to its independent third-party customers for the comparable product type and quantity at the relevant time.
- Condition precedent : The Independent Shareholders have approved at the SGM in accordance with the Company's memorandum of association and bye-laws and the Listing Rules, the New Supply Agreement (including the Proposed Annual Caps) and the transactions and matters contemplated thereunder.

THE PROPOSED ANNUAL CAPS

Historical amounts

The approximate purchase amounts of refined oil and by-products (including chemical products) made by Henan Yanchang from Yanchang Petroleum Group, for each of the two years ended 31 December 2020 and 2021 and the nine months ended 30 September 2022 are set out below:

	For the year ended		For the nine
	31 December		months ended
	2020	2021	30 September
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Annual Cap under the Existing Supply Agreement	7,102	9,675	12,600
Historical transaction amounts	4,143	4,716	6,128

LETTER FROM THE BOARD

Proposed Annual Caps

The Directors estimated that the annual transaction amounts in respect of purchase of refined oil and by-products (including chemical products) made by Henan Yanchang from Yanchang Petroleum Group under the New Supply Agreement for the three years ending 31 December 2025 are as follows:

	For the year ending 31 December		
	2023	2024	2025
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Proposed Annual Cap under the New Supply Agreement	11,081	12,188	13,397

Henan Yanchang enters into supply agreements with both independent third parties and connected persons of the Company from time to time, taking into account various factors including but not limited to the availability of supply of refined oil and by-products (including chemical products) and the prevailing market prices of relevant products. The Company considers that such arrangement will provide the flexibility for the Group so as to secure the steady supply of refined oil and by-products (including chemical products) for the business development of Henan Yanchang. The Proposed Annual Caps under the New Supply Agreement are determined after taking into account: (i) the historical amounts for the purchase of refined oil and by-products (including chemical products) by Henan Yanchang from Yanchang Petroleum Group for the two years ended 31 December 2021 and nine months ended 30 September 2022; (ii) based on the annualized transaction amounts for the nine months ended 30 September 2022, the expected growth in the purchase volume to be made by Henan Yanchang from Yanchang Petroleum Group of approximately 15%, 10% and 10% for the years ending 2023, 2024 and 2025, respectively, believing that demand for refined oil and by-products (including chemical products) be soon resumed to the pre-pandemic level and continued to increase as the PRC economy recovery stayed resilient in the post-pandemic era; (iii) based on the average purchase price per tonne of refined oil from Yanchang Petroleum Group during the period from July 2022 to September 2022, the expected increase in the purchase price of approximately 12% in 2023 after consideration of the high volatility in refined oil price quoted from the National Development and Reform Commission of the PRC during the period from October 2021 to October 2022; (iv) the existing business scale of Henan Yanchang needed to be backed by the stable and sufficient supply of refined oil and by-products (including chemical products) from Yanchang Petroleum Group; and (v) Henan Yanchang is holding a valid licence for distribution and sales of refined oil and by-products (including chemical products) in the whole PRC and Henan Yanchang keeps on its business development in particular Southwest PRC.

Based on the above, the Directors are of the view that the Proposed Annual Caps are fair and reasonable.

LETTER FROM THE BOARD

INTERNAL CONTROL MEASURES

To ensure the purchase price and payment terms of refined oil and by-products (including chemical products) offered by Yanchang Petroleum Group under the New Supply Agreement are in line with the prevailing market practice, on normal commercial terms, fair and reasonable and no less favourable than available from the independent third parties, and the Proposed Annual Caps are not exceeded, the Group will adopt the following internal control measures:

- (i) the procurement department of Henan Yanchang is required to obtain, review and compare the quotations (e.g. purchase price and payment terms) from independent third party suppliers and Yanchang Petroleum Group in respect of refined oil and by-products (including chemical products). As a general practice, Henan Yanchang will obtain quotations from at least three suppliers for comparison. Following the receipt of quotations, Henan Yanchang will compare the terms of quotations and determine the selection of suppliers by taking into account factors such as price quotations, quality of relevant products and ability of the supplier in meeting delivery time schedules. Henan Yanchang usually purchases refined oil and by-products (including chemical products) from the supplier with the lowest fee quotation. However, Henan Yanchang may also consider other non-monetary factors, including quality of relevant products supplied, delivery time schedule and payment terms of different suppliers in determining its purchase decisions. The head of the procurement department of Henan Yanchang would review the price and approve the purchase orders for refined oil and by-products (including chemical products);
- (ii) the Company will closely monitor the Continuing Connected Transactions under the New Supply Agreement to ensure that the Proposed Annual Caps are not exceeded;
- (iii) the independent non-executive Directors will review and confirm whether the transactions contemplated under the New Supply Agreement are entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better, fair and reasonable and in the interests of the Company and the Shareholders as a whole; and
- (iv) the Company will engage the independent auditors to review and confirm whether the transactions under the New Supply Agreement are in compliance with the annual reporting and review requirements under the Listing Rules.

Based on the internal procurement procedures and the price comparison between the refined oil and by-products (including chemical products) offered by each of Yanchang Petroleum Group and other independent third parties, Henan Yanchang has procured and will procure refined oil and by-products (including chemical products) from Yanchang Petroleum Group which offered same and better pricing and other terms among other quotations obtained from independent third parties. As such, the Directors consider that above internal control measures would ensure that the pricing and other terms for refined oil and by-products (including chemical products) under

LETTER FROM THE BOARD

the New Supply Agreement would be fair and reasonable and no less favourable than that offered by independent third parties. The Directors also consider such measures could ensure that the transactions would be conducted on normal commercial terms and not prejudicial to the interests of the Company and minority shareholders.

REASONS FOR AND BENEFITS OF ENTERING INTO THE NEW SUPPLY AGREEMENT

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

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

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

The New Supply Agreement was entered into in the usual and ordinary course of the Group's business and the terms of which are negotiated based on normal commercial terms and the prices are determined after arm's length negotiation and on terms which the Directors considers to be no less favourable to the Group than terms offered by independent third party suppliers to the Group for refined oil and by-products (including chemical products) of comparable product type, quality and quantity at the relevant time. Henan Yanchang is not committed to purchase any refined oil and by-products (including chemical products) or is not agreed to make any exclusive purchase from Yanchang Petroleum Group.

In 2021, Henan Yanchang (i) actively developed regional markets such as Ningxia, Sichuan, Gansu and Qinghai with developed seven new customers; (ii) completed the upgrading and transformation of 3 gas stations in Xiangcheng which have been put into operation; and (iii) successfully signed contracts with two direct supply gas stations in Ningxia region. In the first half of 2022, Henan Yanchang completed developed one franchised gas station. In order to continue to achieve profit maximisation by fully utilising storage capacity of Henan Yanchang, the Company noted that the relatively favourable price of refined oil and by-products (including chemical products) offered from Yanchang Petroleum Group enhanced our Group's profitability of the refined oil and by-products (including chemical products) business and would like to increase the purchase of refined oil and by-products (including chemical products) from

LETTER FROM THE BOARD

Yanchang Petroleum Group for the three years ending 31 December 2025 on the basis that no less favourable price of refined oil and by-products (including chemical products) offered by Yanchang Petroleum Group as compared with the independent third party suppliers to Henan Yanchang.

