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If you are in any doubt about any of the contents of this circular or as to what action to take in relation to this circular, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

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

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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)

CONNECTED TRANSACTION SUPPLEMENTAL LOAN AGREEMENT

Financial adviser to the Company



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



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 5 to 11 of this circular. A letter from the Independent Board Committee is set out on pages 12 to 13 of this circular. A letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 14 to 27 of this circular.

A notice convening the SGM of the Company to be held at Tianshan & Lushan Rooms, Level 5, Island Shangri-La, Pacific Place, Supreme Court Road, Central, Hong Kong on Friday, 30 August 2024 at 3:30 p.m. is set out on pages 33 to 34 of this circular. A form of proxy for use at the SGM are 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.

15 August 2024

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	any day (other than Saturday and any day on which a tropical cyclone warning signal no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “black” rainstorm warning signal is hoisted or remains in effect between 9:00 a.m. and 12:00 noon is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are open for general business
“Company”	Yanchang Petroleum International Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 00346)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Forever Peace Investment”	Forever Peace Investment Limited (恒太投資有限公司), a company incorporated in Hong Kong with limited liability and is indirectly wholly owned by the Company
“Group”	the Company and its subsidiaries from time to time
“Henan Yanchang”	河南延長石油銷售有限公司 (Henan Yanchang Petroleum Sales Co., Limited*), a limited company incorporated under the PRC laws which is an indirect non-wholly owned subsidiary of the Company and 70% owned by the Group as at the Latest Practicable Date
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors established to advise the Independent Shareholders on the Supplemental Loan Agreement and the transaction and matters contemplated thereunder
“Independent Financial Adviser”	VBG Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Loan Agreement and the transaction and matters contemplated thereunder
“Independent Shareholders”	Shareholders other than Yanchang Petroleum Group and its associates
“Latest Practicable Date”	12 August 2024, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Lender”	Yanchang Petroleum HK
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange and as amended from time to time
“Loan”	the loan granted to the Company by Yanchang Petroleum HK in a principal amount of US\$22,000,000 (equivalent to approximately HK\$171,820,000) under the Loan Agreement
“Loan Agreement”	the agreement in relation to the Loan entered into between the Company and Yanchang Petroleum HK on 30 June 2021
“Loan Renewal”	the renewal of the Loan pursuant to the Supplemental Loan Agreement
“PRC”	the People’s Republic of China, which shall, for the purpose of the Supplemental Loan Agreement, exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

DEFINITIONS

“Renewal Request Date”	the date on which the Loan is to be renewed as requested by the Company
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, approve the Supplemental Loan Agreement and the transaction and matters contemplated thereunder
“Share(s)”	existing ordinary share(s) of HK\$0.4 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Share Charge”	the share charge given by Forever Peace Investment in favour of Yanchang Petroleum HK over 70% of the issued share capital of Henan Yanchang indirectly held by the Company as security for the Loan
“Share Charge Deed”	the deed dated 8 August 2024 entered into by Forever Peace Investment as chargor in favour of Yanchang Petroleum HK as chargee in relation to the Share Charge
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Supplemental Loan Agreement”	the agreement in relation to the Loan Renewal entered into between the Company and Yanchang Petroleum HK on 8 August 2024 (including the Share Charge Deed)
“US\$”	United States dollar, the lawful currency of the United States of America
“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 100% directly interested in Yanchang Petroleum HK

DEFINITIONS

“Yanchang Petroleum HK” Yanchang Petroleum Group (Hong Kong) Co., Limited (延長石油集團(香港)有限公司), a company incorporated in Hong Kong with limited liability, being a substantial Shareholder holding 634,310,161 Shares representing approximately 57.66% of the existing issued share capital of the Company as at the Latest Practicable Date

“%” per cent.

For the purpose of this circular, the exchange rate of HK\$7.81 = US\$1.00 has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged, at this or any other rates.

* *For identification purposes only*

LETTER FROM THE BOARD



延長石油國際有限公司

YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00346)

Executive Directors:

Mr. Feng Yinguo (*Chairman*)

Ms. Wang Haining

Mr. Ding Jiasheng

Non-executive Director:

Mr. Sun Jian

Independent non-executive Directors:

Mr. Ng Wing Ka

Mr. Leung Ting Yuk

Mr. Sun Liming

Dr. Mu Guodong

Registered Office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

*Head Office and principal place of
business in Hong Kong*

Room 3403, 34th Floor

Lee Garden One

33 Hysan Avenue

Causeway Bay

Hong Kong

15 August 2024

To the Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION SUPPLEMENTAL LOAN AGREEMENT

INTRODUCTION

References are made to the announcement of the Company dated 30 June 2021 and the circular of the Company dated 29 July 2021 in relation to, among others, the Loan Agreement. On 3 September 2021, the Company drew down the loan amount of US\$22,000,000, which is repayable in three years from the utilisation date pursuant to the Loan Agreement, being 2 September 2024.

The purpose of this circular is to provide you with the information, among other things, (i) details of the Supplemental Loan Agreement and the transaction and matters contemplated thereunder; (ii) the letter of recommendations from the Independent Board Committee to the Independent Shareholders in respect of the Supplemental Loan Agreement and the transaction and matters contemplated thereunder; (iii) the letter from the Independent Financial Adviser to

LETTER FROM THE BOARD

the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Loan Agreement and the transaction and matters contemplated thereunder; and (iv) the notice of the SGM.

