THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

延長石油國際有限公司
YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00346)

CONNECTED TRANSACTION – LOAN AGREEMENT AND RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

Financial adviser to the Company

红日资本有限公司
RED SUN CAPITAL LIMITED

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

Astrum Capital Management Limited

A letter from the Board is set out on pages 6 to 23 of this circular. A letter from the Independent Board Committee containing its recommendation in respect of the Loan Agreement and the transactions contemplated thereunder, and the New Supply Agreement (including the Proposed Annual Caps) and the transactions contemplated thereunder set out on pages 24 to 25 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the Loan Agreement and the transactions contemplated thereunder, and the New Supply Agreement (including the Proposed Annual Caps) and the transactions contemplated thereunder is set out on pages 26 to 64 of this circular.

A notice convening an SGM of the Company to be held at Admiralty and The Peak Room, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on 19 December 2019 at 3:30 p.m. is set out on pages 70 to 72 of this circular.

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

29 November 2019

CONTENT

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

"associates"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"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
"CCT Announcement"	the announcement of the Company dated 12 November 2019 in relation to, among others, the New Supply Agreement and transactions contemplated thereunder
"Company"	Yanchang Petroleum International Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the main board of the Stock Exchange (stock code: 00346)
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"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
"Controlling Shareholder"	has the meaning ascribed to it under the Listing Rules
"Debenture"	the debenture given in favour of Yanchang Petroleum HK by Novus as security for the Loan
"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 Credit Facility"	the credit facility of CAD48,000,000 (equivalent to approximately HK$284.5 million) granted to Novus by National Bank of Canada under the relevant agreement for general corporate purposes of Novus
"Existing Supply Agreement"	the agreement dated 30 December 2016 entered into between Henan Yanchang and Yanchang Petroleum Group in respect of the supply of refined oil from Yanchang Petroleum Group to Henan Yanchang for the three years 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 Latest Practicable Date
"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 established to advise the Independent Shareholders on the Loan Agreement and the transactions and matters contemplated thereunder, and the New Supply Agreement and the transactions and matters contemplated thereunder
"Independent Financial Adviser" or "Astrum"	Astrum Capital Management Limited, a licensed corporation to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Loan Agreement and the transactions contemplated thereunder, and the New Supply Agreement and the transactions contemplated thereunder and the Proposed Annual Caps
"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
"Latest Practicable Date"	26 November 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange and as amended from time to time
"Loan"	the loan granted to Novus by Yanchang Petroleum HK in a principal amount of US$35,000,000 (equivalent to approximately HK$274.5 million) under the Loan Agreement
"Loan Agreement"	the agreement in relation to the Loan entered into between Novus and Yanchang Petroleum HK on 5 November 2019
"Loan Announcement"	the announcement of the Company dated 5 November 2019 in relation to, among others, the Loan Agreement and transactions contemplated thereunder
"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
"Novus"	Novus Energy Inc., a company incorporated in Canada with limited liability and is wholly owned by the Company
"PRC"	the People's Republic of China, which for the purpose of this circular, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
"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

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, modified and supplemented from time to time
"SGM"	the special general meeting of the Company to be convened held for the Independent Shareholders to consider and approve the Loan Agreement and the transactions and matters contemplated thereunder, and the New Supply Agreement and the transactions and matters contemplated thereunder
"share(s)"	existing ordinary share(s) of HK$0.02 each in the share capital of the Company
"Shareholder(s)"	the registered holder(s) of issued Share(s) from time to time
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules
"Utilisation"	a utilisation of the Loan
"Utilisation Date"	date of a utilisation of the Loan, being the date on which the Loan is to be made
"Yanchang Petroleum Group"	陝西延長石油（集團）有限責任公司 (Shaanxi Yanchang Petroleum (Group) Co., Limited), a state-owned corporation registered in the PRC with limited liability, being the Controlling Shareholder of the Company beneficially holding 6,496,729,547 Shares representing approximately 53.49% of the existing issued share capital of the Company as at the Latest Practicable Date
"Yanchang Petroleum HK"	Yanchang Petroleum Group (Hong Kong) Co., Limited (延長石油集團（香港）有限公司), a company incorporated in Hong Kong with limited liability and is wholly owned by Yanchang Petroleum Group
"CAD"	Canadian Dollars, the lawful currency of Canada
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC

"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent

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. 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

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

29 November 2019

To the Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION – LOAN AGREEMENT AND RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

Reference is made to the Loan Announcement dated 5 November 2019 in relation to, among others, the Loan Agreement and the transactions and the matters contemplated thereunder. On 5 November 2019 (after trading hours), Novus (as the borrower) entered into the Loan Agreement with Yanchang Petroleum HK (as the lender), pursuant to which Yanchang Petroleum HK conditionally agreed to provide the Loan of US$35,000,000 (equivalent to approximately HK$274.5 million) to Novus for a term commencing from the Utilisation Date and expiring on the third anniversary of the Utilisation Date.

Novus is a wholly-owned subsidiary of the Company. In addition, as at the Latest Practicable Date, Yanchang Petroleum HK is the Controlling Shareholder holding 6,496,729,547 Shares, representing approximately 53.49% of the issued share capital of the Company. Yanchang Petroleum HK is directly and wholly owned by Yanchang Petroleum Group. As such, Yanchang Petroleum HK is a connected person of the Company as defined under the Listing Rules. Hence, the transactions contemplated under the Loan Agreement will constitute connected transaction of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the Loan exceed 5% and the consideration exceeds HK$10,000,000 on an annual basis, the Loan Agreement is subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

In addition, reference is also made to the CCT Announcement dated 12 November 2019 in relation to, among others, the New Supply Agreement and the transactions and matters contemplated thereunder. 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 refined oil to Henan Yanchang for the three financial years ending 31 December 2022.

Pursuant to the New Supply Agreement, the Proposed Annual Caps for the purchase of refined oil by Henan Yanchang from Yanchang Petroleum Group are RMB4,020 million, RMB4,020 million and RMB4,020 million for the three years ending 31 December 2022, respectively.

Henan Yanchang is a non-wholly owned subsidiary of the Company, whereas Yanchang Petroleum Group, being the Controlling Shareholder beneficially holding 6,496,729,547 Shares as at the Latest Practicable Date 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% 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 purpose of this circular is to provide you with information which includes, among other things, (i) further details in respect of the Loan Agreement, the New Supply Agreement and the Proposed Annual Caps; (ii) the letter of recommendation from the Independent Board Committee in respect of the Loan Agreement and the transactions contemplated thereunder, and the New Supply Agreement (including the Proposed Annual Caps) and the transactions contemplated thereunder; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Loan Agreement and the transactions contemplated thereunder, and the New Supply Agreement (including the Proposed Annual Caps) and the transactions contemplated thereunder; and (iv) a notice of the SGM.

THE LOAN AGREEMENT

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

Date	:	5 November 2019 (after trading hours)
Parties	:	(1) Novus (as borrower); and (2) Yanchang Petroleum HK (as lender)
Principal amount	:	US$35,000,000 (equivalent to approximately HK$274.5 million)
Interest rate	:	4.8% per annum, which shall be payable every three months from the Utilisation Date. 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) or the preceding Business Day
Term	:	Commencing from the Utilisation Date and expiring on the third anniversary of the Utilisation Date
Principal conditions precedent to Utilisation	:	The Utilisation is subject to the following principal conditions precedent to Utilisation as contemplated under the Loan Agreement: (1) Novus and Yanchang Petroleum HK having obtained all necessary approvals in relation to the transactions contemplated under the Loan Agreement, including but not limited to passing relevant board resolutions to approve the transactions contemplated under the Loan Agreement; (2) Novus and Yanchang Petroleum HK having obtained all necessary approvals from the relevant regulatory authorities (including the Stock Exchange) in relation to the transactions contemplated under the Loan Agreement;

(3) a payout statement in relation to the agreement for the Existing Credit Facility having been issued by the lender of the Existing Credit Facility upon the repayment of all outstanding amount under the Existing Credit Facility;

(4) a general release and discharge in relation to the agreement for the Existing Credit Facility having been issued by the lender of the Existing Credit Facility upon the repayment of all outstanding amount under the Existing Credit Facility;

(5) all related documents and obligations, including an undertaking and authorization to release the debenture in relation to the Existing Credit Facility and all other liens upon the repayment of all outstanding amount under the Existing Credit Facility; and

(6) the Independent Shareholders having approved the Loan Agreement at the SGM.

As agreed between Novus and Yanchang Petroleum HK, it is intended that (3), (4) and (5) will be issued upon the repayment of the outstanding amount drawn down under the Existing Credit Facility which will be conducted on the same Business Day.

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

Security : The Loan is secured by the debenture as described under the paragraph headed "Debenture" as below in this circular

DEBENTURE

As disclosed under the paragraph headed “Security” above, the Loan is secured by the debenture with details summarised as follows:

Parties	:	(1) Novus (as borrower); and (2) Yanchang Petroleum HK (as lender)
Principal Sum	:	US$70,000,000 (equivalent to approximately HK$549.0 million)
Charges	:	(1) first and fixed charge over all of Novus' right, title and interest, whether freehold, leasehold or other, under or in respect of the lands, in relation to the properties held by Novus from time to time; (2) a first priority security interest to and over all of Novus' present and after-acquired personal property (i.e. movable property) from time to time, tangible and intangible, in each case, of every nature and kind and wherever situate and all proceeds thereof; and (3) a floating charge over all of Novus' property to the extent not otherwise described above (excluding any agreement, right, franchise, intellectual property, licence or permit). As at 30 June 2019, assets of Novus mainly included (i) developed and producing assets for oil and natural gas of approximately CAD276.4 million (equivalent to approximately HK$1,638.4 million); and (ii) deferred income tax asset of approximately CAD14.3 million (equivalent to approximately HK$84.8 million).

When considering the terms of the Debenture, the Board takes into account the existing debenture that Novus has given to the bank and considers that the terms of the Debenture are comparable or better.

THE NEW SUPPLY AGREEMENT

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

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

Pricing terms and payment terms regarding supply of refined oil from Yanchang Petroleum Group

Pricing terms

The price of refined oil to be supplied by Yanchang Petroleum Group to Henan Yanchang is determined with reference to the average weekly selling price of refined oil quoted from the National Development and Reform Commission of the PRC ("**NDRC**") as a basis. The average actual purchase price of refined oil by Henan Yanchang from Yanchang Petroleum Group was at a discount of approximately 10% to 20% to the average selling price of refined oil quoted from NDRC during the two years ended 31 December 2018 and the nine months ended 30 September 2019. The price charged by Yanchang Petroleum Group would be lower than the average weekly selling price of refined oil quoted from NDRC. The average purchase price of refined oil offered by Yanchang Petroleum Group was lower and relatively favourable than that offered by the independent third parties to Henan Yanchang during the two years ended 31 December 2018 and the nine months ended 30 September 2019.

Payment terms

The payment terms in respect of the refined oil under the New Supply Agreement will be based on market practice, which the purchase price of refined oil shall be paid in advance by Henan Yanchang before delivery. For refined oil offered by independent third parties to Henan Yanchang, in general, the purchase price shall also be paid in advance by Henan Yanchang before delivery. The Directors believe that the payment terms of refined oil offered by Yanchang Petroleum Group is comparable to that offered by independent third parties. According to the historical practice of Henan Yanchang, the purchase price of refined oil was generally paid within approximately one to two weeks in advance by Henan Yanchang before delivery by each of Yanchang Petroleum Group and independent third parties.

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**
	RMB million	*RMB million*	*RMB million*
Annual Caps under the Existing Supply Agreement	5,000	5,000	5,000

	For the year ended 31 December		For the nine months ended 30 September
	2017	**2018**	**2019**
	RMB million	*RMB million*	*RMB million*
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.

For the underutilisation of the Existing Annual Caps, the Board is of the view that it was mainly attributable to the slower than expected growth of the past refined oil business in the regions of the PRC.

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**
	RMB million	*RMB million*	*RMB million*
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.

The Proposed Annual Caps of the transactions contemplated under the New Supply Agreement are determined with reference to the following factors:

(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; and

(iii) the historical purchase price per tonne of refined oil from Yanchang Petroleum Group.

