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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)

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

On 12 November 2019, Henan Yanchang and Yanchang Petroleum Group entered into the New Supply Agreement, pursuant to which Yanchang Petroleum Group will continue to supply the refined oil to Henan Yanchang for the three years ending 31 December 2022.

The Board considers that the entering into of the New Supply Agreement is in the interest of the Company and its Shareholders as a whole, as Henan Yanchang can continue to have secured refined oil supply from Yanchang Petroleum Group for the Group's major operation in the PRC at the rates no less favourable than those available to the independent third party customers of Yanchang Petroleum Group for the comparable product type and quantity at the relevant time and therefore can maintain the market competitiveness of the Group.

Henan Yanchang is a non wholly-owned subsidiary of the Company, while Yanchang Petroleum Group, being a substantial Shareholder beneficially holding 6,496,729,547 Shares as at the date of this announcement representing approximately 53.49% 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 amount of the Continuing Connected Transactions exceed 5% and the consideration exceeds HK\$10,000,000 on an annual basis, the New Supply Agreement and the transactions contemplated thereunder are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

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

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

A circular containing, amongst other things, (i) details of the New Supply Agreement and the Proposed Annual Caps; (ii) the recommendation of the Independent Board Committee; (iii) the letter from the Independent Financial Adviser; and (iv) a notice of the SGM will be despatched to the Shareholders as soon as practicable, which is expected to be on or before 28 November 2019.

BACKGROUND

Reference is made to the announcement of the Company dated 30 December 2016 in relation to, among others, the Existing Supply Agreement and transactions contemplated thereunder. Henan Yanchang and Yanchang Petroleum Group entered into the Existing Supply Agreement on 30 December 2016, 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 2019.

As the Existing Supply Agreement will expire on 31 December 2019, Henan Yanchang and Yanchang Petroleum Group entered into the New Supply Agreement on 12 November 2019, pursuant to which Yanchang Petroleum Group will continue to supply the refined oil to Henan Yanchang for the three years ending 31 December 2022. The principal terms of the New Supply Agreement are set out as follows:

THE NEW SUPPLY AGREEMENT

Date	:	12 November 2019 (after the trading hours)
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 on a normal commercial term basis
Term	:	3 years commencing from 1 January 2020 until 31 December 2022, and is renewable for another term of three years under negotiation between both parties at least 30 days prior to the expiry date, subject to the compliance with the Listing Rules

- Pricing basis : The purchase price of refined oil 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 shall be paid in advance by Henan Yanchang before delivery of the refined oil. 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 and the transactions and matters contemplated thereunder

THE ANNUAL CAPS

Existing Annual Caps

The Existing Annual Caps for the purchase of refined oil by Henan Yanchang from Yanchang Petroleum Group under the Existing Supply Agreement for each of the three years ending 31 December 2019 and the relevant historical transaction amounts for the years ended 31 December 2017 and 2018 and the nine months ended 30 September 2019 were as follows:

	For the year ending 31 December		
	2017	2018	2019
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Annual Caps under the Existing Supply Agreement	5,000	5,000	5,000

	For the year ended		For the nine
	31 December		months ended
	2017	2018	30 September
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Historical transaction amounts under the Existing Supply Agreement	920	2,804	1,984

For each of the two years ended 31 December 2018 and the nine months ended 30 September 2019, the historical transaction amounts under the Existing Supply Agreement were approximately RMB920 million, RMB2,804 million and RMB1,984 million, respectively. The increase in transaction amounts under the Existing Supply Agreement from the year ended 31 December 2017 to the year ended 31 December 2018 was mainly due to (i) the increase in amount of Henan Yanchang's overall purchases in the year ended 31 December 2018; and (ii) the increase in contribution from the supply of refined oil by Yanchang Petroleum Group.