Besides, the global oil prices escalated in the first half of 2022 and have been volatile at a high level afterwards due to a number of factors including inflation, regional conflicts, supplies and demands. According to the National Development and Reform Commission of the PRC during the period from October 2021 to October 2022, there was rapid increase in market price of refined oil of approximately 12%. In view of (i) the continuing support from Yanchang Petroleum Group with secured supply of refined oil and by-products (including chemical products); (ii) Henan Yanchang holding a valid licence for distribution and sales of refined oil and by-products (including chemical products) in the PRC, the Group would be able to expand its refined oil and by-products (including chemical products) business as well as its sales network in the PRC; and (iii) the no less favourable price of refined oil and by-products (including chemical products) offered by Yanchang Petroleum Group as compared with the independent third party suppliers, the Group would be able to expand its refined oil and by-products (including chemical products) business in the PRC. Given that Yanchang Petroleum Group is one of the four largest oil and gas state-owned enterprises in the PRC qualified to explore and develop oil and gas and by-products (including chemical products) in the PRC with an extensive sales network, the entering into the New Supply Agreement with Yanchang Petroleum Group shall provide an alternative stable source of refined oil and by-products (including chemical products) to Henan Yanchang, continuously enhance the flexibility for the procurement of quality refined oil and by-products (including chemical products) and better accommodate with the Henan Yanchang's business plan. Leveraging on the bulk volume and stable supply of refined oil and by-products (including chemical products) from Yanchang Petroleum Group, Henan Yanchang could continuously enhance its business and operation so as to foster its long term development.

The Board (including all the independent non-executive Directors) is of the opinion that the terms (including the Proposed Annual Caps) of the New Supply Agreement are fair and reasonable so far as the Independent Shareholders are concerned and the entering into the New Supply Agreement is in the interests of the Company and the Shareholders as a whole.

IMPLICATION UNDER THE LISTING RULES

Henan Yanchang is a non-wholly owned subsidiary of the Company, while Yanchang Petroleum Group, being a substantial Shareholder beneficially holding 12,686,203,231 Shares as at the Latest Practicable Date representing approximately 69.19% of the existing issued share capital of the Company, is a connected person of the Company as defined under the Listing Rules and hence the transactions contemplated under the New Supply Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the Proposed Annual Caps exceed 5% and the consideration exceeds HK\$10,000,000 on an annual basis, the New Supply Agreement and the

LETTER FROM THE BOARD

transactions and matters contemplated thereunder are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Yanchang Petroleum Group and its associates shall abstain from voting in favour of the New Supply Agreement and the transactions and matters contemplated thereunder at the SGM. Save for Yanchang Petroleum Group, to the best knowledge, information and belief of the Directors, no other Shareholders or any of their respective associates have a material interest in the New Supply Agreement and the transactions and matters contemplated thereunder, and accordingly are required to abstain from voting at the SGM.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders on whether the terms and the Proposed Annual Caps for the three years ending 31 December 2025 under the New Supply Agreement are fair, reasonable and in the interests of the Company and the Shareholders as a whole. Astrum Capital Management Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regards.

SGM

The SGM will be convened by the Company to seek approval from the Independent Shareholders in respect of the New Supply Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps) by way of poll. 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 and its associates, holding 12,686,203,231 Shares, representing approximately 69.19% of the existing issued share capital of the Company, shall abstain from voting at the SGM on the relevant resolution to approve the Continuing Connected Transactions. Save for Yanchang Petroleum Group and its associates, none of the Shareholders will be required to abstain from voting at the SGM in respect of the ordinary resolution to approve the Continuing Connected Transactions.

The notice convening the SGM of the Company to be held at Room Taishan, Level 5, Island Shangri-La, Pacific Place, Supreme Court Road, Central, Hong Kong on Friday, 30 December 2022 at 3:30 p.m. is set out on pages 40 to 41 of this circular. An ordinary resolution will be proposed at the SGM to approve the New Supply Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps). 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 by the Shareholders 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, in accordance with the instructions printed thereon and return the same

LETTER FROM THE BOARD

to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, 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 meeting 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 if you so wish and, in such event, the relevant form of proxy shall be deemed to be revoked.

RECOMMENDATIONS

Taking into consideration of the reasons set out in the paragraph headed "Reasons for and benefits of entering into the New Supply Agreement" above, the Directors (including all the independent non-executive Directors) consider that the entering into the New Supply Agreement and the transactions contemplated thereunder are in the ordinary and usual course of the Group's business, on normal commercial terms and the Proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including all the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Continuing Connected Transactions.

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 13 of this circular containing the recommendation of the Independent Board Committee to the Independent Shareholders regarding the New Supply Agreement and the transactions and matters contemplated thereunder; (ii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 14 to 34 of this circular; and (iii) the information set out in the appendix of this circular.

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



延長石油國際有限公司

YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00346)

6 December 2022

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO
THE NEW SUPPLY AGREEMENT**

We refer to the circular of the Company dated 6 December 2022 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been established to advise the Independent Shareholders on whether the terms and the Proposed Annual Caps for the three years ending 31 December 2025 under the New Supply Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Astrum Capital Management Limited 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 14 to 34 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 Astrum Capital Management Limited and its conclusion and advice, we concur with its views and consider that the entering into the New Supply Agreement and the transactions and matters contemplated thereunder are in the ordinary and usual course of the Group’s business, on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders should vote in favor of the resolutions to be proposed at the SGM to approve the Continuing Connected Transactions.

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



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

6 December 2022

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

Dear Sirs,

**CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO
THE NEW SUPPLY 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 continuing connected transactions (the “**Continuing Connected Transactions**”) contemplated under the new supply agreement entered into between 河南延長石油銷售有限公司 (Henan Yanchang Petroleum Sales Co., Limited*, “**Henan Yanchang**”) and 陝西延長石油(集團)有限責任公司 (Shaanxi Yanchang Petroleum (Group) Co., Limited*, “**Yanchang Petroleum Group**”) dated 18 November 2022 (the “**New Supply Agreement**”) with the proposed annual caps (the “**Proposed Annual Caps**”). The details of the Continuing Connected Transactions are disclosed in the announcement of the Company dated 18 November 2022 (the “**Announcement**”) and in the letter from the Board (the “**Letter from the Board**”) set out on pages 4 to 12 of the circular of the Company dated 6 December 2022 (the “**Circular**”) to its shareholders, of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 12 November 2019, Henan Yanchang and Yanchang Petroleum Group entered into the Existing Supply Agreement, pursuant to which Yanchang Petroleum Group has agreed to sell and Henan Yanchang has agreed to purchase the refined oil for the three years ending 31 December 2022. On 30 September 2020, Henan Yanchang and Yanchang Petroleum Group entered into the Supplemental Agreement to revise the annual caps for the purchase of refined oil by Henan Yanchang from Yanchang Petroleum Group under the Existing Supply Agreement for the three years ending 31 December 2022.