Henan Yanchang will purchase refined oil from 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. Set out below the proportion of Henan Yanchang's total purchase amount from Yanchang Petroleum Group and from independent suppliers for each of the two years ended 31 December 2018, the nine months ended 30 September 2019 and each of the expected three years ending 31 December 2022:

	For the year ended 31 December		For the nine months ended 30 September	For the year ending 31 December		
	2017	**2018**	**2019**	**2020**	**2021**	**2022**
	%	%	%	%	%	%
Yanchang Petroleum Group	6.5	14.2	13.8	19.7	19.7	19.7
Independent suppliers	93.5	85.8	86.2	80.3	80.3	80.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

Estimated purchase orders to be placed by Henan Yanchang to Yanchang Petroleum Group

The Directors estimate that the total purchase orders to be placed by Henan Yanchang to Yanchang Petroleum Group shall be approximately 0.67 million tonnes, representing approximately 19.7% of the total projected volume of refined oil purchased by Henan Yanchang for each of the three years ending 31 December 2022. As such, the Proposed Annual Caps are determined as RMB4,020 million for each of the three years ending 31 December 2022. Such amounts are determined with reference to (i) the estimated amounts for the purchase of approximately 670,000 tonnes of refined oil by Henan Yanchang from Yanchang Petroleum Group for each of the three years ending 31 December 2022; and (ii) the estimated average purchase price per tonne of refined oil from Yanchang Petroleum Group of approximately RMB6,000.

The Board is of the view that other than purchasing refined oil from independent third parties, the arrangement to purchase refined oil from Yanchang Petroleum Group pursuant to the New Supply Agreement provides the flexibility for the Group so as to secure the stable supply of refined oil for the business expansion of Henan Yanchang. Such arrangement could significantly reduce Henan Yanchang's operation risks, including the risk of refined oil shortage due to economic instability, which may potentially affect its business operation. Besides, the Board is of the view that the relatively favourable price of refined oil offered from Yanchang Petroleum Group, as compared with the independent third party suppliers for the comparable product type and quantity at the relevant time, would enhance the Group's profitability of the refined oil business, therefore the Proposed Annual Caps are determined with consideration of further increase in the proportion of total projected volume of refined oil purchased from Yanchang Petroleum Group from approximately 13.8% for the nine months ended 30 September 2019 to approximately 19.7% for each of the three years ending 31 December 2022.

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 NDRC 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.

Having considered that (i) the continuing support from Yanchang Petroleum Group with secured supply of refined oil; (ii) the increase in the proportion of total projected volume of refined oil purchased from Yanchang Petroleum Group at relatively favourable price of refined oil offered from Yanchang Petroleum Group, as compared with the independent third party suppliers for the comparable product type and quantity at the relevant time, would further enhance the Group's profitability of the refined oil business; and (iii) the estimated average price and forecast amounts for the purchase of refined oil by Henan Yanchang from Yanchang Petroleum Group for each of the three years ending 31 December 2022, the Directors consider that the Proposed Annual Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned, which is in line with Henan Yanchang's business plan and is in the interests of the Company and the Shareholders as a whole.

Internal control measures

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

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

(ii) the Company will closely monitor the transaction amounts in relation to the transactions under the New Supply Agreement to ensure that the Proposed Annual Caps are not exceeded;

(iii) the independent non-executive Directors will review and confirm whether the transactions contemplated under the New Supply Agreement are entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better and are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and

(iv) the Company will continue to engage the independent auditors to review the transactions under the New Supply Agreement in compliance with the annual reporting and review requirements under the Listing Rules.

Based on the internal procurement policies and the price comparison between the refined oil offered by each of Yanchang Petroleum Group and other independent third parties, Henan Yanchang has procured and will procure refined oil from Yanchang Petroleum Group which offered better pricing and other terms among other quotations obtained from independent third parties. As such, the Directors consider that above internal control measures would ensure that the pricing and other terms for refined oil under the New Supply Agreement will be fair and reasonable and no less favourable than that offered by independent third parties. The Directors also consider such measures could ensure that the transactions would be conducted on normal commercial terms and not prejudicial to the interests of the Company and minority shareholders.

INFORMATION ON THE PARTIES TO THE LOAN AGREEMENT AND THE NEW SUPPLY AGREEMENT

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

Novus is a company incorporated in Canada with limited liability and is wholly owned by the Company. Novus engaged in the business of exploration, exploitation and production of oil and natural gas in Western Canada.

Yanchang Petroleum HK is a company incorporated in Hong Kong with limited liability and principally engaged in investment holding and trading of crude oil, which is directly and wholly owned by Yanchang Petroleum Group. As at the Latest Practicable Date, Yanchang Petroleum HK is the Controlling Shareholder holding 6,496,729,547 Shares, representing approximately 53.49% of the issued share capital of the Company. Accordingly, the Yanchang Petroleum HK is a connected person of the Company.

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. 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.

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.

REASONS FOR AND BENEFITS OF ENTERING INTO OF THE LOAN AGREEMENT AND THE NEW SUPPLY AGREEMENT

The Loan Agreement

As at the Latest Practicable Date, the outstanding amount drawn down under the Existing Credit Facility is approximately CAD42,725,000 (equivalent to approximately HK$253.3 million), and Novus is required to repay all outstanding amount on or prior to 31 December 2019. The interest rate per annum of the Existing Credit Facility is a floating rate which is based on the Canadian prime rate plus a rate ranged from 1% to 3.5% with reference to the performance of Novus, and the effective average interest rate of the Existing Credit Facility for each of the two years ended 31 December 2017, 2018 and the eight months ended 31 August 2019 was approximately 5.2%, 4.8% and 4.8%, respectively. The Existing Credit Facility is secured by a debenture in a principal amount of CAD200,000,000 (equivalent to approximately HK$1,185.5 million) from Novus granting a floating charge over its all assets and undertaking to provide fixed charges on such Novus's major producing petroleum and natural gas reserves upon request. The proceeds from the Existing Credit Facility is for general corporate purposes of Novus. All outstanding amount under the Existing Credit Facility is required to repay on or prior to 31 December 2019.

In addition, according to the unaudited condensed financial statement of Novus for the six months ended 30 June 2019, the cash and net asset value of Novus were amounted to approximately CAD3.2 million (equivalent to approximately HK$19.0 million) and CAD227.9 million (equivalent to approximately HK$1,350.9 million) as at 30 June 2019, respectively. Although the management of Novus has approached several individual facility providers and/or banks in Canada and US, such facility providers and/or banks refuse to provide the relevant proposal upon the Latest Practicable Date.

According to the interim report of the Group for the six months ended 30 June 2019, the cash and bank balances of the Group were amounted to approximately HK$349.2 million as at 30 June 2019, of which approximately HK$296.8 million was maintained in the subsidiaries of the Group in the PRC, which is used for maintaining the daily operation of the subsidiaries of the Company in the PRC, and can only be transferred to countries and regions outside the PRC through burdensome and time-consuming administrative procedure, therefore, it is not expected that the Company would have sufficient internal resources to inject into Novus to repay the outstanding amount drawn down under the Existing Credit Facility upon maturity.

Besides, it is expected that facility providers and banks would refuse to provide the proposal to the Company as the Company lacking collateral. The Company has also considered equity financing, such as placing, rights issue or open offer, the Company will need to undergo a relatively lengthy process in order to (i) identify suitable underwriter(s) and negotiate terms agreeable to the Company; (ii) prepare the requisite compliance and legal documentation, including but not limited to the underwriting agreement(s), announcement(s) and prospectus(es). Also, the Directors consider that the placing, rights issue or open offer would incur more transaction costs including but not limited to placing/underwriting commission (assuming the placing/underwriting commission of a rights issue or an open offer payable to the underwriter(s) would be 3% on the gross proceeds of the subscriptions, the underwriting commission would amount to approximately HK$8.2 million) and such corporate exercises would have a relatively more time-consuming process including the lengthy process of identifying potential placee(s) and/or underwriter(s), if applicable; and that the lengthy timetable and procedures of implementing placing, rights issue or open offer which may affect the fund raising plan to meet the repayment timeline of Novus. For other equity financing method such as subscription of Shares, the Company has also tried equity financing that the Company entered into a subscription agreement to propose the issue of 1,210,000,000 Shares at the subscription price of HK$0.24 per subscription share on 14 June 2016 but the proposed subscription was ceased on 31 December 2017 due to certain conditions of the subscription have not been fulfilled. Please refer to the announcements of the Company dated 16 June 2016, 17 July 2017 and 2 January 2018 for further details. In addition, the Company issued convertible bonds to Yanchang Petroleum HK with principal amount of US$60,000,000 (equivalent to approximately HK$470.6 million) which was completed on 28 November 2018. As such, issuance of convertible bonds short term is not practicable given the lack of interest from potential investors.

The Loan is first applied to the repayment of the outstanding amount drawn down under the Existing Credit Facility of approximately CAD42,725,000 (equivalent to approximately HK$253.3 million) as at the Latest Practicable Date expected by 31 December 2019, and then the remaining balance of the proceeds from the Loan is expected to be used as general working capital for operating Novus within 12 months immediately after the Utilisation Date.

The Loan demonstrates the continuous financial support provided by the Controlling Shareholder to the Group. The terms of the Loan Agreement, including the interest rate of 4.8% per annum (which is at a similar level to the effective interest rate of the bank borrowings of the Group as at 31 December 2018) and the amount of Debenture of US$70,000,000 (equivalent to approximately HK$549.0 million) (being 2 times of the Loan of US$35,000,000 (equivalent to approximately HK$274.5 million) was arrived at after arm's length negotiation between Novus and Yanchang Petroleum HK with reference to the existing debenture of CAD200,000,000 (equivalent to approximately HK$1,185.5 million) being approximately 4.2 times of the Existing Credit Facility of CAD48,000,000 (equivalent to approximately HK$284.5 million) as benchmark) are entered into after arm's length negotiations between the parties and taking into account, among others, the prevailing market interest rates and practices.

Taking into account (i) the repayment of outstanding amount drawn down under the Existing Credit Facility on or prior to 31 December 2019; (ii) the financial situation of Novus as discussed above; (iii) the cash level to be maintained for the daily operation of the subsidiaries of the Company in the PRC; (iv) the alternative funding tried and considered by Novus and the Company, respectively, as discussed above; (v) the interest rate of the Loan is at a similar level to the effective interest rate of the bank borrowings of the Group as at 31 December 2018; and (vi) the lower amount of Debenture to the Loan of 2 times after arm's length negotiations between the parties as compared to the Existing Credit Facility of approximately 4.2 times, the Directors are of the view that the transactions contemplated under the Loan Agreement, although are not in the ordinary and usual course of business, are entered into on normal commercial terms, fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

The New Supply Agreement

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 the 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 quantity 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) no less favourable price of refined oil offered by Yanchang Petroleum Group as compared with the independent third party suppliers for the comparable product type and quantity at the relevant time, 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. As such, the Board (including the independent non-executive Directors after considering 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

Novus is a wholly-owned subsidiary of the Company. In addition, as at the Latest Practicable Date, Yanchang Petroleum HK is the Controlling Shareholder holding 6,496,729,547 Shares, representing approximately 53.49% of the issued share capital of the Company. Yanchang Petroleum HK is directly and wholly owned by Yanchang Petroleum Group. As such, Yanchang Petroleum HK is a connected person of the Company as defined under the Listing Rules. Hence, the transactions contemplated under the Loan Agreement will constitute connected transaction of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the Loan exceed 5% and the consideration exceeds HK$10,000,000 on an annual basis, the Loan Agreement is subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

As Yanchang Petroleum HK is the Controlling Shareholder, and directly and wholly owned by Yanchang Petroleum Group, Yanchang Petroleum Group and its associates shall abstain from voting on the resolution to be proposed to approve the Loan 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 Loan Agreement and the transactions and matters contemplated thereunder, and accordingly are required to abstain from voting at the SGM.

Henan Yanchang is a non-wholly owned subsidiary of the Company, whereas Yanchang Petroleum Group, being the Controlling 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 on the resolution to be proposed to approve 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 contemplated thereunder, and accordingly are required to abstain from voting at the SGM.

INDEPENDENT BOARD COMMITTEE

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

SGM

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

The notice convening the SGM to be held at Admiralty and The Peak Room, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on 19 December 2019 at 3:30 p.m. is set out on pages 70 to 72 of this circular. Ordinary resolutions will be proposed at the SGM to approve, among other things, (i) the Loan Agreement and the transactions contemplated thereunder; (ii) the New Supply Agreement and the transactions contemplated thereunder; and (iii) the corresponding Proposed Annual Caps. The resolutions proposed to be approved at the SGM will be taken by poll and an announcement will be made by the Company after the SGM on the result of the SGM.

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

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, as at the Latest Practicable Date, Yanchang Petroleum Group, being the Controlling 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. Save for the above, no other Shareholders or any of their respective associates have any interests in the transactions contemplated under the Loan Agreement and transactions contemplated under the New Supply Agreement and are required to abstain from voting at the SGM in relation to the resolutions regarding the Loan Agreement and the transactions contemplated thereunder, and the New Supply Agreement and the transactions contemplated thereunder, respectively.