SUPPLEMENTAL LOAN AGREEMENT

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

- Date: 8 August 2024 (after trading hours)
- Parties: (1) the Company (as the Borrower); and
(2) Yanchang Petroleum HK (as the Lender)
- Principal amount: US\$22,000,000 (equivalent to approximately HK\$171,820,000)
- Interest rate: 5.2% per annum, which shall be payable every three months from the Renewal Request Date, representing US\$286,000 (equivalent to approximately HK\$2,233,660) for every three months. If any interest payment date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next Business Day in that calendar month (if any).
- Term: Commencing from the Renewal Request Date and expiring on the third anniversary of the Renewal Request Date.
- Principal conditions precedent: Completion of the Supplemental Loan Agreement is subject to, among others, the Company having obtained all necessary approvals in relation to the Supplemental Loan Agreement and the transaction contemplated under the Listing Rules, including but not limited to, obtaining approvals from the Independent Shareholders at the SGM.
- Repayment arrangement: The principal of the Loan shall be repaid in full by the maturity.
- Early repayment: The Borrower can repay all of the Loan that have been drawn but not yet repaid at any time before the planned repayment dates set out in the repayment schedule, provided that the Borrower shall provide a notice of no less than 7 Business Days in advance to the Lender and obtain the written consent of the Lender.

LETTER FROM THE BOARD

- Default:** If the Borrower fails to repay the principal and accrued interests of the Loan or commits any of the default events as specified under the Supplemental Loan Agreement, the Lender shall have the right to declare the Loan, the interests due, and any amounts to be paid under the Supplemental Loan Agreement to be immediately payable or exercise all or any of the rights or compensation under the Supplemental Loan Agreement.
- Security:** The Loan is secured by the Share Charge as described under the paragraph headed “Share Charge” as below in this circular.

SHARE CHARGE

The Loan is secured by 70% of the issued share capital of Henan Yanchang indirectly held by the Borrower under the Share Charge Deed pursuant to which the Borrower agreed to provide a guarantee in favour of the Lender that the Borrower shall procure on the best effort basis the carrying valuation of Henan Yanchang will be not less than US\$31,430,000. In case of breach the such carrying valuation guaranteed, the Borrower and the Lender can negotiate to take remedies within 30 days and the Borrower shall not be deemed to have breached the Share Charge Deed after taking up the remedies.

Forever Peace Investment is an investment holding company indirectly wholly owned by the Company which holds 70% of the issued shares of Henan Yanchang as at the Latest Practicable Date. Henan Yanchang is principally engaged in wholesale, retail, storage and distribution of refined oil.

According to the unaudited consolidated management account of Henan Yanchang for the six months ended 30 June 2024, Henan Yanchang had total assets of approximately HK\$2,032.4 million and net assets attributable to shareholders of approximately HK\$249.8 million as at 30 June 2024, while the Share Charge represented a loan to security ratio of approximately 0.98 times. For the six months ended 30 June 2024, Henan Yanchang recorded revenue of approximately HK\$16,582.5 million and loss of approximately HK\$0.8 million. The Board took into account that the Share Charge was almost same as the principal amount of the Loan and considered the value of the Share Charge is proportional and appropriate in respect of the Loan.

INFORMATION OF THE PARTIES TO THE SUPPLEMENTAL LOAN 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.

Yanchang Petroleum HK is a company incorporated in Hong Kong with limited liability which is directly wholly owned by Yanchang Petroleum Group. As at the Latest Practicable Date, Yanchang Petroleum HK is the Controlling Shareholder holding 634,310,161 Shares,

LETTER FROM THE BOARD

representing approximately 57.66% of the issued share capital of the Company. Accordingly, Yanchang Petroleum HK is a connected person of the Company.

The principal activities of Yanchang Petroleum HK are investment holding and trading of crude oil.

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

REASONS FOR AND BENEFITS OF ENTERING INTO THE SUPPLEMENTAL LOAN AGREEMENT

As at the Latest Practicable Date, the outstanding principal amount drawn down under the Loan Agreement is US\$22,000,000 (equivalent to approximately HK\$171,820,000), and the Company is required to repay all outstanding amount on or prior to 2 September 2024.

According to the annual report of the Company for the twelve months ended 31 December 2023 (the “**2023 Annual Report**”), the cash and bank balances of the Group amounted to approximately HK\$226.2 million as at 31 December 2023, which included amounts in RMB equivalent to approximately HK\$118.5 million and was maintained in the subsidiaries of the Group in the PRC for their daily operation. As such, it is not expected that the Company would have sufficient internal resources to repay the outstanding principal amount of US\$22,000,000 drawn down under the Loan Agreement upon maturity.

As at 31 December 2023, the gearing ratio of the Group, measured on the basis of total liabilities as a percentage of total equity, was approximately 173.3%. The Company has approached several banks regarding the possibility and feasibility of refinancing, however, such banks declined to provide financial assistance to the Company in view of the Group’s financial position, leverage and lack of available assets as security. The Company has also considered equity fund raising activities such as placing, rights issue or open offer. The Directors are of the view that the process of such fund-raising activities is relatively lengthy and time-consuming and would inevitably incur more transaction costs, including but not limited to placing/underwriting commission. Furthermore, negotiating with potential investors was also challenging given the unfavourable current market situation for equity fund raising.