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As the Existing Supply Agreement (as supplemented by the Supplemental Agreement) will expire on 31 December 2022, Henan Yanchang and Yanchang Petroleum Group entered into the New Supply Agreement on 18 November 2022 pursuant to which Yanchang Petroleum Group will supply refined oil and by-products (including chemical products) to Henan Yanchang for the three years ending 31 December 2025.

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

Yanchang Petroleum Group and its associates shall abstain from voting in favour of the New Supply Agreement and the transactions and matters contemplated thereunder at the SGM. Save for Yanchang Petroleum Group, to the best knowledge, information and belief of the Directors, no other Shareholders or any of their respective associates have a material interest in the New Supply Agreement and the transactions and matters contemplated thereunder, and accordingly are required to abstain from voting at the SGM.

An Independent Board Committee, comprising all 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 make recommendations to the Independent Shareholders in respect of the New Supply Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps) and as to voting 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.

INDEPENDENCE DECLARATION

As at the Latest Practicable Date, we were not aware of any relationships or interests between Astrum Capital Management Limited, the Company, Henan Yanchang and Yanchang Petroleum Group 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 continuing connected transactions in respect of sales of refined oil to certain connected parties (details of which were set out in the circular of the Company dated 7 June 2021); and (ii) the entering into of the loan agreement between the Company and Yanchang Petroleum HK dated 30 June 2021 (details of which were set out in the circular of the Company dated 29 July 2021), there was no other engagement between the Group and Astrum Capital Management Limited. Apart from the normal

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advisory fees payable to us for the relevant engagement in relation to the Continuing Connected Transactions, 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 Continuing Connected Transactions.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have reviewed, *inter alia*, the Announcement, the Circular, the Existing Supply Agreement, the Supplemental Agreement, the New Supply Agreement, the annual report of the Company for the financial year ended 31 December 2021 (the “**2021 Annual Report**”) and the interim report of the Company for the six months ended 30 June 2022 (the “**2022 Interim Report**”). We have also reviewed certain information provided by the management of the Company (the “**Management**”) relating to the operations, financial conditions and prospects of the Group. We have also (i) considered such other information, analyses and market data which we deemed relevant; and (ii) conducted discussions with the Management regarding the Continuing Connected Transactions, the businesses and future outlook 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.

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 Continuing Connected Transactions, 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 entering into of the New Supply Agreement and the transactions and matters 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.

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PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the New Supply Agreement (including the Proposed Annual Caps) 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

According to the Letter from the Board, the Group is principally engaged in the investment in the oil, gas and energy related business; oil and gas exploration, exploitation and operation; and trading and distribution of oil related products (including chemical products).

The following table sets out (i) the audited financial information of the Group for the two financial years ended 31 December 2020 and 31 December 2021 (“FY2020” and “FY2021”, respectively) as extracted from the 2021 Annual Report; and (ii) the unaudited financial information of the Group for the six months ended 30 June 2021 and 30 June 2022 (“1H2021” and “1H2022”, respectively) as extracted from the 2022 Interim Report:

Table 1: Financial information of the Group

	FY2020	FY2021	1H2021	1H2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	27,256,800	19,776,474	10,208,266	9,336,236
– <i>Exploration, exploitation and operation</i>	95,827	199,774	75,287	205,222
– <i>Supply and procurement</i>	27,160,973	19,576,700	10,132,979	9,131,014
Gross profit (<i>Note</i>)	183,258	376,463	161,581	189,619
(Loss)/profit before taxation	(779,496)	377,556	21,939	(25,770)
(Loss)/profit for the year/period attributable to owners of the Company	(795,765)	353,601	3,893	6,435

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	As at 31 December 2020	As at 31 December 2021	As at 30 June 2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)	(unaudited)
Total assets	2,636,012	4,508,705	6,216,953
Non-current assets	1,136,873	1,653,596	1,689,650
Current assets	1,499,139	2,855,109	4,527,303
Total (liabilities)	(1,834,876)	(3,341,261)	(5,108,478)
Non-current (liabilities)	(510,122)	(434,640)	(433,692)
Current (liabilities)	(1,324,754)	(2,906,621)	(4,674,786)
Total equity attributable to the owners of the Company	671,125	1,036,367	1,025,323

Sources: the 2021 Annual Report and the 2022 Interim Report

Note: 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.

(i) For the year ended 31 December 2021 (i.e. FY2021)

In FY2021, the Group recorded revenue of approximately HK\$19,776.5 million, representing a decrease of approximately 27.4% as compared to approximately HK\$27,256.8 million in FY2020. Such decrease was mainly attributable to the decrease in revenue generated from supply and procurement business from approximately HK\$27,161.0 million in FY2020 to approximately HK\$19,576.7 million in FY2021 due to the decrease in sales volume of refined oil and by-products from approximately 6.4 million tonnes in FY2020 to approximately 4.9 million tonnes in FY2021.

Notwithstanding the decrease in revenue, the Group made a turnaround from loss making position to profit making position. In FY2021, the Group recorded profit attributable to owners of the Company of approximately HK\$353.6 million, as compared to loss of approximately HK\$795.8 million in FY2020. Such improvement was mainly attributable to (i) the reversal of impairment loss of property, plant and equipment of approximately HK\$333.2 million in FY2021 (FY2020: recognition of impairment loss of approximately HK\$692.6 million); and (ii) the increase in gross profit from approximately HK\$183.3 million in FY2020 to approximately HK\$376.5 million in FY2021.

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As at 31 December 2021, the Group's total assets and total liabilities amounted to approximately HK\$4,508.7 million (31 December 2020: approximately HK\$2,636.0 million) and approximately HK\$3,341.3 million (31 December 2020: approximately HK\$1,834.9 million), respectively. Equity attributable to owners of the Company increased from approximately HK\$671.1 million as at 31 December 2020 to approximately HK\$1,036.4 million as at 31 December 2021. Such increase was primarily due to the profit attributable to owners of the Company of approximately HK\$353.6 million recorded in FY2021.

(ii) For the six months ended 30 June 2022 (i.e. 1H2022)

In 1H2022, the Group recorded revenue of approximately HK\$9,336.2 million, representing a decrease of approximately 8.5% as compared to approximately HK\$10,208.3 million in 1H2021. As disclosed in the 2022 Interim Report, such decrease was mainly attributable to the decrease in revenue generated from supply and procurement business from approximately HK\$10,133.0 million in 1H2021 to approximately HK\$9,131.0 million in 1H2022 due to the decrease in sales volume of refined oil and by-products from approximately 2.7 million tonnes in 1H2021 to approximately 1.9 million tonnes in 1H2022. Notwithstanding the decrease in revenue, the Group's gross profit increased from approximately HK\$161.6 million in 1H2021 to approximately HK\$189.6 million in 1H2022. Profit attributable to owners of the Company slightly increased from approximately HK\$3.9 million for 1H2021 to approximately HK\$6.4 million for 1H2022.