RECOMMENDATIONS

Taking into account the reasons as set out in the paragraph headed "Reasons for and benefits of entering into of the Loan Agreement and the New Supply Agreement" above, the Directors (including the independent non-executive Directors) consider that (i) the terms of the Loan Agreement and the transactions contemplated thereunder, although are not in the ordinary and usual course of business, are on normal commercial basis, fair and reasonable, and in the best interests of the Company and the Shareholders as a whole; and (ii) the terms of the New Supply Agreement and the Proposed Annual Caps are fair and reasonable and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the ordinary resolutions be proposed at the SGM to approve the Loan Agreement, the New Supply Agreement and the corresponding Proposed Annual Caps.

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 24 to 25 of this circular containing the recommendation of the Independent Board Committee to the Independent Shareholders regarding the Loan Agreement, the New Supply Agreement and the corresponding Proposed Annual Caps; (ii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 26 to 64 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 Loan Agreement and the transactions contemplated thereunder are subject to the fulfilment of the conditions precedent to Utilisation as contemplated under the Loan Agreement. Accordingly, the Loan may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

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

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

延長石油國際有限公司
YANCHANG PETROLEUM INTERNATIONAL LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 00346)

29 November 2019

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION – LOAN AGREEMENT AND RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

We refer to the circular (the "**Circular**") dated 29 November 2019 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 (i) the terms of Loan Agreement and the transactions contemplated thereunder; (ii) the terms of the New Supply Agreement and the transactions contemplated thereunder; and (iii) the corresponding Proposed Annual Caps. Astrum has been appointed by the Company as the Independent Financial Adviser to advise us in these regards. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving its advice, are contained in its letter set out on pages 26 to 64 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 (i) the terms of the Loan Agreement and the transactions contemplated thereunder, although are not in the ordinary and usual course of business, are on normal commercial terms and are fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the New Supply Agreement and the transactions contemplated thereunder and the corresponding Proposed Annual Caps are on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend that the Independent Shareholders should vote in favor of the resolutions to be proposed at the SGM to approve (i) the Loan Agreement and the transactions contemplated thereunder; (ii) the New Supply Agreement and the transactions contemplated thereunder; and (iii) the Proposed Annual Caps.

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

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

ASTRUM

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

29 November 2019

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

Dear Sirs,

CONNECTED TRANSACTION – LOAN AGREEMENT

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the independent board committee (the "**Independent Board Committee**") and the independent shareholders (the "**Independent Shareholders**") of Yanchang Petroleum International Limited (the "**Company**") in relation to the entering into of the loan agreement (the "**Loan Agreement**") between Novus Energy Inc. ("**Novus**") and Yanchang Petroleum Group (Hong Kong) Co., Limited ("**Yanchang Petroleum HK**") dated 5 November 2019 in respect of the loan granted to Novus by Yanchang Petroleum HK in the principal amount of US$35,000,000 (the "**Loan**"). The details of the Loan Agreement is disclosed in the announcement of the Company dated 5 November 2019 (the "**Loan Announcement**") and in the letter from the Board (the "**Letter from the Board**") set out on pages 6 to 23 of the circular of the Company dated 29 November 2019 (the "**Circular**") to its shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise defined.

On 5 November 2019 (after trading hours), Novus (as the borrower) entered into the Loan Agreement with Yanchang Petroleum HK (as the lender) pursuant to which Yanchang Petroleum HK conditionally agreed to provide the Loan of US$35,000,000 to Novus for a term commencing from the Utilisation Date and expiring on the third anniversary of the Utilisation Date.

Novus is a wholly-owned subsidiary of the Company. As at the Latest Practicable Date, Yanchang Petroleum HK was the Controlling Shareholder holding 6,496,729,547 Shares, representing approximately 53.49% of the issued share capital of the Company. Yanchang Petroleum HK is directly and wholly owned by Yanchang Petroleum Group. As such, Yanchang Petroleum HK is a connected person of the Company as defined under the Listing Rules. Hence, the transactions contemplated under the Loan Agreement will constitute connected transaction of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the Loan exceed 5% and the consideration exceeds HK$10,000,000 on an annual basis, the Loan Agreement is subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

As Yanchang Petroleum HK is the Controlling Shareholder, and is directly and wholly owned by Yanchang Petroleum Group, Yanchang Petroleum Group and its associates (including Yanchang Petroleum HK) shall abstain from voting on the relevant resolution to approve the Loan Agreement and the transactions contemplated thereunder at the SGM. Save for Yanchang Petroleum Group, to the best knowledge, information and belief of the Directors, no other Shareholders or any of their respective associates have a material interest in the Loan Agreement and the transactions contemplated thereunder, and accordingly are required to abstain from voting on the relevant resolution relating to the Loan Agreement and the transactions contemplated thereunder at the SGM.

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

INDEPENDENCE DECLARATION

As at the Latest Practicable Date, we were not aware of any relationships or interests between Astrum Capital Management Limited, the Company, Novus, Yanchang Petroleum HK and/or any of their respective substantial shareholders, directors or chief executive, or any of their respective associates. In the last two years, save for the appointment as the independent financial adviser of the Company in respect of the Continuing Connected Transactions (details of which were set out in the section headed "THE NEW SUPPLY AGREEMENT" in the Letter from the Board), there was no other engagement between the Group and Astrum Capital Management Limited. Apart from the normal advisory fees payable to us for the relevant engagement in relation to the Loan Agreement and the Continuing Connected Transactions, no other arrangement exists whereby we will receive any fees and/or benefits from the Group. Accordingly, Astrum Capital Management Limited is independent as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board

Committee and the Independent Shareholders in connection with the Loan Agreement and the transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have reviewed, *inter alia,* the Loan Agreement, the Loan Announcement, the Circular, the annual report of the Company for the year ended 31 December 2018 (the "**2018 Annual Report**") and the interim report of the Company for the six months ended 30 June 2019 (the "**2019 Interim Report**"). We have also reviewed certain information provided by the management of the Company (the "**Management**") relating to the operations and prospects of the Group. We have also (i) considered such other information, analyses and market data which we deemed relevant; and (ii) conducted verbal discussion with the Management regarding the terms of the Loan Agreement and the transactions contemplated thereunder, the businesses and future prospects of the Group. We have assumed that such information and statements, and any representation made to us, are true, accurate and complete in all material respects as of the date hereof and we have relied upon them in formulating our opinion.

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

For illustration purpose only, amounts denominated in US$ and CAD have been converted to HK$ at the rates of US$0.1275 to HK$1.0000 and CAD0.1687 to HK$1.0000, respectively.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Information of the Group

A. Principal business of the Group

According to the 2018 Annual Report, the Group is principally engaged in supply and procurement operation of oil related products in the PRC as well as oil and gas exploration, exploitation, sale and operation in Canada and Madagascar.

B. Financial information of the Group

The following table sets out (i) the audited financial information of the Group for the two financial years ended 31 December 2017 and 31 December 2018 ("**FY2017**" and "**FY2018**", respectively) as extracted from the 2018 Annual Report; and (ii) the unaudited financial information of the Group for the six months ended 30 June 2018 and 30 June 2019 ("**1H2018**" and "**1H2019**", respectively) as extracted from the 2019 Interim Report:

Table 1: Financial information of the Group

	FY2017	**FY2018**	**1H2018**	**1H2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited and restated)	(audited)	(unaudited)	(unaudited)
	(Note 1)		*(Note 2)*	*(Note 2)*
Revenue	4,092,177	5,933,388	2,288,147	3,423,727
– Exploration, exploitation and operation	*316,011*	*272,895*	*146,521*	*100,419*
– Supply and procurement	*3,776,166*	*5,660,493*	*2,141,626*	*3,323,308*
Gross profit *(Note 3)*	252,960	220,143	118,992	97,153
Profit/(loss) from operating activities	3,725	99,676	13,140	(14,912)
(Loss)/profit before taxation	(49,651)	40,479	(12,987)	(43,351)
(Loss)/profit for the year/period	(58,625)	6,268	(21,786)	(43,103)
(Loss) for the year/period attributable to owners of the Company	(65,289)	(741)	(24,991)	(47,091)

	As at 31 December 2017 HK$'000 (audited)	As at 31 December 2018 HK$'000 (audited)	As at 30 June 2019 HK$'000 (unaudited)
Total assets	**2,863,908**	**2,989,682**	**3,167,391**
Non-current assets	2,120,180	2,096,430	2,170,901
Current assets	743,728	893,252	996,490
– Cash and bank balances	*207,998*	*316,768*	*349,202*
Total (liabilities)	**(1,269,262)**	**(1,518,745)**	**(1,666,210)**
Non-current (liabilities)	(150,922)	(603,896)	(619,409)
Current (liabilities)	(1,118,340)	(914,849)	(1,046,801)
– Total (borrowings) (Note 4)	*(672,080)*	*(889,986)*	*(934,718)*
Total equity attributable to the owners of the Company	**1,477,983**	**1,364,040**	**1,367,890**

Sources: the 2018 Annual Report and the 2019 Interim Report

Notes:

1. As a result of the adoption of HKFRS 15 (Revenue from contracts with customer) with effect from 1 January 2018, the Group has changed its accounting policies in respect of revenue recognition. In accordance with the transitional provisions of the standard, the changes in accounting policies were adopted by way of restating comparatives by decreasing both revenue and purchases derived from supply and procurement business for FY2017.

2. According to the 2019 Interim Report, the Group applied HKFRS 16 (Lease) to replace HKAS 17 (Lease) using the modified retrospective method for the preparation of the consolidated statement of profit or loss for 1H2019. However, the consolidated statement of profit or loss for 1H2018 has not been restated.

3. Gross profit is calculated based on revenue minus the sum of (i) purchase; (ii) royalties; (iii) field operation expenses; and (iv) exploration and evaluation expenses.

4. Total borrowings include bank borrowings and convertible bonds.

(i) For the year ended 31 December 2018 (i.e. FY2018)

In FY2018, the Group recorded revenue of approximately HK$5,933.4 million, representing a significant increase of approximately 45.0% as compared to approximately HK$4,092.2 million in FY2017. Such increase was mainly attributable to the increase in revenue generated from supply and procurement business from approximately HK$3,776.2 million in FY2017 to approximately HK$5,660.5 million in FY2018 due to (i) the increase in sales volume of refined oil from approximately 2.8 million tonnes in FY2017 to approximately 3.2 million tonnes in FY2018; and (ii) the increase in average selling price of refined oil.

In FY2018, the Group recorded loss attributable to owners of the Company of approximately HK$0.7 million, representing a drastic decrease of approximately 98.9% as compared to approximately HK$65.3 million in FY2017. Such improvement was mainly attributable to (i) the recognition of reversal of impairment loss on property, plant and equipment of approximately HK$104.5 million in FY2018 (FY2017: approximately HK$7.3 million); and (ii) the decrease in depreciation, depletion and amortization by HK$32.2 million to approximately HK$138.4 million in FY2018 (FY2017: approximately HK$170.6 million), which was partially offset by (i) the decrease in gross profit of approximately HK$32.8 million; and (ii) the increase in administrative expenses of approximately HK$5.4 million.

As at 31 December 2018, the Group's cash and bank balances amounted to approximately HK$316.8 million whereas the Group's total borrowings amounted to approximately HK$890.0 million. The Group's total assets and total liabilities as at 31 December 2018 amounted to approximately HK$2,989.7 million (31 December 2017: approximately HK$2,863.9 million) and approximately HK$1,518.7 million (31 December 2017: approximately HK$1,269.3 million), respectively. Equity attributable to owners of the Company decreased from approximately HK$1,478.0 million as at 31 December 2017 to approximately HK$1,364.0 million as at 31 December 2018. Such decrease was primarily due to the loss derived from exchange differences on translation of financial statements of subsidiaries outside Hong Kong of approximately HK$122.0 million in FY2018.

(ii) For the six months ended 30 June 2019 (i.e. 1H2019)

In 1H2019, the Group recorded revenue of approximately HK$3,423.7 million, representing an increase of approximately 49.6% as compared to approximately HK$2,288.1 million in 1H2018. As disclosed in the 2019 Interim Report, such increase was mainly attributable to the increase in revenue generated from supply and procurement operation of oil related products from approximately HK$2,141.6 million in 1H2018 to approximately HK$3,323.3 million in 1H2019 due to the increase in sales volume of refined oil from approximately 1.3 million tonnes in 1H2018 to approximately 1.7 million tonnes in 1H2019.