Under the context of fluctuating international oil prices in 2023 and decreased sales volume, the revenue of the Group from oil and by-products trading business in the PRC decreased to approximately HK\$27.2 billion for the year ended 31 December 2023 from approximately HK\$29.5 billion for the year ended 31 December 2022. As set out in the 2023 Annual Report, in 2024, the Russo-Ukrainian war, the Israeli-Palestinian conflict, and the Yemeni Houthi armed forces continue to be the main geopolitical risks. The US elections and the direction of OPEC policies are set to increase market uncertainties, with the international oil and gas market outlook still presenting both challenges and opportunities. The market is expected to

LETTER FROM THE BOARD

remain in a state of tense equilibrium, influenced by a variety of factors, with the potential for further intensification of oil price volatility. Overall, the demand for international crude oil is expected to continue to rise, albeit at a slower pace, with WTI prices estimated to range between US\$70 and US\$80 per barrel. Against this backdrop, the Company will adhere to the general working principle of seeking progress while maintaining stability, continuously consolidating and enhancing the competitive advantages in existing business sectors.

The Loan Renewal demonstrates the continuous financial support provided by the Controlling Shareholder to the Group. The terms of the Supplemental Loan Agreement, including the interest rate of 5.2% per annum, are entered into after arm's length negotiations between the parties and taking into account, among others, it is lower than the prevailing U.S. dollar best lending rate as quoted by The Hongkong and Shanghai Banking Corporation Limited.

Taking into account (i) the imminent deadline for the repayment of outstanding amount drew down under the Loan Agreement on or prior to 2 September 2024; (ii) the financial situation of the Company as discussed above; (iii) the cash level to be maintained for the daily operation of the Company's subsidiaries in the PRC; and (iv) the alternative funding activities considered and tried by the Company, the Directors (including all the independent non-executive Directors) are of the opinion that, though the Supplemental Loan Agreement are not entered into under the ordinary and usual course of business, are on normal commercial terms, fair, reasonable and in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER LISTING RULES

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

Ms. Wang Haining is both the Director and the supervisor of the Finance Center and deputy secretary of the Party Committee of Yanchang Petroleum Group, and for good corporate governance, she had voluntarily abstained from voting on the relevant resolutions at the Board meeting. Save for the above, none of the other Directors had any material interest in the Supplemental Loan Agreement and the transaction and matters contemplated thereunder, and therefore should abstain from voting on the relevant resolutions at the Board meeting.

As at the Latest Practicable Date, Yanchang Petroleum HK is the Controlling Shareholder holding 634,310,161 Shares, representing approximately 57.66% of the existing issued share capital of the Company. As such, Yanchang Petroleum HK is a connected person of the Company as defined under the Listing Rules and hence the transaction contemplated under the Supplemental Loan Agreement will constitute connected transaction of the Company under Chapter 14A of the Listing Rules. Yanchang Petroleum HK together with its associates will abstain from voting at the SGM.

LETTER FROM THE BOARD

As Yanchang Petroleum HK is directly and wholly owned by Yanchang Petroleum Group, Yanchang Petroleum Group and its associates shall abstain from voting in favour of the Supplemental Loan Agreement and the transaction and matters contemplated thereunder at the SGM. Save for Yanchang Petroleum Group and its associates, to the best knowledge, information and belief of the Directors, no other Shareholders or any of their respective associates have a material interest in the Supplemental Loan Agreement and the transaction and matters contemplated thereunder, and accordingly are required to abstain from voting at the SGM.

INDEPENDENT BOARD COMMITTEE

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

SGM

The SGM will be convened by the Company to seek the approval from the Independent Shareholders for the Supplemental Loan Agreement and the transaction and matters contemplated thereunder by way of poll.

As at the Latest Practicable Date, Yanchang Petroleum HK is the Controlling Shareholder holding 634,310,161 Shares, representing approximately 57.66% of the existing issued share capital of the Company. As such, Yanchang Petroleum HK is a connected person of the Company as defined under the Listing Rules and hence Yanchang Petroleum HK together with its associates will abstain from voting at the SGM.

The notice convening the SGM to be held at Tianshan & Lushan Rooms, Level 5, Island Shangri-La, Pacific Place, Supreme Court Road, Central, Hong Kong on Friday, 30 August 2024 at 3:30 p.m. is set out on pages 33 to 34 of this circular. An ordinary resolution will be proposed at the SGM to approve the Supplemental Loan Agreement and the transaction and matters contemplated thereunder. The resolution proposed to be approved at the SGM will be taken by poll and an announcement will be made by the Company after the SGM on the result of the SGM.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM in person, you are requested to complete the form of proxy enclosed and return it to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or at any adjournment meeting thereof if you so wish and, in such event, the form of proxy shall be deemed to be revoked.

LETTER FROM THE BOARD

RECOMMENDATIONS

Taking into account the reasons as set out in the paragraph headed “Reasons for and benefits of entering into the Supplemental Loan Agreement” above, the Directors (including all the independent non-executive Directors) consider that although the Supplemental Loan Agreement is not entered in the ordinary and usual course of business, the terms of the Supplemental Loan Agreement are on normal commercial terms, fair and reasonable, and in the best 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 be proposed at the SGM to approve the Supplemental Loan Agreement.

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 12 to 13 of this circular containing the recommendation of the Independent Board Committee to the Independent Shareholders regarding the Supplemental Loan Agreement; (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 27 of this circular; and (iii) the information set out in the appendix of this circular.

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

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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



延長石油國際有限公司

YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00346)

15 August 2024

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTIONS SUPPLEMENTAL LOAN AGREEMENT

We refer to the circular (the “**Circular**”) dated 15 August 2024 issued by the Company of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless specified otherwise.