Proposed Annual Caps

The Proposed Annual Caps for the purchase of refined oil by Henan Yanchang from Yanchang Petroleum Group for the three years ending 31 December 2022 are set out as follows:

	For the year ending 31 December		
	2020	2021	2022
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Proposed Annual Cap	4,020	4,020	4,020

The Directors estimate that the aggregate purchase amount of refined oil by Henan Yanchang from Yanchang Petroleum Group under the New Supply Agreement for each of the three years ending 31 December 2022 will not exceed RMB4,020 million.

Henan Yanchang enters into supply agreements with both independent third parties and connected persons from time to time, taking into account various factors, including but not limited to the availability of supply of refined oil and the prevailing market prices of refined oil. The Company considers that such arrangement will provide the flexibility for the Group so as to secure the stable supply of refined oil 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 by Henan Yanchang from Yanchang Petroleum Group for the two years ended 31 December 2018 and the nine months ended 30 September 2019; (ii) the forecast amounts of purchases to be made by Henan Yanchang for the three years ending 31 December 2022; (iii) the historical purchase price per tonne of refined oil from Yanchang Petroleum Group, being a discount of approximately 10% to 20% to the selling price range quoted from the National Development and Reform Commission of the PRC of approximately RMB6,800 for the period from January 2017 to September 2019; (iv) the existing business scale of Henan Yanchang needed to be backed by

the stable and sufficient supply of refined oil from Yanchang Petroleum Group; and (v) Henan Yanchang is holding a valid licence for distribution and sales of refined oil in the whole PRC and Henan Yanchang keeps on its business development, in particular Southwest PRC in the coming future.

REASONS FOR AND BENEFITS OF ENTERING INTO OF 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.

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

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

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

Henan Yanchang aims to continue to achieve profit maximisation by fully utilising its storage capacity. The Company notes that (i) the sales volume of refined oil in six sales spots, namely Lin Tong, Yan Lian, Jing Bian, Yong Ping, Zibo in Shandong and Yulin, soared by approximately 100% in 2018; and (ii) the sales volume of refined oil by Henan Yanchang increased to approximately 1.65 million tonnes from approximately 1.33 million tonnes in the first half of 2019 compared with the corresponding period in 2018, representing a period-on-period increase of approximately 24.1%, and expects such growth will continue for the three years ending 31 December 2022. In addition, Henan Yanchang's purchases of refined oil from Yanchang Petroleum Group was approximately 6.5%, 14.2% and 13.8% for the year ended 31 December 2017 and 2018 and the nine months ended 30 September 2019, respectively, of total purchases of refined oil. The Company notes that the relatively favourable price of refined oil offered from Yanchang Petroleum Group would enhance the Group's profitability of the refined oil business and would increase the purchase of refined oil from Yanchang Petroleum Group for the three years ending 31 December 2022 on the basis that no less favourable price of refined oil offered by Yanchang Petroleum Group as compared with the independent third party suppliers to Henan Yanchang for the comparable product type and quality at the relevant time.

In view of (i) the continuing support from Yanchang Petroleum Group with secured supply of refined oil; (ii) Henan Yanchang holding a valid licence for distribution and sales of refined oil in the whole PRC, the Group would be able to expand its refined oil business as well as its sales network in the PRC; and (iii) the no less favourable price of refined oil offered by Yanchang Petroleum Group as compared with the independent third party suppliers, the Group would be able to expand its refined oil business in the PRC. Given that 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, the entering into of the New Supply Agreement with Yanchang Petroleum Group shall provide an alternative source of refined oil to Henan Yanchang, and further enhance the flexibility for the procurement of quality refined oil and better accommodate with the Henan Yanchang's business plan. Leveraging on the bulk volume and stable supply of refined oil from Yanchang Petroleum Group, Henan Yanchang could enhance its business and operation so as to foster its long term development. Henan Yanchang is not committed to purchase any refined oil or is not agreed to make any exclusive purchase from Yanchang Petroleum Group.