Notwithstanding the increase in revenue, loss attributable to owners of the Company increased from approximately HK$25.0 million in 1H2018 to approximately HK$47.1 million in 1H2019, representing an increase of approximately 88.4%. Such deterioration was mainly due to (i) the decrease in gross profit by approximately HK$21.8 million; and (ii) the increase in other loss of approximately HK$11.5 million, which was partially offset by the decrease in depreciation, depletion and amortisation of approximately HK$11.6 million.

As at 30 June 2019, the Group's cash and bank balances amounted to approximately HK$349.2 million whereas the Group's total borrowings amounted to approximately HK$934.7 million. The Group's total assets and total liabilities as at 30 June 2019 amounted to approximately HK$3,167.4 million (31 December 2018: approximately HK$2,989.7 million) and approximately HK$1,666.2 million (31 December 2018: approximately HK$1,518.7 million), respectively. Equity attributable to the owners of the Company increased slightly from approximately HK$1,364.0 million as at 31 December 2018 to approximately HK$1,367.9 million as at 30 June 2019.

C. Financial information of Novus

The following table sets out (i) the audited financial information of Novus for the year ended 31 December 2016 ("**FY2016**"), FY2017 and FY2018 as extracted from the audited financial statements of Novus for FY2017 and FY2018; and (ii) the unaudited financial information of Novus for 1H2018 and 1H2019 as extracted from the unaudited financial statements of Novus for 1H2019:

Table 2: Financial information of Novus

	FY2016	**FY2017**	**FY2018**	**1H2018**	**1H2019**
	CAD'000	*CAD'000*	*CAD'000*	*CAD'000*	*CAD'000*
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	34,310	51,636	46,809	24,461	17,049
(Loss)/profit from operating activities	(40,626)	1,772	19,744	1,963	(4,307)
(Loss)/profit before taxation	(42,680)	358	17,237	889	(5,603)
(Loss)/profit for the year/period attributable to owners of Novus	(31,532)	249	12,570	609	(4,419)

	As at 31 December 2016 *CAD'000* (audited)	As at 31 December 2017 *CAD'000* (audited)	As at 31 December 2018 *CAD'000* (audited)	As at 30 June 2019 *CAD'000* (unaudited)
Non-current assets	252,261	270,679	288,875	294,202
Current assets	8,118	7,056	5,391	7,372
Non-current (liabilities)	(17,743)	(22,439)	(66,602)	(22,873)
Current (liabilities)	(46,858)	(45,569)	(5,367)	(50,824)
Net current (liabilities)/assets	(38,740)	(38,513)	24	(43,452)
Total equity attributable to the owners of Novus	195,778	209,727	222,297	227,877

Sources: the audited financial statements of Novus for FY2017 and FY2018 and the unaudited financial statements of Novus for 1H2018 and 1H2019 (all prepared in accordance with International Financial Reporting Standards)

During FY2017, Novus recorded revenue of approximately CAD51.6 million, representing an annual growth of approximately 50.5% as compared to approximately CAD34.3 million in FY2016. Profit attributable to owners of Novus amounted to approximately CAD0.2 million in FY2017, as compared to loss of approximately CAD31.5 million in FY2016. Such improvement was mainly driven by (i) the increase in revenue of approximately CAD17.3 million; and (ii) the decrease in depletion, depreciation and impairment of approximately CAD28.0 million, which was partially offset by the recognition of deferred income tax expense of approximately CAD0.1 million in FY2017 (FY2016: deferred income tax recovery of approximately CAD11.1 million). As at 31 December 2017, Novus' total assets and total liabilities amounted to approximately CAD277.7 million (31 December 2016: approximately CAD260.4 million) and approximately CAD68.0 million (31 December 2016: approximately CAD64.6 million), respectively. Novus recorded equity attributable to owners of Novus of approximately CAD209.7 million as at 31 December 2017, as compared to approximately CAD195.8 million as at 31 December 2016.

During FY2018, Novus recorded revenue of approximately CAD46.8 million, representing a decrease of approximately 9.3% as compared to approximately CAD51.6 million in FY2017. Such decrease was mainly attributable to the decline in production of oil and gas by approximately 20.0% from 1,055,000 barrels of oil equivalent in FY2017 to 844,000 barrels of oil equivalent in FY2018. Notwithstanding the decrease in revenue, profit attributable to owners of Novus surged to approximately CAD12.6 million in FY2018, representing approximately 50 times of profit recorded in FY2017 of approximately CAD0.2 million. Such improvement was mainly driven by the decrease in depletion, depreciation and impairment of approximately CAD21.4 million, which was partially offset by the decline in revenue of approximately CAD4.8 million. As at 31 December 2018, Novus' total assets and total liabilities amounted to approximately CAD294.3 million (31 December 2017: approximately CAD277.7 million) and approximately CAD72.0 million (31 December 2017: approximately CAD68.0 million), respectively. Novus recorded equity attributable to owners of Novus of approximately CAD222.3 million as at 31 December 2018, as compared to approximately CAD209.7 million as at 31 December 2017.

During 1H2019, Novus recorded revenue of approximately CAD17.0 million, representing a significant decrease of approximately 30.3% as compared to approximately CAD24.5 million in 1H2018. Such decrease was mainly attributable to the interruption of scheduled drillings by extreme bad weather in the first quarter of 2019. Loss attributable to owners of Novus amounted to approximately CAD4.4 million in 1H2019, as compared to profit attributable to owners of Novus of approximately CAD0.6 million in 1H2018. Such deterioration was mainly driven by the decline in revenue of approximately CAD7.4 million, which was partially offset by the decrease in depletion, depreciation and impairment of approximately CAD2.3 million. As at 30 June 2019, Novus' total assets and total liabilities amounted to approximately CAD301.6 million (31 December 2018: approximately CAD294.3 million) and approximately CAD73.7 million (31 December 2018: approximately CAD72.0 million), respectively. Novus recorded equity attributable to shareholders of Novus of approximately CAD227.9 million as at 30 June 2019, as compared to approximately CAD222.3 million as at 31 December 2018. Such increase in equity attributable to owners of Novus was primarily due to the subscription of new shares of Novus by the Company for total proceeds of CAD10 million, which was partially offset by loss attributable to owners of Novus of approximately CAD4.4 million.

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

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

Due to business nature, Novus requires substantial fund to cover expenses incurred from the exploration, exploitation and production process of oil and gas, before earning revenue from the sales of products. In order to finance the tremendous amount of exploration and exploitation expenses, Novus has been, from time to time, entering into credit facility agreements with National Bank of Canada ("**NBC**") pursuant to which NBC agreed to make available to Novus credit facilities. In general, credit facility granted by NBC to Novus is secured by a general assignment of book debts and a debenture with a floating charge over all assets of Novus, with a negative pledge and undertaking to provide fixed charges on oil and natural gas reserves upon request. In addition, credit facility is subject to a financial covenant that requires Novus to maintain a working capital ratio of at least 1:1. As advised by the Management, NBC would review the financial and operating performance of Novus on a regular basis. Upon which, NBC would decide whether or not to revise and/or renew the terms of credit facility granted to Novus (including but not limited to loan size, term to maturity and interest rate) when the existing credit facility falls due.

According to the Letter from the Board, the outstanding amount of the Existing Credit Facility amounted to approximately CAD42.7 million (equivalent to approximately HK$253.3 million) as at the Latest Practicable Date, representing approximately 86.5% of the maximum credit amount under the Existing Credit Facility of CAD48 million. The Existing Credit Facility granted by NBC to Novus will fall due on 31 December 2019 and Novus is required to repay all the outstanding amount to NBC on or prior to 31 December 2019. As mentioned in the sub-paragraph headed "*B. Financial information of the Group*" under the paragraph headed "*1. Information of the Group*" above, the cash and bank balances of the Group amounted to approximately HK$349.2 million as at 30 June 2019. As advised by the Management, cash and bank balances of approximately HK$296.8 million (the "**Cash in PRC**") was maintained in the accounts of the Group's subsidiaries in the PRC for maintaining their daily operation, and could only be transferred to countries and/or regions outside the PRC through burdensome and time-consuming administrative procedures. After deducting the Cash in PRC of approximately HK$296.8 million, the remaining cash and bank balances of the Group amounted to HK$52.4 million as at 30 June 2019, representing merely 20.7% of the outstanding amount of the Existing Credit Facility as at the Latest Practicable Date. In addition, the Group recorded net current liabilities of approximately HK$50.3 million as at 30 June 2019 and incurred net loss of approximately HK$43.1 million for 1H2019. As stated in Note 1 "Basis of Preparation" to the unaudited condensed consolidated financial statements of the Group for 1H2019 as contained in the 2019 Interim Report, these facts and circumstances indicated the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern (the "**Going Concern Issue**") and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. In view of the above, in particular, (i) the Existing Credit Facility granted by NBC to Novus will fall due on 31 December 2019; (ii) the cash and bank balances of the Group (after deducting the Cash in PRC) as at 30 June 2019 represents merely 20.7% of the outstanding amount of the Existing Credit Facility as at the Latest Practicable Date; and (iii) the Group recorded net current liabilities of approximately HK$50.3 million as at 30 June 2019 and incurred net loss of approximately HK$43.1 million for 1H2019, which triggered the Group's Going Concern Issue where the Group may be unable to realise its assets and discharge its liabilities in the normal course of business, we concur with the Management's opinion that the Group might not have sufficient internal resources to repay the Existing Credit Facility upon maturity.

We have enquired with the Management regarding the possibility of renewing the Existing Credit Facility with NBC. Based on the recent communication with NBC, the management of Novus is given to understand that NBC had reviewed the financial and operating performance of Novus and has no intention to grant a new credit facility to Novus. Therefore, the Management considered that the Group has an imminent need to arrange a sizeable fund raising exercise in order to meet the repayment obligation of the Existing Credit Facility.

Pursuant to the Loan Agreement, Yanchang Petroleum HK conditionally agreed to provide the Loan of US$35,000,000 (equivalent to approximately HK$274.5 million) to Novus for a term commencing from the Utilisation Date and expiring on the third anniversary of the Utilisation Date. According to the Letter from the Board, the Loan will first be applied to the repayment of the outstanding amount drawn down under the Existing Credit Facility, and then the remaining balance of the proceeds from the Loan is expected to be used as general working capital for operating Novus within 12 months immediately after the Utilisation Date. Taking into consideration the facts that (i) the Group might not have sufficient internal resources to repay the Existing Credit Facility upon maturity (i.e. 31 December 2019); (ii) it is anticipated that Novus is unlikely to obtain a new credit facility from NBC; and (iii) the Loan will (a) alleviate the repayment pressure of the Existing Credit Facility; and (b) moderate the Group's Going Concern Issue by lowering the Group's current liabilities and, in turn, place the Group at a better position to negotiate and obtain fund raising arrangements or debt financing for its business development and expansion in future when necessary, we are of the view that the Loan is in the interests of the Company and the Independent Shareholders as a whole.

Upon enquiry, the Management advised us that the Group (including Novus) had considered alternative methods (including but not limited to borrowings from banks or other financial institutions, placing, rights issue, open offer and direct subscription of new Shares) for raising sufficient fund to meet the repayment obligation of the Existing Credit Facility, before the entering into of the Loan Agreement. In respect of borrowings from banks or other financial institutions, Novus has approached several individual facility providers and banks in Canada and the United States of America regarding the possibility and feasibility of granting new credit line or loan to Novus. However, such facility providers and banks declined to provide financial assistance of sufficient amount to Novus in view of its foreign ownership and company leverage. As regards equity fund-raising exercises (such as placing, rights issue and/or open offer), the Company is required to undergo a relatively lengthy process to (i) identify suitable underwriter(s) and negotiate terms agreeable to the Company; and (ii) prepare the requisite compliance and legal documentation (including but not limited to underwriting agreement(s), announcement(s) and prospectus(es)), and thus the Group may not be able to complete the whole process of fund-raising exercise by end of December 2019 and meet the repayment timeline of Novus. Furthermore, the ultimate fund-raising size of equity financing substantially depends on the market sentiment. Having considered (i) the loss-making position of the Group since the financial year ended 31 December 2014; (ii) the unsatisfactory price performance of Shares which demonstrated a diminishing trend since March 2019 and up to the date of the Loan Agreement; and (iii) the low trading liquidity of the Shares, the Management expected that it is difficult to attract investors and/or Shareholders to participate in the equity fund-raising exercises without adopting a substantial discount of the subscription price as compared to the then prevailing market price of the Shares. As to direct subscription of new Shares, the Management believes that it is hard for the Company to identify a subscriber to subscribe a large amount of Shares without adopting a substantial discount on the subscription price in view of the Group's unsatisfactory financial performance and position as detailed above. On the contrary, the Loan will (i) offer a good opportunity for the Group to relieve its short-term liquidity pressure; (ii) not incur a dilution effect on the shareholding of the existing Shareholders; and (iii) demonstrate the continuous financial support from the Controlling Shareholder (i.e. Yanchang Petroleum HK) to the Group. In view of the above, the Directors consider, and we agree with them, that the Loan is the most feasible and suitable fund-raising method to the Company.