We have been formed to advise the Independent Shareholders in relation to the terms of Supplemental Loan Agreement and the transaction and matters contemplated thereunder. VBG Capital 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 27 of the Circular. Your attention is also drawn to the letter from the Board and the additional information set out in the appendix to the Circular.

After taking into account the factors and reasons considered by the Independent Financial Adviser and its conclusion and advice, we concur with its views and consider that although the Supplemental Loan Agreement is not entered in the ordinary and usual course of business, the terms of the Supplemental Loan Agreement are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend that the Independent Shareholders should vote in favor of the resolution to be proposed at the SGM to approve the Supplemental Loan Agreement and the transaction and matters contemplated thereunder.

Yours faithfully,

For and on behalf of the

Independent Board Committee

Mr. Ng Wing Ka

Mr. Leung Ting Yuk

Mr. Sun Liming

Dr. Mu Guodong

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the text of a letter received from VBG Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Loan Agreement for the purpose of inclusion in this circular.



21/F., Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

15 August 2024

*To: The independent board committee and the independent shareholders
of Yanchang Petroleum International Limited*

Dear Sirs,

CONNECTED TRANSACTION SUPPLEMENTAL LOAN AGREEMENT

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Loan Agreement, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 15 August 2024 issued by the Company to the Shareholders (the “**Circular**”), of which this letter of advice forms part. Capitalised terms used in this letter of advice shall have the same meanings as ascribed to them under the section headed “Definitions” in the Circular unless the context requires otherwise.

References are made to the announcement of the Company dated 30 June 2021 and its circular dated 29 July 2021 in relation to the entering into of the Loan Agreement dated 30 June 2021, pursuant to which Yanchang Petroleum HK conditionally agreed to grant the Loan in the principal amount of US\$22 million to the Company at the interest rate of 4.8% per annum for a term of three years commencing from the utilisation date. The independent Shareholders approved the Loan Agreement at the special general meeting of the Company held on 31 August 2021. Subsequently, the Loan was drawn down by the Company on 3 September 2021.

On 8 August 2024, the Company (as borrower) and Yanchang Petroleum HK (as lender) entered into the Supplemental Loan Agreement, pursuant to which the parties agreed on the Loan Renewal.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As extracted from the Letter from the Board, Yanchang Petroleum HK is connected person of the Company. Accordingly, the entering into of the Supplemental Loan Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements thereunder.

The Independent Board Committee comprising Mr. Ng Wing Ka, Mr. Leung Ting Yuk, Mr. Sun Liming and Dr. Mu Guodong (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Supplemental Loan Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Loan Renewal is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Supplemental Loan Agreement at the SGM. We, VBG Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, apart from (i) having acted as the independent financial adviser of the Company relating to a connected transaction of which a circular dated 23 December 2022 was issued; and (ii) the existing engagement in relation to the Supplemental Loan Agreement, we did not have any business relationship with the Company within the past two years. Save for the normal fees payable to us in connection with this appointment, no arrangement exists whereby we shall receive any fees or benefits from the Company and its subsidiaries or the Directors, chief executive or substantial shareholders (as defined in the Listing Rules) of the Company or any of their associates. We consider ourselves independent to form our opinion in respect of the Supplemental Loan Agreement.

BASIS OF OUR OPINION

In formulating our opinion with regard to the Supplemental Loan Agreement, we have relied on the information and facts supplied, opinions expressed and representations made to us by the management of the Group (including but not limited to those contained or referred to in the Circular). We have assumed that the information and facts supplied, opinions expressed and representations made to us by the management of the Group were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the date of the SGM. We have also assumed that all statements of belief, opinions, expectation and intention made by the management of the Group in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Group, its management and/or advisers, which have been provided to us.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the 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 in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business and affairs or future prospects of the Group, Yanchang Petroleum Group, Yanchang Petroleum HK or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Supplemental Loan Agreement. Our opinion is necessarily based on the market, financial, economic and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Where information in this letter of advice has been extracted from published or otherwise publicly available sources, we have ensured that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources while we did not conduct any independent investigation into the accuracy and completeness of such information.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Supplemental Loan Agreement, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the Supplemental Loan Agreement

Business review of the Group

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.

Set out below is the key audited consolidated financial information of the Group for the two years ended 31 December 2023 as extracted from the annual report of the Company for the year ended 31 December 2023 (the “**2023 Annual Report**”):

	For the year ended 31 December 2023 HK\$'000	For the year ended 31 December 2022 HK\$'000
Revenue	27,742,529	29,936,206
Profit/(Loss) for the year	580,132	(619,099)

With reference to the 2023 Annual Report, the Group's operating segments comprised (i) exploration, exploitation and operation business; and (ii) supply and procurement business. The Group's turnover was mainly derived from the production of oil and natural gas in Canada as well as the trading of oil and by-products in the PRC. In 2023, despite the fluctuation in oil prices, the Group's exploration, exploitation and operation business in Canada recorded operating profit of approximately HK\$33.4 million; while its oil and by-products trading business in the PRC incurred operating loss of approximately HK\$118.1 million. As a result mainly of an one-off gain amounted to approximately HK\$882.1 million arising from the deconsolidation of 延長石油(浙江自貿區)有限公司, a former indirect non-wholly owned PRC subsidiary of the Company which is under bankruptcy reorganisation, the Group recorded profit for the year of approximately HK\$580.1 million in 2023, as compared to loss for the year of approximately HK\$619.1 million in 2022.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group's financial resources and liquidity

The table below summarises the Group's audited financial resources and liquidity as at 31 December 2023 as extracted from the 2023 Annual Report:

	As at 31 December 2023 HK\$'000
Current assets	
– Cash and bank balances	226,188
Current liabilities	
– Bank borrowings and other loans	(405,594)
– Secured term loans	(445,355)
Net current liabilities	(423,960)
Gearing ratio	173.3%

(a) Cash and bank balances

As at 31 December 2023, the Group maintained cash and bank balances at approximately HK\$226.2 million. Upon our enquiry with the Directors, we understand that among this total sum, approximately HK\$118.5 million equivalent of RMB was not freely convertible into other currencies and was maintained in the bank accounts of the Company's subsidiaries in the PRC for supporting their daily operation.