The Board (excluding the independent non-executive Directors whose view will be rendered upon receiving the advice of the Independent Financial Adviser) is of the opinion that the terms of the New Supply Agreement are fair and reasonable so far as the Independent Shareholders are concerned and the entering into of 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 and Yanchang Petroleum Group, being a substantial Shareholder beneficially holding 6,496,729,547 Shares representing approximately 53.49% 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 amount of the Continuing Connected Transactions exceed 5% and the consideration exceeds HK\$10,000,000 on an annual basis, the New Supply Agreement and the transactions 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.

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 New Supply Agreement and the transactions and matters contemplated thereunder and on how to vote. Astrum Capital Management Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in these regards.

SGM

The SGM will be convened by the Company to seek the approval from the Independent Shareholders for the New Supply Agreement and the transactions and matters contemplated thereunder by way of poll. As at the date of this announcement, Yanchang Petroleum Group, being a substantial Shareholder beneficially holding 6,496,729,547 Shares representing approximately 53.49% of the existing issued share capital of the Company, is a connected person and hence Yanchang Petroleum Group, together with its associates, will abstain from voting at the SGM.

General

A circular containing, amongst other things, (i) details of the New Supply Agreement and the Proposed Annual Caps; (ii) the recommendation of the Independent Board Committee; (iii) the letter from the Independent Financial Adviser; and (iv) a notice of the SGM will be despatched to the Shareholders as soon as practicable, which is expected to be on or before 28 November 2019.

DEFINITIONS TERMS USED IN THIS ANNOUNCEMENT

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

“associates”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Company”	Yanchang Petroleum International Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange (stock code: 00346)
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules

“Continuing Connected Transaction(s)”	transaction(s) between Yanchang Petroleum Group and Henan Yanchang for the supply of refined oil from Yanchang Petroleum Group to Henan Yanchang with terms and conditions in accordance with the New Supply Agreement
“Director(s)”	the director(s) of the Company
“Existing Annual Caps”	the annual caps for the purchase of refined oil by Henan Yanchang from Yanchang Petroleum Group for each of the three years ending 31 December 2019
“Existing Supply Agreement”	the agreement dated 30 December 2016 (after the trading hours), 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 2019
“Group”	the Company and its subsidiaries from time to time
“Henan Yanchang”	河南延長石油銷售有限公司 (Henan Yanchang Petroleum Sales Co., Limited), a limited company incorporated under the PRC laws which is an indirect non wholly-owned subsidiary of the Company and 70% owned by the Group as at the date of this announcement
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company, comprising all the independent non-executive Directors to be established to advise the Independent Shareholders on the New Supply Agreement and the transactions and matters contemplated thereunder
“Independent Financial Adviser”	Astrum Capital Management Limited, a corporation licensed to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions

“Independent Shareholders”	Shareholders other than Yanchang Petroleum Group and its associates
“independent third party(ies)”	individual(s) or company(ies) and their respective ultimate beneficial owner(s) who or which, to the best of the Directors’ knowledge, belief and information is/are independent of and not connected with (within the meaning of the Listing Rules) any directors, chief executive or substantial shareholders of the Company, its subsidiaries or any of their respective associates
“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 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
“PRC”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Proposed Annual Caps”	the proposed annual caps for the Continuing Connected Transactions under the New Supply Agreement for each of the three years ending 31 December 2022
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, approve the New Supply Agreement and the transactions and matters contemplated thereunder
“share(s)”	existing ordinary share(s) of HK\$0.02 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules

“Yanchang Petroleum Group”	陝西延長石油（集團）有限責任公司（Shaanxi Yanchang Petroleum (Group) Co., Limited), a state-owned corporation registered in the PRC with limited liability, being a substantial Shareholder beneficially holding 6,496,729,547 Shares representing approximately 53.49% of the existing issued share capital of the Company as at the date of this announcement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

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

Hong Kong, 12 November 2019

Executive Directors:

Mr. Li Yi (*Chairman*)
Ms. Sha Chunzhi
Mr. Gao Hairen
Mr. Li Jun

Independent Non-Executive Directors:

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