Having considered the facts that (i) the Existing Credit Facility will fall due on 31 December 2019; (ii) the cash and bank balances of the Group (after deducting the Cash in PRC) as at 30 June 2019 represents merely 20.7% of the outstanding amount of the Existing Credit Facility as at the Latest Practicable Date; (iii) the Group recorded net current liabilities of approximately HK$50.3 million as at 30 June 2019 and incurred net loss of approximately HK$43.1 million for 1H2019, which triggered the Group's Going Concern Issue where the Group may be unable to realise its assets and discharge its liabilities in the normal course of business; (iv) it is anticipated that the Group might not have sufficient internal resources to repay the Existing Credit Facility upon maturity; (v) the Loan will (a) alleviate the repayment pressure of the Existing Credit facility; and (b) moderate the Group's Going Concern Issue by lowering the Group's current liabilities and, in turn, place the Group at a better position to negotiate and obtain fund raising arrangements or debt financing for its business development and expansion in future when necessary; (vi) the Loan is the most desirable and feasible fund-raising method for the Group to raise sufficient fund to meet the repayment obligation of the Existing Credit Facility; and (vii) the terms of the Loan Agreement (including the Debenture) are fair and reasonable (please refer to our analysis as set out in the paragraph headed "*3. Principal terms of the Loan*" below), we concur with the Directors' view that the entering into of the Loan Agreement is in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the Loan

A. Principal terms of the Loan Agreement

Date	:	5 November 2019 (after trading hours)
Parties	:	(1) Novus (as borrower); and
		(2) Yanchang Petroleum HK, (as lender)
Principal amount	:	US$35,000,000 (equivalent to approximately HK$274.5 million)

Interest rate	:	4.8% per annum, which shall be payable every three months from the Utilisation Date. 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) or the preceding Business Day
Term	:	Commencing from the Utilisation Date and expiring on the third anniversary of the Utilisation Date
Principal conditions precedent to Utilisation	:	The Utilisation is subject to the following principal conditions precedent to the Utilisation as contemplated under the Loan Agreement:

(1) Novus and Yanchang Petroleum HK having obtained all necessary approvals in relation to the transactions contemplated under the Loan Agreement, including but not limited to passing relevant board resolutions to approve the transactions contemplated under the Loan Agreement;

(2) Novus and Yanchang Petroleum HK having obtained all necessary approvals from the relevant regulatory authorities (including the Stock Exchange) in relation to the transactions contemplated under the Loan Agreement;

(3) a payout statement in relation to the agreement for the Existing Credit Facility having been issued by the lender of the Existing Credit Facility upon the repayment of all outstanding amount under the Existing Credit Facility;

(4) a general release and discharge in relation to the agreement for the Existing Credit Facility having been issued by the lender of the Existing Credit Facility upon the repayment of all outstanding amount under the Existing Credit Facility;

(5) all related documents and obligations, including an undertaking and authorization to release the debenture in relation to the Existing Credit Facility and all other liens upon the repayment of all outstanding amount under the Existing Credit Facility; and

(6) the Independent Shareholders having approved the Loan Agreement at the SGM.

According to the Letter from the Board, as agreed between Novus and Yanchang Petroleum HK, it is intended that the relevant documents under the conditions precedent (3), (4) and (5) will be issued upon the repayment of the outstanding amount drawn down under the Existing Credit Facility which will be conducted on the same business day.

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

Security : The Loan is secured by the Debenture as described under the sub-paragraph headed "*B. Principal Terms of the Debenture*" as below.

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

B. Principal terms of the Debenture

Parties : (1) Novus (as borrower); and

(2) Yanchang Petroleum HK, (as lender)

Principal sum : US$70,000,000 (equivalent to approximately HK$549.0 million)

Charges : (1) first and fixed charge over all of Novus' right, title and interest, whether freehold, leasehold or other, under or in respect of the lands, in relation to the properties held by Novus from time to time (the "**New Charge**");

(2) a first priority security interest to and over all of Novus' present and after-acquired personal property (i.e. movable property) from time to time, tangible and intangible, in each case, of every nature and kind and wherever situate and all proceeds thereof; and

(3) a floating charge over all of Novus' property to the extent not otherwise described above (excluding any agreement, right, franchise, intellectual property, licence or permit).

As at 30 June 2019, assets of Novus mainly included (i) the developed and producing assets for oil and natural gas of approximately CAD276.4 million (equivalent to approximately HK$1,638.4 million); and (ii) the deferred income tax asset of approximately CAD14.3 million (equivalent to approximately HK$84.8 million).

According to the Letter from the Board, when considering the terms of the Debenture, the Board took into account the existing debenture that Novus has given to the bank and considers that the terms of the Debenture are comparable or better.

C. Comparison with the market comparable loans

In assessing the fairness and reasonableness of the terms of the Loan Agreement (including the Debenture), we have compared the terms of the Loan with that of the loan facilities provided by connected person(s) to companies listed on the Stock Exchange. In view of the features of the Loan (particularly with term to maturity of three years and secured by the Debenture), we identified all loan facilities provided by connected person(s) to companies listed on the Stock Exchange which (i) the term to maturity is not less than one year; (ii) loans are secured; and (iii) companies initially announced the loans during the six-month period immediately before the date of the Loan Agreement. Nevertheless, to the best of our knowledge and as far as we are aware of, we could only locate two secured loan facilities which met the said criteria. In this regard, we have relaxed the selection criteria to all loan facilities (whether or not secured) provided by connected person(s) to companies listed on the Stock Exchange which (i) the term to maturity is not less than one year; (ii) companies initially announced during the twelve-month period immediately before the date of the Loan Agreement. To the best of our knowledge and as far as we are aware of, we have identified a list of 11 comparable loans (the "**Comparable Loans**") which met the said criteria and had not lapsed as at the Latest Practicable Date.

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

Table 3: Details of the Comparable Loans

Date of initial announcement	Company name (Stock code)	Term to maturity (in years)	Interest (per annum)	Security	Loan-to-Security Ratio (times) *(Note 1)*
30/10/2019	China Aluminum International Engineering Corporation Limited (2068)	1.0	5.00%	None	N/A
30/09/2019	Pantronics Holdings Limited (1611)	2.0 *(Note 2)*	Nil	None	N/A
28/08/2019	Enviro Energy International Holdings Limited (1102)	1.0	10.00%	Deposit of (1) not less than HK$44,000,000 cash; or (2) shares of the borrower registered in the name of the controlling shareholder of the borrower or any securities with market value not less than HK$44,000,000 provided by the controlling shareholder of the borrower	0.23
17/07/2019	Ground International Development Limited (989)	2.5 *(Note 3)*	Nil	None	N/A

Date of initial announcement	Company name (Stock code)	Term to maturity (in years)	Interest (per annum)	Security	Loan-to-Security Ratio (times) *(Note 1)*
20/05/2019	Min Xin Holdings Limited (222)	3.0	4.42% *(Note 4)*	None	N/A
10/05/2019	Weiye Holdings Limited (1570)	2.0	16.00%	(1) a pledge of 51% equity interest in a subsidiary of borrower; (2) a charge over the land use right of two pieces of project lands owned by a subsidiary of borrower; and (3) the guarantees given by the borrower and its subsidiaries and key personnel	1.14
26/04/2019	BII Railway Transportation Technology Holdings Company Limited (1522)	2.5 *(Note 5)*	5.06% *(Note 6)*	a charge of all beneficially owned rights to and interests in the entire share capital of a wholly-owned subsidiary of the borrower	No information available
30/03/2019	China Gold International Resources Corp. Ltd. (2099)	3.0	No information available	None	N/A
31/01/2019	Sunshine 100 China Holdings Ltd (2608)	1.0 *(Note 7)*	9.00%	3 share charges of interests in three subsidiaries of the borrower	1.03

Date of initial announcement	Company name (Stock code)	Term to maturity (in years)	Interest (per annum)	Security	Loan-to-Security Ratio (times) *(Note 1)*
25/01/2019	i-Cable Communications Limited (1097)	1.5 *(Note 8)*	2.32% *(Note 9)*	None	N/A
18/01/2019	Kingsley Edugroup Limited (8105)	5.0	Nil	None	N/A
	Maximum	**5.0**	**16.00%**		1.14
	Minimum	**1.0**	**0.00%**		0.23
	Median	**2.0**	**4.71%**		1.03
	Average	**2.2**	**5.18%**		0.80
	The Company	**3.0**	**4.80%**		0.50

Notes:

1. Loan-to-security value ratio (the "**Loan-to-Security Ratio(s)**") is calculated by dividing the principal amount of the respective Secured Comparable Loans (as defined below) by the aggregate value of the respective securities.

2. According to the announcement of Pantronics Holdings Limited (stock code: 1611) dated 30 September 2019, the term of the loan is 2 years which can be extended by the Company for a further term of 2 years. For our analysis purpose, the term of the loan is set as 2 years.

3. According to the announcement of Ground International Development Limited (stock code: 989) dated 17 July 2019, the term of the loan shall be effective from the date of fulfillment of all the conditions precedent thereof and be valid until 31 March 2022. As the loan is subject to shareholders' approval, for our analysis purpose, we assume that the loan is drawn down on 1 October 2019 and the term of loan is 2.5 years.

4. According to the announcement of Min Xin Holdings Limited (stock code: 222) dated 20 May 2019, the interest rate of the loan is the 3-month Hong Kong Interbank Offered Rate ("**HIBOR**") plus 2.1%. Based on the rate as published in the website of The Hong Kong Association of Banks ("**HKAB**"), the 3-month HIBOR was approximately 2.32% as at the Latest Practicable Date. Therefore, for our analysis purpose, we assume that the interest rate of the loan is 4.42% (i.e. 2.32% + 2.10%).

5. According to the announcement of BII Railway Transportation Technology Holdings Company Limited (stock code: 1522) dated 26 April 2019 (the "**BII Railway Announcement**"), the term of the loan commences from the drawdown date and expires on 12 December 2021. As the loan is subject to shareholders' approval, for our analysis purpose, we assume that the loan is drawn down on 1 July 2019 and the term of loan is approximately 2.5 years.

6. According to the BII Railway Announcement, the interest rate of the loan is calculated based on the formula as follow:

$$\text{Annual interest rate} = \frac{4.2\% \times 3}{\text{Number of calendar days of the term of the loan} \div 360}$$

   As mentioned in Note 5 above, we assume that the drawdown date of the loan would be 1 July 2019 and the number of calendar days of the term of the loan would be 896 days. Therefore, for our analysis purpose, we assume that the interest rate of the loan is approximately 5.06%.

7. According to the announcement of Sunshine 100 China Holdings Ltd (stock code: 2608) dated 31 January 2019, the principal amount of the loan shall be repayable by a borrower on the first anniversary from the date on which a lender remits the principal amount of a loan to a borrower. In any event, any outstanding principal amount of each loan shall be repaid on the last day of the 24 months period commencing from the date of the facility agreement. For our analysis purpose, the term of the loan is set as 1 year.

8. According to the announcement of i-CABLE Communications Limited (stock code: 1097) dated 25 January 2019 (the "**i-Cable Announcement**"), the term of the loan is the period commencing on the date of the loan agreement and ending on the date that is the earlier of (a) 18 months from the date of the loan agreement; and (b) five business days following completion of last fund raising activity of the borrower (including issuance of equity or debt or convertible securities) from the date of the loan agreement with an aggregate amount of gross proceeds received by the borrower from all fund raising activities completed after the date of the loan agreement being not less than HK$600 million. For our analysis purpose, we assume that the term of loan is 1.5 years.

9. According to the i-Cable Announcement, the interest rate of the loan is based on the 3-month HIBOR as quoted by The Hongkong and Shanghai Banking Corporation Limited ("**HSBC**"). As the 3-month HIBOR as quoted by HSBC is not available in the website of HSBC, for our analysis purpose, we assume that the 3-month HIBOR as quoted by HSBC is equivalent to that as quoted in the website of HKAB, which was approximately 2.32% as at the Latest Practicable Date.