(b) Bank borrowings and other loans

As at 31 December 2023, the Group had bank borrowings of approximately RMB120.0 million (equivalent to approximately HK\$131.5 million) bearing interest at the prevailing market rates quoted by the People's Bank of China and are repayable within the next twelve months. The other loans represented loan advances from ultimate holding company of approximately HK\$274.1 million. Such loan advances from ultimate holding company are unsecured, interest-bearing at 2.2% per annum and repayable in December 2024.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(c) Secured term loans

The Group had two secured term loans. Besides the Loan (equivalent to approximately HK\$171.9 million), the Group has further drawn down a secured term loan in the principal amount of US\$35 million (equivalent to approximately HK\$273.5 million) (the “**2022 Loan**”) from Yanchang Petroleum HK pursuant to a supplemental loan agreement entered into by the relevant parties on 6 December 2022. The 2022 Loan bears interest at 4.8% per annum and is repayable in three years (i.e. on 17 January 2026). As confirmed by the Directors, the Company had fully applied the 2022 Loan for drilling of new oil wells and general working capital of the Group as at the Latest Practicable Date.

As at 31 December 2023, the Group recorded net current liabilities of approximately HK\$424.0 million and its gearing ratio, measured on the basis of total liabilities as a percentage of total equity, was approximately 173.3%.

The Going Concern Issue

As extracted from note 3(b) of the notes to the consolidated financial statements for the year ended 31 December 2023 of the Company:

“As at 31 December 2023, the Group had net current liabilities of HK\$423,960,000. In addition, as disclosed in note 5(b), the Group had financial liabilities totalling HK\$1,972,127,000 that are on demand or have contractual maturities within one year. The Group will be unable to repay these borrowings in full when they fall due unless it is able to generate sufficient net cash inflows from its operations and/or other sources. As at 31 December 2023, the Group had cash and cash equivalents of HK\$226,188,000.”

“In assessing the appropriateness of the use of the going concern basis in the preparation of the consolidated financial statements, the Directors have prepared a cash flow forecast covering a period of twelve months from the date of approval of these consolidated financial statements with careful consideration of future financial performance and liquidity after taking account of the following:

- (i) the Group expects to generate operating cash inflows;
- (ii) the Group would be able to obtain additional finance from various sources including but not limited to banks, shareholders and other potential investors;
- (iii) the Group is able to renew the existing banking facilities from the banks; and
- (iv) disposal of certain assets to obtain funding.”

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

“Notwithstanding the above, whether the Group would be able to continue as a going concern is dependent upon the successful implementation of the above plans and measures for which the outcomes are subject to the associated inherent uncertainties that include whether:

- (i) sufficient operating cash flows could be generated based on the expected economic outlook and market conditions;
- (ii) the potential financing providers could provide the necessary funding to the Group on a timely basis;
- (iii) the banks would renew the banking facilities based on the prevailing terms and conditions; and
- (iv) the Group would be able to identify potential buyers and collect sale proceeds timely to meet the Group’s liquidity need.”

“On the assumption of successful implementation of the above, the Directors considered that the Group would have sufficient financial resources to finance its operations and to meet financial obligations as and when they fall due. Accordingly, the consolidated financial statements are prepared on going concern basis notwithstanding that there is a material uncertainty related to the above events and conditions that may cast significant doubt on the Group’s ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.”

“Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in these consolidated financial statements.”

The aforesaid indicates there may be uncertainties as to whether the Group would be able to continue as a going concern (the “**Going Concern Issue**”).

Reasons for the Loan Renewal

As illustrated under the sub-section headed “The Group’s financial resources and liquidity” of this letter of advice, the Group maintained cash and bank balances at approximately HK226.2 million as at 31 December 2023. Upon our enquiry with the Directors, we understand that among this total sum, approximately HK\$118.5 million equivalent of RMB was not freely convertible into other currencies and was maintained in the bank accounts of the Company’s subsidiaries in the PRC for supporting their daily operation. After deducting such “restricted” cash, the remaining “free” cash and bank balances of the Group amounted to approximately HK\$107.7 million as at 31 December

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2023, which was insufficient for repayment of the Loan of US\$22 million (equivalent to approximately HK\$171.9 million) upon maturity on 2 September 2024.

Given the lack of internal resources to settle the imminent repayment of the Loan, the Directors advised us that the Group has considered both debt financing and equity financing to raise additional funds of sizeable amount. The Directors further advised us that the Company has verbally approached several banks outside the PRC regarding the possibility of provision of financial assistance; however, those banks declined to provide financial assistance to the Company in view of the Group's financial position, leverage and lack of available assets as security.