As at 30 June 2022, the Group's total assets and total liabilities amounted to approximately HK\$6,217.0 million (31 December 2021: approximately HK\$4,508.7 million) and approximately HK\$5,108.5 million (31 December 2021: approximately HK\$3,341.3 million), respectively. Equity attributable to the owners of the Company decreased slightly from approximately HK\$1,036.4 million as at 31 December 2021 to approximately HK\$1,025.3 million as at 30 June 2022. Such decrease was mainly due to the loss attributable from the exchange differences on translation of financial statements of subsidiaries outside Hong Kong of approximately HK\$17.5 million in 1H2022, which was partial offset by the profit attributable to owners of the Company of approximately HK\$6.4 million in 1H2022.

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

According to the Letter from the Board, 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 (including chemical products).

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Henan Yanchang is an indirect 70% owned subsidiary of the Company and acts as the core operating arm of the Group's trading business of refined oil and by-products (including chemical products) in the PRC. It is principally engaged in the wholesale, retail, storage and transportation of refined oil (including gasoline, diesel oil, paraffin fuel oil, lubricating oil, grease and asphalt) and by-products (including chemical products). Henan Yanchang was granted a valid licence for the distribution and sale of refined oil and by-products (including chemical products) in the PRC (without expiry date) on 21 December 2006. According to the financial reports of the Company, Henan Yanchang's sales of refined oil and by-products (including chemical products) achieved approximately 6.0 million tonnes, approximately 4.1 million tonnes and approximately 1.8 million tonnes for FY2020, FY2021 and 1H2022, respectively. The Group's trading business of refined oil and by-products (including chemical products), being mainly operated by Henan Yanchang, remained as the core revenue driver of the Group for the past few years. Revenue derived from the Group's trading business of refined oil and by-products (including chemical products) amounted to approximately HK\$27,161.0 million, approximately HK\$19,576.7 million and approximately HK\$9,131.0 million for FY2020, FY2021 and 1H2022, respectively, representing approximately 99.6%, approximately 99.0% and approximately 97.8% of the Group's total revenue for the respective years or period.

In its ordinary course of business, Henan Yanchang has been from time to time purchasing refined oil and by-products from different suppliers (including but not limited to Yanchang Petroleum Group). Indeed, Henan Yanchang has been carrying on transactions pursuant to the Existing Supply Agreement entered into between Henan Yanchang and Yanchang Petroleum Group on 12 November 2019 (as supplemented by the Supplemental Agreement) in relation to the supply of refined oil from Yanchang Petroleum Group to Henan Yanchang, which constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The Existing Supply Agreement and the transactions contemplated thereunder (including the annual caps) were duly approved by the then Independent Shareholders at the special general meeting of the Company held on 19 December 2019, while the Supplemental Agreement and the transactions contemplated thereunder (including the revised annual caps) were duly approved by the then Independent Shareholders at the special general meeting of the Company held on 30 October 2020. Please refer to the circulars of the Company dated 29 November 2019 and 9 October 2020 for further details of the Existing Supply Agreement and the Supplemental Agreement. Having considered the facts that (i) the Existing Supply Agreement (as supplemented by the Supplemental Agreement) will expire shortly on 31 December 2022; and (ii) it is expected that Henan Yanchang will continue to enter into transactions of similar nature with Yanchang Petroleum Group from time to time thereafter so as to facilitate the operation of its trading business of refined oil and by-products (including chemical products), Henan Yanchang and Yanchang Petroleum Group entered into the New Supply Agreement on 18 November 2022 as an extension of the Existing Supply Agreement.

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According to the Letter from the Board, Yanchang Petroleum Group is principally engaged in (i) oil and gas exploration, exploitation, processing, pipeline transportation and sales of oil and gas and by-products (including chemical products); (ii) chemical engineering of oil, gas and coal, machinery manufacturing, project construction; and (iii) oil and gas research and development. Yanchang Petroleum Group owns the right for exploration, exploitation and operation of oil and natural gas resources in the PRC and has refining facilities in the PRC, and owns oil and natural gas resource assets in the PRC and abroad. Yanchang Petroleum Group is one of the largest oil and gas state-owned enterprises in the PRC qualified to explore and develop oil and gas in the PRC with an extensive sales network, including Yunnan, Guizhou and Sichuan. According to the official website of Yanchang Petroleum Group (<http://www.sxycpc.com/>), Yanchang Petroleum Group currently has 23 oil production plants, 3 exploration units, 4 auxiliary production units and 12 logistics support units for oil exploration. It also possesses 17 oil fields with oil reserves ranging from 200,000 tonnes to over 1,000,000 tonnes each. The crude oil production capacity of Yanchang Petroleum Group reaches 12 million tonnes per year. As advised by the Management, Yanchang Petroleum Group is one of Henan Yanchang's major suppliers of refined oil and by-products (including chemical products) and has commenced to supply refined oil and by-products (including chemical products) to Henan Yanchang since 2011. For FY2020, FY2021 and the nine months ended 30 September 2022 ("9M2022"), Yanchang Petroleum Group supplied approximately 960,000 tonnes, approximately 805,000 tonnes and approximately 839,000 tonnes of refined oil and by-products, respectively, to Henan Yanchang under the Existing Supply Agreement, representing approximately 15.9%, approximately 19.7% and approximately 31.2% of the total volume of refined oil and by-products (including chemical products) purchased by Henan Yanchang for the respective years/period. Having considered the facts that (i) Yanchang Petroleum Group is one of the largest oil and gas state-owned enterprises qualified to explore and develop oil and gas in the PRC with an extensive sales network; (ii) Yanchang Petroleum Group is one of the Group's major suppliers of refined oil and by-products (including chemical products) and has commenced to supply refined oil and by-products (including chemical products) to Henan Yanchang since 2011; and (iii) Yanchang Petroleum Group supplied approximately 15.9%, approximately 19.7% and approximately 31.2% of the total volume of refined oil and by-products (including chemical products) purchased by Henan Yanchang for FY2020, FY2021 and 9M2022, respectively, we concur with the Management's view that Yanchang Petroleum Group is a reliable and stable source of refined oil and by-products (including chemical products) to Henan Yanchang, and that it is crucial for the Group to secure the source of refined oil and by-products (including chemical products) from Yanchang Petroleum Group so as to maintain and develop its trading business of refined oil and by-products (including chemical products).