(i) Term

As shown in Table 3 above, the terms of maturity of the Comparable Loans range from 1.0 year to 5.0 years, with a median of 2.0 years and an average of approximately 2.2 years. The term of the Loan of 3.0 years is within the range of the Comparable Loans.

(ii) Interest rate

As shown in Table 3 above, the interest rates of the Comparable Loans range from nil to 16.0%, with a median of approximately 4.71% and an average of approximately 5.18%. The interest rate of the Loan of approximately 4.80% is within the range and lower than the average of the interest rates of the Comparable Loans.

In addition, we have compared the interest rate of the Loan against that of the Existing Credit Facility. According to the terms of the Existing Credit Facility, interests and relevant fees charged on the Existing Credit Facility are based on a pricing grid system as below:

(i) Interest rate of term loan:	ranging from 1.0% to 3.5% over the bank's prime lending rate *(Note)*
(ii) Bankers' acceptances fee:	ranging from 2.0% to 4.5% *(Note)*
(iii) Letters of credit/guarantee fee:	ranging from 2.0% to 4.5% *(Note)*
(iv) Standby fee	ranging from 0.5% to 1.125% *(Note)*

Note: All depending on a net debt to annualised quarterly cash flow ratio of Novus ranging from less than or equal to 1:1 up to greater than 4:1.

According to the 2018 Annual Report, the effective interest rate of the Existing Credit Facility was approximately 4.8% as at 31 December 2018 (31 December 2017: approximately 5.2%). Having considered that (i) the interest rate of the Loan of approximately 4.80% is within the range and lower than the average of the Comparable Loans; and (ii) the interest rate of the Loan is equal to the effective interest rate of the Existing Credit Facility as at 31 December 2018, we consider that the interest rate of the Loan is on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

(iii) Security

According to the Loan Agreement, the Loan is secured by the Debenture.

As shown in Table 3 above, four out of eleven of the Comparable Loans were secured by collaterals or guarantees (including charges over the undertaking, property, assets and rights of the company, the security interests, the property and/or assets of the borrowers and/or share charge of a subsidiary) (the "**Secured Comparable Loans**"). We consider that it is not an uncommon market practice for requiring the borrowers to provide collateral or guarantee as securities for the loans. In addition, the Loan-to-Security Ratios of the Secured Comparable Loans range from 0.23 time to 1.14 times, with a median of approximately 1.03 times and an average of approximately 0.80 time. The Loan-to-Security Ratio of the Loan of 0.50 time is within the range of the Loan-to-Security Ratios of the Secured Comparable Loans.

Besides, we have reviewed and compared the terms of the Debenture with that of the debenture under the Existing Credit Facility (the "**Existing Debenture**"), and noted that (i) the principal amount of the Debenture of approximately HK$549.0 million (equivalent to US$70 million) is lower than the principal sum of the Existing Debenture of approximately HK$1,185.5 million (equivalent to CAD200 million); and (ii) the New Charge is newly added into the Debenture and the security under the New Charge will be updated from time to time. As at the Latest Practicable Date, Novus did not have any right, title and interest, whether freehold, leasehold or other, under or in respect of any lands and property. Save for the principal sum and the New Charge, the principal terms of the Debenture are substantially the same as the Existing Debenture. We further noted that the Loan-to-Security Ratio of the Loan of 0.50 time is higher than that of the Existing Credit Facility of 0.24 time.

Having considered that (i) it is not an uncommon market practice for requiring the borrowers to provide collateral or guarantee as securities for the loans; (ii) the Loan-to-Security Ratio of the Loan of 0.50 time is (a) within the range of the Loan-to-Security Ratios of the Secured Comparable Loans; and (b) higher than the Loan-to-Security Ratio of the Existing Credit Facility; and (iii) the principal amount of the Debenture of approximately HK$549.0 million (equivalent to US$70 million) is lower than the principal sum of the Existing Debenture of approximately HK$1,185.5 million (equivalent to CAD200 million), we consider that the terms of the Debenture are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(iv) Conclusion

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

OPINION

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

Yours faithfully,
For and on behalf of
Astrum Capital Management Limited

Hidulf Kwan	**Rebecca Mak**
Managing Director	*Director*

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

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

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

ASTRUM

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

29 November 2019

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

Dear Sirs,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the independent board committee (the "**Independent Board Committee**") and the independent shareholders (the "**Independent Shareholders**") of Yanchang Petroleum International Limited (the "**Company**") in relation to the continuing connected transactions (the "**Continuing Connected Transactions**") contemplated under the New Supply Agreement with the proposed annual caps (the "**Proposed Annual Caps**"). The details of the Continuing Connected Transactions are disclosed in the announcement of the Company dated 12 November 2019 (the "**CCT Announcement**") and in the letter from the Board (the "**Letter from the Board**") set out on pages 6 to 23 of the circular of the Company dated 29 November 2019 (the "**Circular**") to its shareholders, of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 12 November 2019, Henan Yanchang, an indirect non-wholly owned subsidiary of the Company, and Yanchang Petroleum Group entered into the New Supply Agreement pursuant to which Yanchang Petroleum Group will continue to supply refined oil to Henan Yanchang for the three financial years ending 31 December 2022 with the Proposed Annual Caps.

Yanchang Petroleum Group is a Controlling Shareholder beneficially holding 6,496,729,547 Shares as at the Latest Practicable Date, representing approximately 53.49% of the existing issued share capital of the Company. Accordingly, Yanchang Petroleum Group 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 on the resolution to be proposed to approve the New Supply Agreement and the transactions 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 New Supply Agreement and the transactions and matters contemplated thereunder, and accordingly are required to abstain from voting at the SGM.

An Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Ng Wing Ka, Mr. Leung Ting Yuk, Mr. Sun Liming and Dr. Mu Guodong, has been established to make recommendations to the Independent Shareholders in respect of the New Supply Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps) and as to voting at the SGM. We, Astrum Capital Management Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

INDEPENDENCE DECLARATION

As at the Latest Practicable Date, we were not aware of any relationships or interests between Astrum Capital Management Limited, the Company, Henan Yanchang and Yanchang Petroleum Group and/or any of their respective substantial shareholders, directors or chief executive, or any of their respective associates. In the last two years, save for the appointment as the independent financial adviser of the Company in respect of the entering into of the Loan Agreement (details of which were set out in the section headed "THE LOAN AGREEMENT" in the Letter from the Board), there was no other engagement between the Group and Astrum Capital Management Limited. Apart from the normal advisory fees payable to us for the relevant engagement in relation to the Continuing Connected Transactions and the Loan Agreement, no other arrangement exists whereby we will receive any fees and/or benefits from the Group. Accordingly, Astrum Capital Management Limited is independent as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Continuing Connected Transactions.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have reviewed, *inter alia,* the CCT Announcement, the Circular, the New Supply Agreement, the Existing Supply Agreement, the annual report of the Company for the financial year ended 31 December 2018 (the "**2018 Annual Report**") and the interim report of the Company for the six months ended 30 June 2019 (the "**2019 Interim Report**"). We have also reviewed certain information provided by the management of the Company (the "**Management**") relating to the operations, financial conditions and prospects of the Group. We have also (i) considered such other information, analyses and market data which we deemed relevant; and (ii) conducted discussions with the Management regarding the Continuing Connected Transactions, the businesses and future outlook of the Group. We have assumed that such information and statements, and any representation made to us, are true, accurate and complete in all material respects as of the date hereof and we have relied upon them in formulating our opinion.

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the New Supply Agreement (including the Proposed Annual Caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

1. Information of the Group

The following table sets out (i) the audited financial information of the Group for the two financial years ended 31 December 2017 and 31 December 2018 ("**FY2017**" and "**FY2018**", respectively) as extracted from the 2018 Annual Report; and (ii) the unaudited financial information of the Group for the six months ended 30 June 2018 and 30 June 2019 ("**1H2018**" and "**1H2019**", respectively) as extracted from the 2019 Interim Report:

Table 1: Financial information of the Group

	FY2017 *HK$'000* (audited and restated) *(Note 1)*	**FY2018** *HK$'000* (audited)	**1H2018** *HK$'000* (unaudited) *(Note 2)*	**1H2019** *HK$'000* (unaudited) *(Note 2)*
Revenue	4,092,177	5,933,388	2,288,147	3,423,727
– Exploration, exploitation and operation	*316,011*	*272,895*	*146,521*	*100,419*
– Supply and procurement	*3,776,166*	*5,660,493*	*2,141,626*	*3,323,308*
Gross profit *(Note 3)*	252,960	220,143	118,992	97,153
Profit/(loss) from operating activities	3,725	99,676	13,140	(14,912)
(Loss)/profit before taxation	(49,651)	40,479	(12,987)	(43,351)
(Loss)/profit for the year/period	(58,625)	6,268	(21,786)	(43,103)
(Loss) for the year/period attributable to owners of the Company	(65,289)	(741)	(24,991)	(47,091)

	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	(audited)	(unaudited)
Total assets	**2,863,908**	**2,989,682**	**3,167,391**
Non-current assets	2,120,180	2,096,430	2,170,901
Current assets	743,728	893,252	996,490
Total (liabilities)	**(1,269,262)**	**(1,518,745)**	**(1,666,210)**
Non-current (liabilities)	(150,922)	(603,896)	(619,409)
Current (liabilities)	(1,118,340)	(914,849)	(1,046,801)
Total equity attributable to the owners of the Company	**1,477,983**	**1,364,040**	**1,367,890**

Sources: the 2018 Annual Report and the 2019 Interim Report

Notes:

1. As a result of the adoption of HKFRS 15 (Revenue from contracts with customer) with effect from 1 January 2018, the Group has changed its accounting policies in respect of revenue recognition. In accordance with the transitional provisions of the standard, the changes in accounting policies were adopted by way of restating comparatives by decreasing both revenue and purchases derived from supply and procurement business for FY2017.

2. According to the 2019 Interim Report, the Group applied HKFRS 16 (Lease) to replace HKAS 17 (Lease) using the modified retrospective method for the preparation of the consolidated statement of profit or loss for 1H2019. However, the consolidated statement of profit or loss for 1H2018 has not been restated.

3. Gross profit is calculated based on revenue minus the sum of (i) purchase; (ii) royalties; (iii) field operation expenses; and (iv) exploration and evaluation expenses.

(i) For the year ended 31 December 2018 (i.e. FY2018)

In FY2018, the Group recorded revenue of approximately HK$5,933.4 million, representing a significant increase of approximately 45.0% as compared to approximately HK$4,092.2 million in FY2017. Such increase was mainly attributable to the increase in revenue generated from supply and procurement business from approximately HK$3,776.2 million in FY2017 to approximately HK$5,660.5 million in FY2018 due to (i) the increase in sales volume of refined oil from approximately 2.8 million tonnes in FY2017 to approximately 3.2 million tonnes in FY2018; and (ii) the increase in average selling price of refined oil.

In FY2018, the Group recorded loss attributable to owners of the Company of approximately HK$0.7 million, representing a drastic decrease of approximately 98.9% as compared to approximately HK$65.3 million in FY2017. Such improvement was mainly attributable to (i) the recognition of reversal of impairment loss on property, plant and equipment of approximately HK$104.5 million in FY2018 (FY2017: approximately HK$7.3

million); and (ii) the decrease in depreciation, depletion and amortization by HK$32.2 million to approximately HK$138.4 million in FY2018 (FY2017: approximately HK$170.6 million), which was partially offset by (i) the decrease in gross profit of approximately HK$32.8 million; and (ii) the increase in administrative expenses of approximately HK$5.4 million.

As at 31 December 2018, the Group's total assets and total liabilities amounted to approximately HK$2,989.7 million (31 December 2017: approximately HK$2,863.9 million) and approximately HK$1,518.7 million (31 December 2017: approximately HK$1,269.3 million), respectively. Equity attributable to owners of the Company decreased from approximately HK$1,478.0 million as at 31 December 2017 to approximately HK$1,364.0 million as at 31 December 2018. Such decrease was primarily due to the loss derived from exchange differences on translation of financial statements of subsidiaries outside Hong Kong of approximately HK$122.0 million in FY2018.

(ii) For the six months ended 30 June 2019 (i.e. 1H2019)

In 1H2019, the Group recorded revenue of approximately HK$3,423.7 million, representing an increase of approximately 49.6% as compared to approximately HK$2,288.1 million in 1H2018. As disclosed in the 2019 Interim Report, such increase was mainly attributable to the increase in revenue generated from supply and procurement operation of oil related products from approximately HK$2,141.6 million in 1H2018 to approximately HK$3,323.3 million in 1H2019 due to the increase in sales volume of refined oil from approximately 1.3 million tonnes in 1H2018 to approximately 1.7 million tonnes in 1H2019.