As regards equity financing, the Company would be required to undergo a relatively lengthy process in order to (i) identify suitable investor(s), underwriter(s) and negotiate terms agreeable to the Company; and (ii) prepare the requisite compliance and legal documentation, including but not limited to the underwriting agreement(s), legal opinion and prospectus(es). At the same time, negotiating with potential investors would be challenging given the current unfavourable market situation for equity financing. It would also be difficult for the Company to attract public Shareholders to participate in rights issue or open offer without a huge price discount judging from the historical low trading liquidity of the Shares. Based on our study of the trading performance of the Shares from 1 August 2023 up to 7 August 2024 (being the last trading day prior to the date of the Supplemental Loan Agreement) (the "**Review Period**"), the number of Shares traded was below 0.1% of the total number of Shares in public hand for the majority (over 80%) of trading days during the Review Period.

Taking into account (i) the Going Concern Issue; (ii) the Group has ongoing financing needs for business operation; (iii) the Group lacks internal resources for imminent repayment of the Loan upon maturity on 2 September 2024; (iv) both borrowings from banks and equity financing are rather unfeasible for the Group within a short time frame; and (v) the Loan will (a) ease the Group's liquidity pressure; (b) not create dilution to the existing shareholding of the Shareholders; and (c) demonstrate the continuous financial support from the Controlling Shareholder (i.e. Yanchang Petroleum HK) to the Group, we concur with the Directors that the Loan Renewal is in the interests of the Company and the Shareholders as a whole even though it is not conducted in the ordinary and usual course of business of the Group.

2. Principal terms of the Supplemental Loan Agreement

As extracted from the Letter from the Board, the principal terms of the Supplemental Loan Agreement dated 8 August 2024 are as follows:

Parties: (1) Yanchang Petroleum HK (as lender); and
(2) The Company (as borrower).

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Principal amount of the Loan:	US\$22 million.
Term:	Commencing from the Renewal Request Date and expiring on the third anniversary of the Renewal Request Date.
Interest rate:	5.2% per annum, which shall be payable every three months from the Renewal Request Date.
Security:	The Loan is secured by the Share Charge.

Extension of the term

As demonstrated under the sub-section headed “Reasons for the Loan Renewal” of this letter of advice, the Group had cash and bank balances of approximately HK\$107.7 million outside the PRC as at 31 December 2023, which was insufficient for repayment of the Loan upon maturity. The Group therefore has an imminent need to obtain additional funds of sizeable amount. The Company has considered both borrowings from banks and equity financing but found both rather unfeasible within a short time frame. Thus, the Loan Renewal for three years can alleviate the Company’s repayment pressure under the Loan Agreement and relieve the Going Concern Issue by reducing the Group’s current liabilities, and in turn allowing the Group more flexibility to negotiate and obtain fund raising arrangement for its business development in future, if necessary.

The Interest Rate

Pursuant to the Supplemental Loan Agreement, the interest rate for the Loan (the “**Interest Rate**”) will change from 4.8% to 5.2% per annum. To assess the fairness and reasonableness of the Interest Rate, we have considered the following factors:

(a) *The Company’s attempt to identify other means of debt financing*

As mentioned under the sub-section headed “Reasons for the Loan Renewal” of this letter of advice, the Directors advised us that the Company has verbally approached several banks outside the PRC regarding the possibility of provision of financial assistance; however, those banks declined to provide financial assistance to the Company in view of the Group’s financial position, leverage and lack of available assets as security.

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As a matter of fact, we noted that during the period from June 2021 (when the Loan Agreement was about to be entered into) to early August 2024 (the approximate date of the Supplemental Loan Agreement), the United States Federal Funds Interest Rate had jumped extensively from 0.25% to 5.5%. On the other hand, based on the available information released by the Hongkong and Shanghai Banking Corporation Limited, the US\$ Best Lending Rate of the bank also rose from 6.75% in December 2022 to 7.75% in July 2023 and has stayed the same till present.

(b) Comparable analysis

To evaluate as to whether the Interest Rate follows general market practice in loan provision regardless of business nature of the borrowers and/or the lenders, we have researched over the website of the Stock Exchange on an exhaustive basis for transactions involving the provision of new financial assistance by listed companies in Hong Kong to independent third parties. To the best of our knowledge and as far as we are aware of, there were 33 such announcements (the “**Comparables**”) dated from 1 June 2024 to 7 August 2024 (being the approximate 2-month period prior to the date of the Supplemental Loan Agreement). We chose the said approximate 2-month research period due to its recency before signing of the Supplemental Loan Agreement and we consider the Comparables to be fair and representative. Summarised below are our relevant findings:

Date of announcement	Company (stock code)	Principal amount of the loan	Term of the loan	Annual interest rate	With security/ guarantee/ collateral/ pledge?	Loan to security ratio (times) (Note)
1 August 2024	China Financial Services Holdings Limited (605)	RMB2,100,000	1 year	12.96%	Yes	0.68
31 July 2024	China Financial Services Holdings Limited (605)	RMB3,800,000	1 year	18%	Yes	0.51
30 July 2024	Global International Credit Group Limited (1669)	HK\$10,000,000	12 months	12.3%	Yes	0.43
30 July 2024	China Financial Services Holdings Limited (605)	RMB4,000,000	1 year	16.8%	Yes	0.60
25 July 2024	Global International Credit Group Limited (1669)	HK\$50,000,000	12 months	12%	Yes	0.59
25 July 2024	China Financial Services Holdings Limited (605)	RMB2,600,000	1 year	18%	Yes	0.64
24 July 2024	China Financial Services Holdings Limited (605)	RMB4,000,000	1 year	12.24%	Yes	0.38