Having considered the facts that (i) it is the ordinary and usual course of business of the Group to purchase refined oil and by-products (including chemical products) for its trading business; (ii) the trading business of refined oil and by-products (including chemical products) represents a major revenue stream for the Group; (iii) the Existing Supply Agreement (as supplemented by the Supplemental Agreement) will expire shortly on 31 December 2022; (iv) it is expected that Henan Yanchang will continue to enter into

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transactions of similar nature with Yanchang Petroleum Group from time to time thereafter so as to facilitate the operation of its trading business of refined oil and by-products (including chemical products); (v) Yanchang Petroleum Group is considered as a reliable and stable source of refined oil and by-products (including chemical products) to Henan Yanchang; and (vi) the terms of the New Supply Agreement (including the Proposed Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned (please refer to our analysis as detailed in the paragraphs headed “3. *Principal terms of the New Supply Agreement*” and “4. *The Proposed Annual Caps*” below), we concur with the Management’s view that the entering into of the New Supply Agreement could enhance the flexibility of Henan Yanchang for the procurement of quality refined oil and by-products (including chemical products), and is in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the New Supply Agreement

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

Date	:	18 November 2022
Parties	:	(i) Henan Yanchang; and (ii) Yanchang Petroleum Group
Subject	:	Yanchang Petroleum Group has agreed to sell and Henan Yanchang has agreed to purchase refined oil and by-products (including chemical products) on normal commercial terms.
Term	:	The New Supply Agreement shall subsist for three years commencing from 1 January 2023 until 31 December 2025, and is renewable for another term of three years under negotiation between both parties at least 90 days prior to the expiry date, subject to the compliance with the Listing Rules.
Pricing basis	:	The purchase price of refined oil and by-products (including chemical products) shall be the actual trading price quoted by Yanchang Petroleum Group to customers and the purchase price paid by Henan Yanchang shall not be higher than that offered by Yanchang Petroleum Group to its independent third-party customers for the comparable product type and quantity at the relevant time.

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Payment terms : The purchase price of refined oil and by-products (including chemical products) shall be paid in advance by Henan Yanchang before delivery of the refined oil and by-products (including chemical products). The payment terms offered by Yanchang Petroleum Group to Henan Yanchang should not be less favourable than those offered by Yanchang Petroleum Group to its independent third-party customers for the comparable product type and quantity at the relevant time.

As mentioned in the Letter from the Board, the terms of the New Supply Agreement were negotiated based on normal commercial terms and the pricing terms were determined after arm's length negotiation between Henan Yanchang and Yanchang Petroleum Group and on terms which the Directors consider to be no less favourable to the Group than the terms offered by independent third-party suppliers to the Group for refined oil and by-products (including chemical products) of comparable product type, quality and quantity at the relevant time.

In assessing the fairness and reasonableness of the terms of the New Supply Agreement, we have reviewed and compared the terms of the Existing Supply Agreement (as supplemented by the Supplemental Agreement) and the New Supply Agreement, and noted that save for the Proposed Annual Caps for each of the three years ending 31 December 2025 and the inclusion of by-products of refined oil in the scope of products to be supplied by Yanchang Petroleum Group to Henan Yanchang, the terms of the aforementioned agreements are substantially the same. In addition, we have discussed with the Management on the terms of the New Supply Agreement (in particular, the pricing terms), and were advised that the price of refined oil and by-products (including chemical products) to be supplied by Yanchang Petroleum Group to Henan Yanchang will be determined with reference to the availability of supply of refined oil and by-products (including chemical products) and the prevailing market prices of relevant products. Pursuant to the New Supply Agreement, the purchase price of refined oil and by-products (including chemical products) shall be the actual trading price quoted by Yanchang Petroleum Group to customers and the purchase price paid by Henan Yanchang shall not be higher than that offered by Yanchang Petroleum Group to its independent third-party customers for the comparable product type and quantity at the relevant time. We were also given to understand by the Management that notwithstanding the entering into of the New Supply Agreement, Henan Yanchang is entitled to purchase refined oil and by-products (including chemical products) from other suppliers (not limited to Yanchang Petroleum Group). In this regard, Henan Yanchang has designed and implemented a procedure manual (the "**Procedure Manual**") in respect of the purchase of refined oil and by-products (including chemical products) as required by Henan Yanchang's internal control procedures

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in relation to the continuing connected transactions. We have obtained from the Management, and reviewed, the Procedure Manual, the details of which were summarized as below:

- (i) Before every purchase of refined oil and by-products (including chemical products), Henan Yanchang will obtain, review and compare the quotations (e.g. purchase price and payment terms) from Yanchang Petroleum Group and independent third-party supplier(s) in respect of the supply of same products. As a general practice, Henan Yanchang will obtain quotations from at least three suppliers for comparison.
- (ii) Following the receipt of quotations, Henan Yanchang will compare the terms of quotations and determine the selection of suppliers by taking into account factors such as price quotations, quality of relevant products and ability of the supplier in meeting delivery time schedules. Henan Yanchang usually purchases refined oil and by-products (including chemical products) from the supplier with the lowest fee quotation if the quality of refined oil and by-products (including chemical products) supplied, delivery time schedule and payment terms offered by different suppliers are similar. However, Henan Yanchang may also consider other non-monetary factors, including quality of relevant products supplied, delivery time schedule and payment terms of different suppliers in determining its purchase decisions.
- (iii) The head of the procurement department of Henan Yanchang would review the price and approve the purchase orders for the refined oil and by-products (including chemical products).

Upon review of the Procedure Manual and our discussion with the Management, we are of the view that the implementation of the Procedure Manual can ensure that Henan Yanchang would purchase refined oil and by-products (including chemical products) with the most favorable terms available to it under a systematic procedure, and thus safeguard the interests of the Company and the Shareholders as a whole.

Furthermore, we have obtained and reviewed 22 sample walk-through documents (including, among other things, price quotations from Yanchang Petroleum Group and independent third-party suppliers, the ultimate supplier of refined oil and by-products (including chemical products) selected by Henan Yanchang with specified reasons, and the relevant delivery and payment records) (the “**Walk-through Documents**”) provided by the Group in respect of the purchase of refined oil and by-products (including chemical products) by Henan Yanchang during the period commencing from 1 January 2020 to 30 September 2022 (the “**Review Period**”).

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Based on our sample review on the Walk-through Documents, we noted that (i) the transactions under the Existing Supply Agreement (as supplemented by the Supplemental Agreement) were carried out in accordance with the Procedure Manual; and (ii) Henan Yanchang would purchase refined oil and by-products (including chemical products) from Yanchang Petroleum Group under the Existing Supply Agreement (as supplemented by the Supplemental Agreement) only when the price quotation and terms offered by Yanchang Petroleum Group are more favorable to Henan Yanchang than those offered by independent third-party suppliers. We are of the view that the pricing policy and mechanism in respect of the purchase of refined oil and by-products (including chemical products) has been well in place, and the interests of the Company and the Shareholders are properly safeguarded.