Notwithstanding the increase in revenue, loss attributable to owners of the Company increased from approximately HK$25.0 million in 1H2018 to approximately HK$47.1 million in 1H2019, representing an increase of approximately 88.4%. Such deterioration was mainly due to (i) the decrease in gross profit by approximately HK$21.8 million; and (ii) the increase in other loss of approximately HK$11.5 million, which was partially offset by the decrease in depreciation, depletion and amortisation of approximately HK$11.6 million.

As at 30 June 2019, the Group's total assets and total liabilities amounted to approximately HK$3,167.4 million (31 December 2018: approximately HK$2,989.7 million) and approximately HK$1,666.2 million (31 December 2018: approximately HK$1,518.7 million), respectively. Equity attributable to the owners of the Company increased slightly from approximately HK$1,364.0 million as at 31 December 2018 to approximately HK$1,367.9 million as at 30 June 2019.

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

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

Henan Yanchang is an indirect 70% owned subsidiary of the Company and acts as the sole operating arm of the Group's refined oil trading business in the PRC. It is principally engaged in the wholesale, retail, storage and transportation of refined oil (including gasoline, diesel oil, paraffin fuel oil, lubricating oil, grease and asphalt). Henan Yanchang holds valid licence for the distribution and sale of refined oil in the PRC. According to the financial reports of the Company, Henan Yanchang's sales of refined oil achieved approximately 2.8 million tonnes, approximately 3.2 million tonnes and approximately 1.7 million tonnes for FY2017, FY2018 and 1H2019, respectively. The Group's refined oil trading business, being operated by Henan Yanchang, remained as the core revenue driver of the Group for the past few years. Revenue derived from the Group's refined oil trading business amounted to approximately HK$3,776.2 million, approximately HK$5,660.5 million and approximately HK$3,323.3 million for FY2017, FY2018 and 1H2019, respectively, representing approximately 92.3%, approximately 95.4% and approximately 97.1% of the Group's total revenue for the respective years/period. During the same periods, Henan Yanchang contributed operating profit of approximately HK$17.4 million, approximately HK$20.2 million and approximately HK$22.2 million to the Group, respectively.

In its ordinary course of business, Henan Yanchang has been from time to time purchasing refined oil from different suppliers (including but not limited to Yanchang Petroleum Group). Indeed, Henan Yanchang has been carrying on transactions pursuant to the Existing Supply Agreement entered into between Henan Yanchang and Yanchang Petroleum Group on 30 December 2016 in relation to the supply of refined oil from Yanchang Petroleum Group to Henan Yanchang, which constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The Existing Supply Agreement and the transactions contemplated thereunder (including the annual caps) were duly approved by the then Independent Shareholders at the special general meeting of the Company held on 25 May 2017. Please refer to the circular of the Company dated 7 April 2017 for further details of the Existing Supply Agreement. Having considered the facts that (i) the Existing Supply Agreement will expire on 31 December 2019; and (ii) it is expected that Henan Yanchang will continue to enter into transactions of similar nature with Yanchang Petroleum Group from time to time thereafter so as to facilitate the operation of its refined oil trading business, Henan Yanchang and Yanchang Petroleum Group entered into the New Supply Agreement on 12 November 2019 as an extension of the Existing Supply Agreement.

According to the Letter from the Board, Yanchang Petroleum Group is principally engaged in 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. 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. Yanchang Petroleum Group is one of the largest oil and gas state-owned enterprises in the PRC qualified to explore and develop oil and gas in the PRC with an extensive sales network, including Yunnan, Guizhou and Sichuan. According to the official website of Yanchang Petroleum Group (http://www.sxycpc.com/), Yanchang Petroleum Group currently has 23 oil production plants, 3 exploration units, 4 auxiliary production units and 12 logistics support units for oil exploration. It also possesses 17 oil fields with oil reserves ranging from

200,000 tonnes to over 1,000,000 tonnes each. The crude oil production capacity of Yanchang Petroleum Group reaches 12 million tonnes per year. As advised by the Management, Yanchang Petroleum Group is one of Henan Yanchang's major suppliers of refined oil and has commenced to supply refined oil to Henan Yanchang since 2011. For FY2017, FY2018 and the nine months ended 30 September 2019 ("**9M2019**"), Yanchang Petroleum Group supplied approximately 182,000 tonnes, approximately 458,000 tonnes and approximately 359,000 tonnes of refined oil, respectively, to Henan Yanchang under the Existing Supply Agreement, representing approximately 6.5%, approximately 14.2% and approximately 13.8% of the total volume of refined oil purchased by Henan Yanchang for the respective years/period. Having considered the facts that (i) Yanchang Petroleum Group is one of the largest oil and gas state-owned enterprises qualified to explore and develop oil and gas in the PRC with an extensive sales network; (ii) Yanchang Petroleum Group is one of Henan Yanchang's major suppliers of refined oil and has commenced to supply refined oil to Henan Yanchang since 2011; and (iii) refined oil supplied by Yanchang Petroleum Group represented approximately 6.5%, approximately 14.2% and approximately 13.8% of the total volume of refined oil purchased by Henan Yanchang for FY2017, FY2018 and 9M2019, respectively, we concur with the Management's view that Yanchang Petroleum Group is a reliable and stable source of refined oil to Henan Yanchang, and that it is crucial for the Group to secure the source of refined oil from Yanchang Petroleum Group so as to maintain and develop its refined oil trading business.

Having considered the facts that (i) it is the ordinary and usual course of business of the Group to purchase refined oil for its trading business; (ii) the refined oil trading business represents a major revenue stream for the Group; (iii) the Existing Supply Agreement will expire on 31 December 2019; (iv) it is expected that Henan Yanchang will continue to enter into transactions of similar nature with Yanchang Petroleum Group from time to time thereafter so as to facilitate the operation of its refined oil trading business; (v) Yanchang Petroleum Group is considered as a reliable and stable source of refined oil to Henan Yanchang; and (vi) the terms of the New Supply Agreement (including the Proposed Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned (please refer to our analysis as detailed in the paragraphs headed "*3. Principal terms of the New Supply Agreement*" and *"4. The Proposed Annual Caps*" below), we concur with the Management's view that the entering into of the New Supply Agreement could enhance the flexibility of Henan Yanchang for the procurement of quality refined oil, and is in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the New Supply Agreement

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

Date	:	12 November 2019 (after 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 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.

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

In assessing the fairness and reasonableness of the terms of the New Supply Agreement, we have reviewed and compared the terms of the Existing Supply Agreement and the New Supply Agreement, and noted that save for the Proposed Annual Caps for each of the three years ending 31 December 2022, the terms of the aforementioned agreements are substantially the same. In addition, we have discussed with the Management on the terms of the New Supply Agreement (in particular, the pricing terms), and were advised that the price of refined oil to be supplied by Yanchang Petroleum Group to Henan Yanchang will be determined with reference to the average weekly selling price of refined oil quoted from the National Development and Reform Commission of the PRC. Pursuant to the New Supply Agreement, 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. We were also given to understand by the Management that notwithstanding the entering into of the New Supply Agreement, Henan Yanchang is entitled to purchase refined oil from other suppliers (not limited to Yanchang Petroleum Group). In this regard, Henan Yanchang has designed and implemented a procedure manual (the "**Procedure Manual**") in respect of the purchase of refined oil as required by Henan Yanchang's internal control procedures in relation to the continuing connected transactions. Details of the Procedure Manual were summarized as below:

(i) Before every purchase of refined oil, Henan Yanchang will obtain, review and compare the quotations (e.g. purchase price and payment terms) from Yanchang Petroleum Group and independent third-party suppliers in respect of the supply of same products. As a general practice, Henan Yanchang will obtain quotations from at least three suppliers for comparison.

(ii) Following the receipt of quotations, Henan Yanchang will compare the terms of quotations and determine the selection of suppliers by taking into account factors such as price quotations, quality of refined oil and ability of the supplier in meeting delivery time schedules. Henan Yanchang usually purchases refined oil from the supplier with the lowest fee quotation if the quality of refined oil supplied, delivery time schedule and payment terms offered by different suppliers are similar. However, Henan Yanchang may also consider other non-monetary factors, including quality of refined oil supplied, delivery time schedule and payment terms of different suppliers in determining its purchase decisions.

(iii) The head of the procurement department would review the price and approve the purchase orders for the relevant products.

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

Furthermore, we have obtained and reviewed 18 sample walk-through documents (including, among other things, price quotations from Yanchang Petroleum Group and independent third party suppliers, the ultimate supplier of refined oil selected by Henan Yanchang with specified reasons, and the relevant delivery and payment records) (the "**Walk-through Documents**") provided by the Group in respect of the purchase of refined oil by Henan Yanchang during the period commencing from 1 January 2017 to 30 September 2019 (the "**Review Period**").

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

Having considered the facts that (i) the terms of the New Supply Agreement were negotiated based on normal commercial terms and the prices were determined after arm's length negotiation between Henan Yanchang and Yanchang Petroleum Group and on terms which the Group considers to be no less favourable to the Group than the terms offered by independent third party suppliers to the Group for such oil of comparable product type and quantity at the relevant time; (ii) 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; and (iii) the implementation of the Procedure Manual can ensure that Henan Yanchang would purchase refined oil with the most favorable terms available to it under a systematic procedure, and thus safeguard the interests of the Company and the Shareholders as a whole, we consider that the terms of the New Supply Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

4. The Proposed Annual Caps

The table below sets forth (i) the Existing Annual Caps for the continuing connected transactions contemplated under the Existing Supply Agreement for each of the three years ended/ending 31 December 2019, the actual transaction amounts under the Existing Supply Agreement for FY2017, FY2018 and 9M2019, and the utilization rate of the historical annual caps; and (ii) the Proposed Annual Caps under the New Supply Agreement for the three years ending 31 December 2022:

Table 2: Annual caps

	For the year ended/ending 31 December			For the year ending 31 December		
	2017	**2018**	**2019**	**2020**	**2021**	**2022**
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Existing/Proposed Annual Caps	5,000	5,000	5,000	4,020	4,020	4,020
Historical transaction amounts	920	2,804	1,984 (up to 30 September 2019)	N/A	N/A	N/A
Utilization rate of the Existing Annual Caps	18.4%	56.1%	39.7%	N/A	N/A	N/A

According to the Letter from the Board, the Proposed Annual Caps under the New Supply Agreement were determined after taking into account: (i) the historical amounts for the purchase of refined oil 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.

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

Proposed Annual Cap = A x B x C

where

A = the estimated total purchase volume of refined oil to be purchased by Henan Yanchang for the three years ending 31 December 2020, 2021 and 2022 (the "**Estimated Purchase Volume**") (i.e. approximately 3.4 million tonnes)

B = the estimated proportion of the total projected volume of refined oil to be purchased by Henan Yanchang from Yanchang Petroleum Group for the three years ending 31 December 2020, 2021 and 2022 (the "**Estimated Proportion**") (i.e. 19.7%)

C = the estimated purchase price per tonne of refined oil (the "**Estimated Purchase Price**") (i.e. RMB6,000 per tonne)

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

(i) the Estimated Purchase Volume

We were given to understand by the Management that the Estimated Purchase Volume of approximately 3.4 million tonnes for each of the years ending 31 December 2022 was determined based on the average of (i) the actual total volume of refined oil purchased by Henan Yanchang from all suppliers (including but not limited to Yanchang Petroleum Group) in FY2018 of approximately 3.2 million tonnes; and (ii) the annualized total volume of refined oil purchased by Henan Yanchang from all suppliers (including but not limited to Yanchang Petroleum Group) for the year ending 31 December 2019 of approximately 3.5 million tonnes (based on the actual total volume of refined oil purchased by Henan Yanchang for 9M2019 (i.e. approximately 2.6 million tonnes/9*12)). According to the financial reports of the Company, the Group's sales of refined oil increased from approximately 2.8 million tonnes in FY2017 to approximately 3.2 million tonnes in FY2018, and from approximately 1.3 million tonnes in 1H2018 to approximately 1.7 million tonnes in 1H2019. Notwithstanding the increasing trend of the sales volume, having considered the challenging operating environment as a result of the unceasing fluctuations in crude oil prices and more intensive Sino-US trade war, we are of the view that it is reasonable for the Company to determine the Estimated Purchase Volume based on the historical purchase volume of refined oil without adopting any estimated growth rate.