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Date of announcement	Company (stock code)	Principal amount of the loan	Term of the loan	Annual interest rate	With security/ guarantee/ collateral/ pledge?	Loan to security ratio (times) (Note)
23 July 2024	Capital Finance Holdings Limited (8239)	RMB5,000,000	12 months	15.6%	Yes	0.54
19 July 2024	China Financial Services Holdings Limited (605)	RMB7,000,000	6 months	19.8%	Yes	0.34
17 July 2024	China Financial Services Holdings Limited (605)	RMB2,500,000	6 months	12%	Yes	0.61
12 July 2024	China Financial Services Holdings Limited (605)	RMB2,000,000	1 month	24%	Yes	0.14
11 July 2024	Legend Upstar Holdings Limited (459)	HK\$20,000,000	12 months	11%	Yes	0.44
10 July 2024	China Financial Services Holdings Limited (605)	RMB3,000,000	3 months	12%	Yes	0.58
10 July 2024	China Financial Services Holdings Limited (605)	RMB5,000,000	6 months	14.4%	Yes	0.79
10 July 2024	China Financial Services Holdings Limited (605)	RMB9,200,000	6 months	14.4%	Yes	0.60
9 July 2024	China New Consumption Group Limited (8275)	HK\$10,000,000	12 months	8.75%	Information not provided	Not applicable
8 July 2024	Sau San Tong Holdings Limited (8200)	HK\$5,000,000	6 months	14%	Yes	Personal guarantee
5 July 2024	Central Wealth Group Holdings Limited (139)	HK\$50,000,000	3 years	7%	Yes	0.94
5 July 2024	China Financial Services Holdings Limited (605)	RMB4,870,000	1 year	12%	Yes	0.66
28 June 2024	Central Wealth Group Holdings Limited (139)	HK\$65,000,000	3 years	7%	Yes	1.45
28 June 2024	Oi Wah Pawnshop Credit Holdings Limited (1319)	HK\$22,960,000	12 months	11.75%	Yes	0.78
25 June 2024	Hong Kong Finance Group Limited (1273)	HK\$9,000,000	6 months	12%	Yes	0.34
24 June 2024	China Financial Services Holdings Limited (605)	RMB2,150,000	1 year	14.28%	Yes	0.73

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Date of announcement	Company (stock code)	Principal amount of the loan	Term of the loan	Annual interest rate	With security/ guarantee/ collateral/ pledge?	Loan to security ratio (times) (Note)
19 June 2024	China Financial Services Holdings Limited (605)	RMB3,500,000	1 year	12.24%	Yes	0.46
19 June 2024	China Financial Services Holdings Limited (605)	RMB6,000,000	1 year	16.2%	Yes	0.18
18 June 2024	China Financial Services Holdings Limited (605)	RMB8,000,000	6 months	13.2%	Yes	0.39
18 June 2024	China Financial Services Holdings Limited (605)	RMB7,500,000	6 months	12%	Yes	0.74
17 June 2024	China Financial Services Holdings Limited (605)	RMB1,200,000	5 years	8.16%	Yes	0.22
14 June 2024	China Financial Services Holdings Limited (605)	RMB10,000,000	1 year	21.6%	Yes	0.38
14 June 2024	Cybernaut International Holdings Company Limited (1020)	HK\$15,000,000	12 months	10.5%	Yes	Information not provided
12 June 2024	Hong Kong Finance Group Limited (1273)	HK\$8,000,000	12 months	15.6%	Yes	0.57
7 June 2024	China Financial Services Holdings Limited (605)	HK\$4,700,000	1 year	14.5%	Yes	0.35
3 June 2024	Global International Credit Group Limited (1669)	HK\$8,500,000	12 months	11.5%	Yes	0.37
				Maximum		24.0%
				Minimum		7.00%
				Average		13.57%

Source: the Stock Exchange's website (www.hkex.com.hk)

Note: The loan to security ratio equals the principal loan amount divided by the aggregate value of charged asset(s) as disclosed in the relevant announcement.

As shown in the above table, the interest rates of the Comparables (including three Comparables whose term of the loan was at least three years, which was comparable to the term of the Loan) ranged from 7.00% to 24.00%, which were all above the Interest Rate of 5.2%. As such, the Interest Rate is fair and reasonable and more favourable based on market comparison.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

To conclude, having taken into account (i) the failing attempt of the Company to obtain bank borrowings outside the PRC; (ii) the historical upward movement of the US\$ interest rates; (iii) the Interest Rate is below the current US\$ Best Lending Rate announced by the Hongkong and Shanghai Banking Corporation Limited of 7.75%; and (iv) the results of our comparable analysis as just presented, we are of the opinion that the Interest Rate is fair and reasonable so far as the Independent Shareholders are concerned.

Security

From the table under the paragraph headed “Comparable analysis” of this letter of advice, we noted that the loans of the Comparables were secured in different forms, such as personal or corporate guarantees, and legal charge/mortgage on properties. Likewise, the Loan is secured by the Share Charge.

In this relation, we further noted that the Share Charge is in the sum of approximately US\$22.4 million (being 70% times the consolidated net assets attributable to shareholders of Henan Yanchang as at 30 June 2024 of approximately HK\$249.8 million, calculated to be approximately HK\$174.9 million) and represents a loan to security ratio of approximately 0.98 times, which is higher than the average loan to security ratio of the Comparables, indicating that the value of security that the Company is required to place for the Loan is less than average market practice. We are of the opinion that this is favourable to the Company.

In light of that (i) it is a common market practice to require borrowers to provide collateral or guarantee as security for loans; and (ii) the loan to security ratio as represented by the Share Charge is higher than the average loan to security ratio of the Comparables, we are of the opinion that the security arrangement under the Supplemental Loan Agreement is fair and reasonable.