Having considered the facts that (i) the terms of the New Supply Agreement were negotiated based on normal commercial terms and the prices were determined after arm's length negotiation between Henan Yanchang and Yanchang Petroleum Group and on terms which the Directors consider to be no less favourable to the Group than the terms offered by independent third-party suppliers to the Group for refined oil and by-products (including chemical products) of comparable product type and quantity at the relevant time; (ii) the purchase price of refined oil and by-products (including chemical products) shall be the actual trading price quoted by Yanchang Petroleum Group to customers and the purchase price paid by Henan Yanchang shall not be higher than that offered by Yanchang Petroleum Group to its independent third-party customers for the comparable product type and quantity at the relevant time; and (iii) the implementation of the Procedure Manual can ensure that Henan Yanchang would purchase refined oil and by-products (including chemical products) with the most favorable terms available to it under a systematic procedure, and thus safeguard the interests of the Company and the Shareholders as a whole, we consider that the terms of the New Supply Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

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4. The Proposed Annual Caps

The table below sets forth (i) the existing annual caps for the continuing connected transactions contemplated under the Existing Supply Agreement for FY2020, FY2021 and the year ending 31 December 2022 (“**FY2022**”), the actual transaction amounts under the Existing Supply Agreement for FY2020, FY2021 and 9M2022, and the utilization rate of the existing annual caps; and (ii) the Proposed Annual Caps under the New Supply Agreement for the three years ending 31 December 2023, 2024 and 2025 (“**FY2023**”, “**FY2024**” and “**FY2025**”, respectively):

Table 2: Annual caps

	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>
Existing/ Proposed Annual Caps	7,102	9,675	12,600	11,081	12,188	13,397
Historical transaction amounts	4,143	4,716	6,128 <i>(up to 30 September 2022)</i>	N/A	N/A	N/A
Utilization rate of the existing annual caps	58.3%	48.7%	48.6%	N/A	N/A	N/A

According to the Letter from the Board, the Proposed Annual Caps under the New Supply Agreement were determined after taking into account: (i) the historical amounts for the purchase of refined oil and by-products (including chemical products) by Henan Yanchang from Yanchang Petroleum Group for FY2020, FY2021 and 9M2022; (ii) based on the annualized transaction amounts for 9M2022, the expected growth in the purchase volume to be made by Henan Yanchang from Yanchang Petroleum Group of approximately 15%, 10% and 10% for FY2023, FY2024 and FY2025 (each, the “**Estimated Growth Rate**”), respectively, believing that demand for refined oil and by-products (including chemical products) be soon resumed to the pre-pandemic level and continued to increase as the PRC economy recovery stayed resilient in the post-pandemic era; (iii) based on the average purchase price per tonne of refined oil from Yanchang Petroleum Group during the period from July 2022 to September 2022, the expected increase in the purchase price of approximately 12% in FY2023 after consideration of the high volatility in refined oil price quoted from the National Development and Reform Commission of the PRC (“**NDRC**”) during the period from October 2021 to October 2022; (iv) the existing business scale of Henan Yanchang needed to be backed by the stable and sufficient supply of refined oil and

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by-products (including chemical products) from Yanchang Petroleum Group; and (v) Henan Yanchang is holding a valid licence for distribution and sales of refined oil and by-products (including chemical products) in the whole PRC and Henan Yanchang keeps on its business development in particular Southwest PRC.

In order to assess the fairness and reasonableness of the Proposed Annual Caps, we have discussed with the Management in relation to the estimation of the Proposed Annual Caps and were given to understand that the Proposed Annual Caps were estimated based on the following formula:

$$\text{Proposed Annual Cap} = A \times B \times C$$

where

A = the estimated total purchase volume of refined oil and by-products (including chemical products) to be purchased by Henan Yanchang for FY2023, FY2024 and FY2025 (the “**Estimated Purchase Volume**”)

B = the estimated proportion of the total purchase volume of refined oil and by-products (including chemical products) to be purchased by Henan Yanchang from Yanchang Petroleum Group for FY2023, FY2024 and FY2025 (the “**Estimated Proportion**”)

C = the estimated purchase price per tonne of the refined oil (the “**Estimated Purchase Price**”)

In this regard, we have discussed with the Management about the determination of each of (i) the Estimated Purchase Volume; (ii) the Estimated Proportion; and (iii) the Estimated Purchase Price as detailed below:

(i) the Estimated Purchase Volume

Upon our review on the calculation of the Proposed Annual Caps, we noted that the Estimated Purchase Volume for FY2023, FY2024 and FY2025 are approximately 4.1 million tonnes, approximately 4.5 million tonnes and approximately 5.0 million tonnes (the “**FY2023 Volume**”, the “**FY2024 Volume**” and the “**FY2025 Volume**”, respectively).

We were given to understand that in determining the FY2023 Volume, the Management first annualized the total volume of refined oil and by-products (including chemical products) to be purchased by Henan Yanchang for FY2022 (i.e. approximately 2.7 million tonnes/9*12 = approximately 3.6 million tonnes, the “**FY2022 Annualized Volume**”) based on the actual total volume of refined oil and by-products (including chemical products) purchased by Henan Yanchang for 9M2022 of approximately 2.7 million tonnes (“**9M2022 Volume**”). The Management then

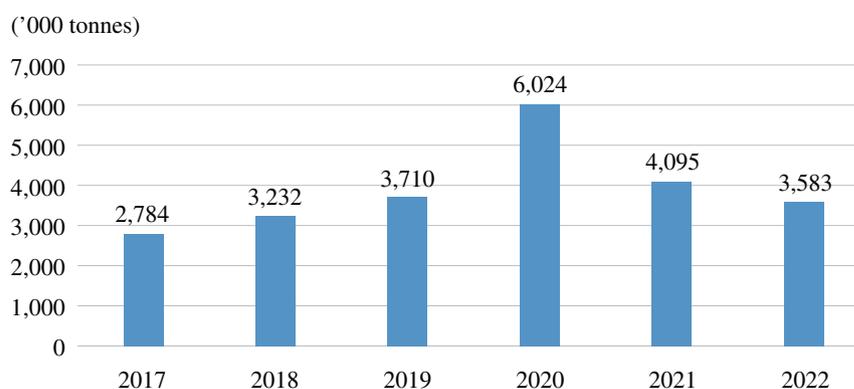
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applied the Estimated Growth Rate of 15% to the FY2022 Annualized Volume to come up with the FY2023 Volume of approximately 4.1 million tonnes (i.e. approximately 3.6 million tonnes*(1+15%)). In respect of the Estimated Purchase Volume for FY2024 and FY2025, the Management applied the Estimated Growth Rate of 10% to the FY2023 Volume to come up with the FY2024 Volume of approximately 4.5 million tonnes (i.e. approximately 4.1 million tonnes*(1+10%)) and the FY2025 Volume of approximately 5.0 million tonnes (i.e. approximately 4.5 million tonnes*(1+10%)).

We have enquired with the Management regarding the reasons for using the 9M2022 Volume as a basis of the estimation of the FY2023 Volume instead of using the total volume of refined oil and by-products (including chemical products) purchased by Henan Yanchang during the Review Period (i.e. the period from 1 January 2020 to 30 September 2022), and were advised that due to the outbreak of COVID-19 in early 2020, the demand for refined oil and by-products (including chemical products) during the Review Period was inevitably affected which, in turn, affected the trading volume of the Group. In view of the impact of COVID-19 on the PRC's economic activities and the gradual recovery of the PRC's economy, we concur with the Management's view that it is reasonable to use the recent operating data (i.e. the 9M2022 Volume) as a basis of the estimation of the FY2023 Volume.

To assess the fairness and reasonableness of the Estimated Growth Rate, we have reviewed the actual and projected purchase volume of refined oil and by-products (including chemical products) of Henan Yanchang for the six years ending 31 December 2022, figures of which are depicted in the following chart:

Chart 1: Total purchase volume of refined oil and by-products (including chemical products) of Henan Yanchang for the six years ending 31 December 2022



Notes:

1. Figures for the five years ended 31 December 2021 are actual figures.
2. Figures for FY2022 is an estimated figure, which is projected based on the 9M2022 Volume.