(ii) the Estimated Proportion

The historical and estimated proportion of Henan Yanchang's total purchase amounts from Yanchang Petroleum Group and independent third party suppliers for FY2017, FY2018 and 9M2019 and for the three years ending 31 December 2022 are set out as follow:

Table 3: The proportion of Henan Yanchang's total purchase amounts from Yanchang Petroleum Group and from independent suppliers

				For the year ending 31 December		
	FY2017	**FY2018**	**9M2019**	**2020**	**2021**	**2022**
		(Historical)			**(Estimated)**	
		Approximate %			*Approximate %*	
Yanchang Petroleum Group	6.5	14.2	13.8	19.7	19.7	19.7
Independent third-party suppliers	93.5	85.8	86.2	80.3	80.3	80.3
Total	100.00	100.00	100.00	100.00	100.00	100.00

As set out in Table 3 above, it is estimated by the Directors that the Estimated Proportion for each of the three years ending 31 December 2022 is approximately 19.7%. We noted that the Estimated Proportion for each of the three years ending 31 December 2022 is relatively higher than the proportion of the total volume of refined oil purchased by Henan Yanchang from Yanchang Petroleum Group for the three years ending 31 December 2019. We have discussed with the Management regarding the underlying reasons and were advised that it is the Group's development strategy to increase the proportion of purchase volume of refined oil from Yanchang Petroleum Group after considering the facts that (i) Yanchang Petroleum Group would usually offer a relatively favourable pricing terms to Henan Yanchang as compared to independent third-party suppliers; (ii) Yanchang Petroleum Group would usually deliver refined oil by railway which is a more reliable method for orders with large volume and long distance, whereas the independent third-party suppliers would mainly deliver the orders by road transport. Accordingly, Yanchang Petroleum Group could provide stable and reliable supply of refined oil to Henan Yanchang; and (iii) Yanchang Petroleum Group possesses extensive sales network covering various provinces and cities in the PRC (including most of the new sales spots of Henan Yanchang). Indeed, the proportion of purchase volume of refined oil by Henan Yanchang from Yanchang Petroleum Group has increased gradually from approximately 3.8% in 2016 to approximately 6.5% in 2017, and further to approximately 14.2% in 2018.

As to the factor of historical average purchase price, we have obtained from the Management the historical average purchase price of refined oil purchased from Yanchang Petroleum Group and the independent third-party suppliers. It is noted that the average purchase price of refined oil purchased by Henan Yanchang from Yanchang Petroleum Group for 9M2019 amounted to approximately RMB5,523 per tonne (the "**Yanchang Petroleum Group Average Price**"), which is lower than the average purchase price of refined oil purchased from the independent third-party suppliers of approximately RMB5,716 per tonne. In addition, the Yanchang Petroleum Group Average Price represented a discount of approximately 18.7% to the average selling price of refined oil quoted from the National Development and Reform Commission of the PRC (the "**NDRC Quoted Average Price**") of approximately RMB6,791 per tonne for 9M2019. The Management considers that the competitive pricing terms offered by Yanchang Petroleum Group to Henan Yanchang could reduce the Group's purchase cost and, in turn, enhance the profitability of the Group's refined oil trading business. Furthermore, as mentioned in the paragraph headed "2. *Background of, reasons for, and benefits of the entering into of the New Supply Agreement*" above, Yanchang Petroleum Group is one of the largest oil and gas state-owned enterprises qualified to explore and develop oil and gas in the PRC with an extensive sales network and is considered as a reliable and stable source of refined oil to Henan Yanchang. In view of the above, we consider that the Estimated Proportion was determined by the Management with reasonable ground.

(iii) the Estimated Purchase Price

The Management expects that the Estimated Purchase Price will be RMB6,000 per tonne. To assess the fairness and reasonableness of the Estimated Purchase Price, we have reviewed, and discussed with the Management, the basis of determination for the Estimated Purchase Price. As mentioned above, the Yanchang Petroleum Group Average Price represented a discount of approximately 18.7% (the "**2019 Discount Rate**") to the NDRC Quoted Average Price for 9M2019. The Estimated Purchase Price was determined by the Management with reference to (i) the 2019 Discount Rate; and (ii) the average of the NDRC Quoted Average Price for September 2019. In this regard, we have reviewed the relevant documents in respect of the NDRC Quoted Average Price (calculated based on the wholesale price quoted by the major refined oil sales companies in 70 major cities and all local refineries in the PRC) issued by the National Development and Reform Commission of the PRC. We noted that the average of the NDRC Quoted Average Price for September 2019 was approximately RMB7,215 per tonne, and that the Estimated Purchase Price represents a discount of approximately 16.8% to the NDRC Quoted Average Price for September 2019, which is similar to the 2019 Discount Rate. As such, we consider that the Estimated Purchase Price is justifiable.

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

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

5. Reporting requirements and conditions of the Continuing Connected Transactions

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

(a) Each year, the independent non-executive Directors must review the Continuing Connected Transactions and confirm in the annual report and accounts of the Company that the Continuing Connected Transactions have been entered into:

  (i) in the ordinary and usual course of business of the Group;

  (ii) on normal commercial terms or better; and

  (iii) in accordance with the New Supply Agreement governing them on terms that are fair and reasonable and in the interests of the Group and the Shareholders as a whole;

(b) each year the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange at least ten business days prior to the bulk printing of the Company's annual report) confirming whether anything has come to their attention that causes them to believe that the Continuing Connected Transactions:

  (i) have not been approved by the Board;

  (ii) were not, in all material respects, in accordance with the pricing policies of the Group (if applicable);

  (iii) were not entered into, in accordance with the New Supply Agreement governing the Continuing Connected Transactions; and

  (iv) have exceeded the Proposed Annual Caps;

(c) the Company must allow, and ensure that the relevant counterparties to the Continuing Connected Transactions allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Continuing Connected Transactions as set out in paragraph (b); and

(d) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required.

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

OPINION

Having taken into account the above principal factors and reasons, we consider that the entering into of the New Supply Agreement is in the ordinary and usual course of business of the Group and the terms of the New Supply Agreement are on normal commercial terms, fair and reasonable, and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favor of the relevant resolution(s) at the SGM to approve the entering into of the New Supply Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps).

Yours faithfully,
For and on behalf of
Astrum Capital Management Limited

Hidulf Kwan	**Rebecca Mak**
Managing Director	*Director*

Note:

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

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

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

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

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

Name	Nature of interest	Long position/ Short position	Number of Shares held	Approximate percentage of the total issued share capital of the Company
Mr. Sun Liming	Personal interest	Long position	600,000	0.005%
Dr. Mu Guodong ("**Dr. Mu**")	Personal interest and interest of spouse *(Note)*	Long position	300,000	0.002%

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

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

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

Name	Nature of interest	Long position/ Short position	Number of Shares held	Approximate percentage of the total issued share capital of the Company
Yanchang Petroleum Group *(Note)*	Interest of controlled corporation	Long position	12,686,203,231	104.45%
Yanchang Petroleum Group (Hong Kong) Co., Limited ("**Yanchang Petroleum HK**") *(Note)*	Directly owned	Long position	12,686,203,231	104.45%

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

Amongst these 12,686,203,231, 6,189,473,684 Shares represent a deemed interest held by Yanchang Petroleum HK. Pursuant to a subscription agreement dated 12 October 2018 (the "Subscription Agreement") entered into between the Company and Yanchang Petroleum HK, the Company had conditionally agreed to issue, and Yanchang Petroleum HK had conditionally agreed to subscribe for, the convertible bonds of an aggregate principal amount of US$60,000,000 (equivalent to approximately HK$470.6 million) at the conversion price of HK$0.076 per Share on completion.

With all the conditions precedent under the Subscription Agreement being fulfilled, completion of subscription took place on 28 November 2018 which enables Yanchang Petroleum HK to subscribe for a maximum of 6,189,473,684 Shares at the conversion price of HK$0.076 per share upon full conversion of the convertible bonds within the 2-year exercise period.

For illustrative purpose, the approximate percentage of the total issued ordinary share capital of the enlarged capital will be 69.19% immediately after completion upon full conversion of the convertible bonds.

Save as disclosed above, the Company had not been notified of any other interests or short positions in the shares and underlying shares of the Company representing 10% or more of the issued share capital of the Company as at the Latest Practicable Date.

3. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and 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 INTERESTS

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 acquired or disposed of by or leased to any members of the Group since 31 December 2018, 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, no member of the Group was engaged in any litigation or arbitration or claims which would materially and adversely affect the operations of the Company and no litigation, arbitration or claims which would materially and adversely affect the operations of the Company is known to the Directors to be pending or threatened by or against any members of the Group.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2018 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
Astrum	a licensed corporation to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Loan Agreement and the transactions contemplated thereunder, and the New Supply Agreement and the transactions contemplated thereunder and the Proposed Annual Caps

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

As at the Latest Practicable Date, Astrum was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group nor did it have any interests, either direct or indirect, in any assets which have been, since 31 December 2018 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

9. MISCELLANEOUS

(i) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

(ii) The head office and principal place of business of the Company in Hong Kong is at Room 3403, 34th Floor, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong.

(iii) The company secretary of the Company is Mr. Law Hing Lam, who is a member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants.

(iv) The Company's branch share registrar and transfer office in Hong Kong is Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

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

10. DOCUMENTS AVAILABLE FOR INSPECTION

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

(a) the Loan Agreement;

(b) the Existing Supply Agreement;

(c) the New Supply Agreement;

(d) the letter from the Independent Board Committee, the text of which is set out on pages 24 to 25 of this circular;

(e) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 26 to 64 of this circular;

(f) the memorandum of association and the bye-laws of the Company;

(g) the annual report of the Company for the year ended 31 December 2017;

(h) the annual report of the Company for the year ended 31 December 2018;

(i) the interim report of the Company for the six months ended 30 June 2019;

(j) the written consent referred to in the paragraph headed "Expert's qualification and consent" in this appendix; and

(k) this circular.

延長石油國際有限公司
YANCHANG PETROLEUM INTERNATIONAL LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 00346)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the "**SGM**") of Yanchang Petroleum International Limited (the "**Company**") will be held at Admiralty and The Peak Room, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 19 December 2019 at 3:30 p.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. **THAT**:

subject to the fulfilment of the terms and conditions set out in the loan agreement dated 5 November 2019 (the "**Loan Agreement**") entered into between Novus Energy Inc. ("**Novus**") and Yanchang Petroleum Group (Hong Kong) Co., Limited ("**Yanchang Petroleum HK**") (a copy of the Loan Agreement having been produced to the meeting and marked "A" and initialled by the chairman of the meeting for the purpose of identification) in respect of the provision the Loan of US$35,000,000 (equivalent to approximately HK$274.5 million) to Novus for a term commencing from the Utilisation Date and expiring on the third anniversary of the Utilisation Date:

(i) the Loan Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

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

2. **THAT**:

subject to the fulfilment of the terms and conditions set out in the supply agreement dated 12 November 2019 (the "**New Supply Agreement**") entered into between 河南延長石油銷售有限公司 (Henan Yanchang Petroleum Sales Co., Limited) ("**Henan Yanchang**") and 陝西延長石油（集團）有限責任公司 (Shaanxi Yanchang Petroleum (Group) Co., Limited) ("**Yanchang Petroleum Group**") (a copy of the New Supply Agreement having been produced to the meeting and marked "B" and initialled by the chairman of the meeting for the purpose of identification) in respect of the supply of refined oil from Yanchang Petroleum Group to Henan Yanchang for the three years ending 31 December 2022:

(i) the New Supply Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(ii) the Proposed Annual Caps for the continuing connected transactions contemplated under the New Supply Agreement for the three years ending 31 December 2022, being RMB4,020 million per year be and are hereby approved; and

(iii) 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 New Supply Agreement and the transactions contemplated thereunder and the Proposed Annual Caps.

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

Hong Kong, 29 November 2019

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

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

Notes:

1. A member of the Company entitled to attend and vote at the SGM is entitled to appoint one or, if he is the holder of two or more shares, more proxies to attend and vote instead of him. A proxy need not be a member of the Company.

2. In the case of joint holders of shares in the Company, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s), seniority being determined by the order in which names stand in the register of members.

3. In order to be valid, the form of proxy must be in writing under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal, or under the hand of an officer or attorney or other person duly authorized, and must be deposited with the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (together with the power of attorney or other authority, if any, under which it is signed or a certified copy thereof) not less than 48 hours before the time fixed for holding of the SGM.

4. Completion and return of the form of proxy will not preclude members from attending and voting at the SGM.

5. For determining the entitlement to attend and vote at the SGM or any adjournment thereof, the record date is fixed on Friday, 13 December 2019. Shareholders whose names appear on the register of members of the Company at the close of business on the record date will be entitled to attend and vote at the SGM. In order to be entitled to attend and vote at the SGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share register in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 13 December 2019.