3. Possible financial effects of the Supplemental Loan Agreement

As confirmed by the Directors, it is expected that the Supplemental Loan Agreement would not have any immediate material effect on the Group’s overall asset and liability position. The Loan will be classified as a non-current liability of the Group in its consolidated statement of financial position after the Supplemental Loan Agreement taking effect.

Moreover, based on the Loan amount of US\$22 million and the Interest Rate of 5.2%, the estimated annual interest expense for the Loan would be US\$1,144,000 during the remainder term of the Loan.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Supplemental Loan Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Loan Renewal is in the interests of the Company and the Shareholders as a whole even though it is not conducted in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Supplemental Loan Agreement, and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
VBG Capital Limited
Doris Sing
Managing Director

Ms. Doris Sing is a licensed person and responsible officer of VBG Capital Limited registered with the Securities and Futures Commission to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and has over 19 years of experience in corporate finance industry.

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	30,000	0.003%
Dr. Mu Guodong ("Dr. Mu")	Personal interest and interest of spouse (<i>Note</i>)	Long position	15,000	0.001%

Note: Out of these 15,000 Shares, Dr. Mu personally held 11,500 Shares and his spouse held 3,500 Shares. Dr. Mu is deemed to be interested in these 70,000 Shares under the SFO.

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

So far as was known to the Directors, as at the Latest Practicable Date, the following persons (not being a Director or the chief executive of the Company) had an interest or

short position, if any, in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or who/which was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

Name	Nature of interest	Long position/ Short position	Number of Shares held	Approximate percentage of the total issued share capital of the Company
Yanchang Petroleum Group (Note 1)	Interest of controlled corporation	Long position	634,310,161	57.66%
Yanchang Petroleum HK (Note 1)	Directly owned	Long position	634,310,161	57.66%
Chang An HuiTong Co., Ltd.* ("Chang An HuiTong") (Note 2)	Interest of controlled corporation	Long position	183,350,467	16.67%
ChangAn HuiTong Investment Management Co., Ltd.* ("ChangAn HuiTong Investment") (Note 2)	Interest of controlled corporation	Long position	183,350,467	16.67%
ChangAn HuiTong Investment (Hong Kong) Company Limited ("ChangAn HuiTong HK") (Note 2)	Directly owned	Long position	183,350,467	16.67%

* For identification purposes only

Notes:

1. Yanchang Petroleum Group beneficially held these 634,310,161 shares through its direct wholly owned subsidiary, Yanchang Petroleum HK.
2. Chang An HuiTong beneficially held these 183,350,467 Shares through its direct wholly owned subsidiary, ChangAn HuiTong Investment, which in turn wholly owned ChangAn HuiTong HK.

Save as disclosed above, the Company had not been notified of any other interests or short positions in the shares and underlying shares of the Company representing 10% or more of the issued share capital of the Company as at the Latest Practicable Date. Ms. Wang Haining is both the Director and the supervisor of the Finance Center and deputy secretary of the Party Committee of Yanchang Petroleum Group. Mr. Sun Jian is the director of ChangAn HuiTong HK. Save for the above, none of the other Directors or proposed Directors is a director or employee of the companies disclosed above as at the Latest Practicable Date.

3. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors and their 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 INTEREST

As at the Latest Practicable Date, none of the Directors have 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 2023, 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 were materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries, which was subsisting and was significant in relation to the business of the Group.

5. SERVICE CONTRACTS

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

6. LITIGATION

As at the Latest Practicable Date, 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 been involved in a number pending of 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, 14 November 2022, 21 December 2022, 19 April 2023, 17 March 2023 and 25 July 2023.

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 2023, being the date to which the latest published audited financial statements of the Group were made up.

8. EXPERT'S QUALIFICATION AND CONSENT

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

Name	Qualification
VBG Capital Limited	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Loan Agreement and the transaction and matters contemplated thereunder

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

As at the Latest Practicable Date, VBG Capital 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 2023 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

9. MISCELLANEOUS

- (i) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.
- (ii) The head office and principal place of business of the Company in Hong Kong is at Room 3403, 34th Floor, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong.
- (iii) The company secretary of the Company is Mr. Law Hing Lam, who is a member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants.
- (iv) The Company's branch share registrar and transfer office in Hong Kong is Tricor Tengis Limited at 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. DOCUMENT(S) AVAILABLE FOR INSPECTION

A copy of the Supplemental Loan 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).



延長石油國際有限公司

YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00346)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT that a special general meeting (the “SGM”) of Yanchang Petroleum International Limited (the “Company”) will be held at Tianshan & Lushan Rooms, Level 5, Island Shangri-La, Pacific Place, Supreme Court Road, Central, Hong Kong on Friday, 30 August 2024 at 3:30 p.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions as ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT:

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

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

Hong Kong, 15 August 2024

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 Monday, 26 August 2024. 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. The Company's branch share register will be closed from Tuesday, 27 August 2024 to Friday, 30 August 2024, during which period no transfer of shares will be registered. 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 Monday, 26 August 2024.
8. As at the date of this notice, the board of directors of the Company consists of eight directors, of which three are executive directors, namely Mr. Feng Yinguo (chairman), Ms. Wang Haining and Mr. Ding Jiasheng, one is non-executive director, namely Mr. Sun Jian and four are independent non-executive directors, namely Mr. Ng Wing Ka, Mr. Leung Ting Yuk, Mr. Sun Liming and Dr. Mu Guodong.