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As shown in Chart 1 above, we noted that the total volume of refined oil and by-products (including chemical products) purchased by Henan Yanchang exhibited an increasing trend since 2017. The growth rates were approximately 16% in 2018 and approximately 15% in 2019 and surged to approximately 62% in 2020. In this regard, we have enquired with the Management regarding the reason for the significant increase in the total purchase volume of refined oil and by-products (including chemical products) of Henan Yanchang in 2020, and were advised that Henan Yanchang has put extra effort in market expansion and customer exploration, as well as building up oil depot network in the first half of 2020 under the shadow of the spread of COVID-19 and the plunge in international oil price. Particularly, Henan Yanchang expanded its business to regions beyond Henan Province by further expanding geographical coverage of its sales network with a focus on the expansion towards south-west and north-west of the PRC, and nearly 200 new customers have been procured in the first half of 2020.

In 2021, Henan Yanchang has enhanced the effectiveness of oil distribution and expanded its business in Ningxia Province, Hubei Province and Henan Province, the PRC by acquiring 19 new customers and dealing with 35 new suppliers. Besides, Henan Yanchang completed the upgrade and transformation of three gas stations in Henan Province, the PRC and the intraday retail sales volume of Henan Yanchang exceeded 22.5 tonnes. However, due to the impact of the COVID-19 (particularly, the operation of gas stations in the PRC were adversely affected by the static-pandemic control promulgated by the PRC government), the total sales volume, and thus the total purchase volume, of refined oil and by-products (including chemical products) of Henan Yanchang showed a decrease in 2021 and 2022.

Notwithstanding the decrease in the purchase volume of refined oil and by-products by Henan Yanchang in 2021 and 2022, in view of (i) the remarkable increasing trend of the purchase volume of refined oil and by-products (including chemical products) of Henan Yanchang before 2021; (ii) the business expansion of the Group conducted in the past few years as discussed above; and (iii) the gradual recovery of the PRC's economy, the Management anticipated that the total sale and purchase volume of refined oil and by-products (including chemical products) of Henan Yanchang will improve in the coming years and gradually resume back to the pre-pandemic level. Therefore, we concur with the Management's view that it is necessary to provide sufficient buffer to cater for the expected increase in the purchase volume in the next three years by applying the Estimated Growth Rate to come up with the Estimated Purchase Volume.

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(ii) the Estimated Proportion

The historical and estimated proportion of Henan Yanchang’s total purchase volume from Yanchang Petroleum Group and independent third-party suppliers for the two years ended 31 December 2021, the nine months ended 30 September 2022 and the three years ending 31 December 2025 are set out as follow:

Table 3: Proportion of Henan Yanchang’s total purchase volume from Yanchang Petroleum Group and independent third-party suppliers

	FY2020	FY2021	9M2022	FY2023	FY2024	FY2025
	<i>(Historical)</i>			<i>(Estimated)</i>		
	<i>Approximate %</i>			<i>Approximate %</i>		
Yanchang Petroleum Group	15.9	19.7	31.2	31.5	31.4	31.4
Independent third-party suppliers	84.1	80.3	68.8	68.5	68.6	68.6
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

As set out in the above table, it is estimated by the Management that the Estimated Proportion for FY2023, FY2024 and FY2025 are approximately 31.5%, approximately 31.4% and approximately 31.4%, respectively. We noted that the Estimated Proportion for each of the three years ending 31 December 2025 is similar to the proportion of the total volume of refined oil and by-products purchased by Henan Yanchang from Yanchang Petroleum Group for 9M2022. We were advised by the Management that it is the Group’s development strategy to increase the proportion of purchase volume of refined oil and by-products from Yanchang Petroleum Group after considering the facts that (i) Yanchang Petroleum Group would usually offer a relatively favourable pricing terms to Henan Yanchang as compared to independent third-party suppliers; (ii) Yanchang Petroleum Group would usually deliver refined oil and by-products by railway which is a more reliable method for orders with large volume and long distance, whereas the independent third-party suppliers would mainly deliver the orders by road transport. Accordingly, Yanchang Petroleum Group could provide stable and reliable supply of refined oil and by-products to Henan Yanchang; and (iii) Yanchang Petroleum Group possesses extensive sales network covering various provinces and cities in the PRC (including most of the new sales spots of Henan Yanchang). Indeed, the proportion of purchase volume of refined oil and by-products by Henan Yanchang from Yanchang Petroleum Group has increased gradually from approximately 15.9% in FY2020 to approximately 19.7% in FY2021, and further to approximately 31.2% in 9M2022.

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As to the factor of historical average purchase price, we have obtained from the Management the historical average purchase price of refined oil and by-products purchased from Yanchang Petroleum Group and the independent third-party suppliers. It is noted that the average purchase price of refined oil and by-products purchased by Henan Yanchang from Yanchang Petroleum Group for 9M2022 amounted to approximately RMB7,300 per tonne, which is lower than the average purchase price of refined oil and by-products purchased from the independent third-party suppliers of approximately RMB7,800 per tonne. The Management considers that the competitive pricing terms offered by Yanchang Petroleum Group to Henan Yanchang could reduce the Group's purchase cost and, in turn, enhance the profitability of the Group's refined oil and by-products trading business. Furthermore, as mentioned in the section headed "2. Background of, reasons for, and benefits of the entering into of the New Supply Agreement" above, Yanchang Petroleum Group is one of the largest oil and gas state-owned enterprises qualified to explore and develop oil and gas in the PRC with an extensive sales network and is considered as a reliable and stable source of refined oil and by-products to Henan Yanchang. In view of the above, we consider that the Estimated Proportion was determined by the Management with reasonable ground.

(iii) the Estimated Purchase Price

The Management expects that the Estimated Purchase Price will be approximately RMB8,600 per tonne. To assess the fairness and reasonableness of the Estimated Purchase Price, we have reviewed, and discussed with the Management, the basis of determination for the Estimated Purchase Price. The Estimated Purchase Price was determined by the Management based on (i) the average purchase price per tonne of refined oil from Yanchang Petroleum Group during the period from July 2022 to September 2022 (i.e. approximately RMB7,600 per tonnes); and (ii) the expected increase in the purchase price of approximately 12% in FY2023 after consideration of the high volatility in refined oil price quoted from NDRC during the period from October 2021 to October 2022.

We understood from the Management that NDRC issues a list of the maximum retail prices of gasoline and diesel of each province, municipality and autonomous region bi-weekly with reference to, among others, the change in international oil price. In this regard, we have reviewed the relevant documents in respect of the maximum retail prices of refined oil issued by NDRC and noted that the gasoline and diesel retail price in Henan Province, the PRC (which is the principal place of business of Henan Yanchang) increased from RMB9,095 and RMB8,080 per tonne on 9 October 2021 to RMB10,185 and RMB9,130 per tonne on 10 October 2022, representing an annual growth rate of approximately 12.0% and 13.0%, respectively. Based on the latest retail price quoted from NDRC, the gasoline and diesel retail price in Henan Province, the PRC further increased to RMB10,350 and RMB9,290 per tonne on 21 November 2022. In view of the high inflation rate of the United States of America and Europe and geopolitical risks (in particular, the ongoing Russian-Ukrainian conflict), the Management anticipated that the gasoline and diesel retail price may further

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

increase in the coming years. Therefore, we concur with the Management's view that it is necessary to provide sufficient buffer to cater for the possible increase in the purchase price of refined oil and by-products (including chemical products). As such, we consider that the Estimated Purchase Price is justifiable.

In view of the foregoing, and upon our review on the calculation of the Proposed Annual Caps, we are of the view that the Proposed Annual Caps were determined by the Management under reasonable ground and due care, and that the Proposed Annual Caps are justifiable, fair and reasonable so far as the Company and the Independent Shareholders are concerned.

However, the Independent Shareholders should note that the Proposed Annual Caps relate to future events and do not represent a forecast of transaction amounts to be incurred as a result of the Continuing Connected Transactions. Consequently, we express no opinion as to how closely the actual transaction amounts of the Continuing Connected Transactions correspond with the Proposed Annual Caps as discussed above.

5. Reporting requirements and conditions of the Continuing Connected Transactions

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Continuing Connected Transactions are subject to the following annual review requirements:

- (a) each year, the independent non-executive Directors must review the Continuing Connected Transactions and confirm in the annual report of the Company that the Continuing Connected Transactions have been entered into:
 - (i) in the ordinary and usual course of business of the Group;
 - (ii) on normal commercial terms or better; and
 - (iii) in accordance with the New Supply Agreement governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole;

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- (b) each year, the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange at least ten business days prior to the bulk printing of the Company's annual report) confirming whether anything has come to their attention that causes them to believe that the Continuing Connected Transactions:
 - (i) have not been approved by the Board;
 - (ii) were not, in all material respects, in accordance with the pricing policies of the Group (if applicable);
 - (iii) were not entered into, in all material respects, in accordance with the New Supply Agreement; and
 - (iv) have exceeded the Proposed Annual Caps;
- (c) the Company must allow, and ensure that the relevant counterparties to the Continuing Connected Transactions allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Continuing Connected Transactions as set out in paragraph (b); and
- (d) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required.

The Company confirms that they will strictly comply with the aforementioned annual review requirements under Rules 14A.55 to 14A.59 of the Listing Rules in respect of the Continuing Connected Transactions under the New Supply Agreement. Taking into account the aforementioned reporting requirements attached to the Continuing Connected Transactions, in particular, (i) the restriction of the value of the Continuing Connected Transactions by way of the Proposed Annual Caps; and (ii) the on-going review by the independent non-executive Directors and auditors of the Company of the Continuing Connected Transactions, we are of the view that there exist appropriate measures to monitor the conduct of the Continuing Connected Transactions so as to ensure that the Continuing Connected Transactions contemplated under the New Supply Agreement are on normal commercial terms, fair and reasonable and in the interests of the Group and the Shareholders as a whole, and thus, the interests of the Independent Shareholders is safeguarded.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

OPINION

Having taken into account the above principal factors and reasons, we consider that the entering into of the New Supply Agreement is in the ordinary and usual course of business of the Group and the terms of the New Supply 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 at the SGM to approve the entering into of the New Supply Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps).

Yours faithfully,
For and on behalf of
Astrum Capital Management Limited
Hidulf Kwan
Managing 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.

* *for illustration purpose only*

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 (<i>Note</i>)	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	Capacity	Long position/ Short position	Number of ordinary shares of the Company held	Approximate percentage of the total issued ordinary share capital of the Company
Yanchang Petroleum Group (<i>Note</i>)	Interest of controlled corporation	Long position	12,686,203,231	69.19%
Yanchang Petroleum HK (<i>Note</i>)	Directly owned	Long position	12,686,203,231	69.19%

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

Save as disclosed above, the Company had not been notified of any other interests or short positions in the shares and underlying shares of the Company representing 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 2021, 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 has any existing or proposed service agreement with any member of the Group (excluding contracts expiring or determinable by the Company within one year within payment of compensation (other than statutory compensation)).

6. LITIGATION

As at the Latest Practicable Date, Yanchang Petroleum (Zhejiang FTZ) Limited* (延長石油(浙江自貿區)有限公司), the Company's 51% indirectly owned PRC subsidiary, has involved in a number of pending litigations. Please refer to the announcements of the Company dated 2 June 2022, 9 June 2022, 8 July 2022, 22 July 2022, 3 August 2022, 12 August 2022, 19 August 2022, 14 September 2022, 15 September 2022, 28 October 2022, 7 November 2022 and 14 November 2022 for further details.

Apart from the aforesaid, no member of the Group was engaged in any litigation, 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 2021 being the date to which the latest published audited financial statements of the Group were made up.

* *for identification purposes only*

8. EXPERT'S QUALIFICATION AND CONSENT

The following is the qualification of the expert who has given opinion or advice, which are contained or referred to 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 New Supply Agreement and the transactions contemplated thereunder

Astrum Capital Management Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and reference to its name in the form and context in which it appears.

As at the Latest Practicable Date, Astrum Capital Management Limited 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 2021 (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 located 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 located at Room 3404, 34 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

- (v) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

10. DOCUMENTS ON DISPLAY

A copy of the New Supply Agreement will be available for display on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (<http://www.yanchanginternational.com/en/index.php>) during the period of 14 days from the date of this circular (both days inclusive).

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 THE SGM

NOTICE IS HEREBY GIVEN that a special general meeting (the “**SGM**”) of Yanchang Petroleum International Limited (the “**Company**”) will be held at Room Taishan, Level 5, Island Shangri-La, Pacific Place, Supreme Court Road, Central, Hong Kong on Friday, 30 December 2022 at 3:30 p.m. for the purpose of considering and, if thought fit, passing the following resolution, with or without amendments, as an ordinary resolution of the Company. Capitalized terms used herein shall have the same meanings as defined in the circular of the Company dated 6 December 2022, unless the context otherwise requires:

ORDINARY RESOLUTION

“THAT:

- (a) the New Supply Agreement and the transactions and matters contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the Proposed Annual Caps for the Continuing Connected Transactions contemplated under the New Supply Agreement for each of the three years ending 31 December 2025, being approximately RMB11,081 million, RMB12,188 million and RMB13,397 million, respectively be and are hereby approved, confirmed and ratified; and
- (c) any one director or the company secretary 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 New Supply Agreement and the transactions and matters contemplated thereunder.”

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

Hong Kong, 6 December 2022

NOTICE OF THE SGM

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

*Head office and Principal place of
business in Hong Kong:*
Room 3403, 34 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 17/F, Far East Finance Centre, 16 Harcourt Road, 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. A form of proxy for use at the meeting is enclosed herewith.
6. The votes at the abovementioned meeting will be taken by a poll.
7. For determining the entitlement to attend and vote at the SGM or any adjournment thereof, the record date is fixed on 22 December 2022. 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than 4:30 p.m. on 22 December 2022.