
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.

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延長石油國際有限公司

YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00346)

CONTINUING CONNECTED TRANSACTIONS

REVISION OF THE ANNUAL CAPS UNDER THE EXISTING SUPPLY AGREEMENT WITH YANCHANG PETROLEUM GROUP

Financial adviser to the Company



紅日資本有限公司

RED SUN CAPITAL LIMITED

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



A letter from the Board is set out on pages 5 to 15 of this circular. A letter from the Independent Board Committee containing its recommendation in respect of the Supplemental Agreement to the Existing Supply Agreement (including the Proposed Revised Annual Caps) and the transactions contemplated thereunder set out on pages 16 to 17 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 Supplemental Agreement to the Existing Supply Agreement (including the Proposed Revised Annual Caps) and the transactions contemplated thereunder is set out on pages 18 to 38 of this circular.

A notice convening the SGM of the Company to be held at Queensway and Victoria Room, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, 30 October 2020 at 3:30 p.m. is set out on pages 44 to 45 of this circular.

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

PRECAUTIONARY MEASURES FOR THE SGM

Please refer to page 46 of this circular for precautionary measures being taken to prevent and control the spread of COVID-19 at the SGM, including:

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

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

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DEFINITIONS

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

“Announcement”	the announcement of the Company dated 30 September 2020 in relation to, among others, the Supplemental Agreement to the Existing Supply Agreement and transactions contemplated thereunder
“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
“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 Existing Supply Agreement
“COVID-19”	an infectious disease caused by a newly discovered coronavirus since December 2019, namely, severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) which has spread globally and resulted in a pandemic
“Director(s)”	the director(s) of the Company

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“Existing Supply Agreement”	the agreement dated 12 November 2019 entered into between Henan Yanchang and Yanchang Petroleum Group in respect of the supply of refined oil from Yanchang Petroleum Group to Henan Yanchang for the three years ending 31 December 2022
“Group”	the Company and its subsidiaries from time to time
“Henan Yanchang”	河南延長石油銷售有限公司 (Henan Yanchang Petroleum Sales Co., Limited), a limited company incorporated under the PRC laws which is an indirect non-wholly owned subsidiary of the Company and 70% owned by the Group as at the Latest Practicable Date
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company, comprising all the independent non-executive Directors established to advise the Independent Shareholders in respect of the Transactions
“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 Transactions
“Independent Shareholders”	Shareholders other than Yanchang Petroleum Group and its associates
“independent third party(ies)”	individual(s) or company(ies) and their respective ultimate beneficial owner(s) who or which, to the best of the Directors’ knowledge, belief and information is/are independent of and not connected with (within the meaning of the Listing Rules) any directors, chief executive or substantial shareholders of the Company, its subsidiaries or any of their respective associates
“Latest Practicable Date”	6 October 2020, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange and as amended from time to time
“Original Annual Caps”	the annual caps for the Continuing Connected Transactions under the Existing Supply Agreement for each of the three years ending 31 December 2022
“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 Revised Annual Caps”	the proposed revised annual caps for the Continuing Connected Transactions under the Supplemental Agreement supplemented to the Existing 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 for the Independent Shareholders to consider and approve the Supplemental 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
“Supplemental Agreement”	the supplemental agreement dated 30 September 2020 supplemented to the Existing Supply Agreement entered into between Henan Yanchang and Yanchang Petroleum Group in respect of the revision of the Original Annual Caps for the three years ending 31 December 2022
“Transactions”	transactions contemplated under the Supplemental Agreement (together with the Proposed Revised Annual Caps)

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“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 and directly attached to 陝西省人民政府 (Shaanxi Provincial People’s Government), being the substantial shareholder of the Company beneficially holding 12,686,203,231 Shares representing approximately 69.19% of the existing issued share capital of the Company as at the Latest Practicable Date
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent

LETTER FROM THE BOARD



延長石油國際有限公司

YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00346)

Executive Directors:

Mr. Li Yi (*Chairman*)

Ms. Sha Chunzhi

Mr. Feng Yinguo

Mr. Li Jun

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Independent non-executive Directors:

Mr. Ng Wing Ka

Mr. Leung Ting Yuk

Mr. Sun Liming

Dr. Mu Guodong

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

Room 3403, 34th Floor

Lee Garden One

33 Hysan Avenue

Causeway Bay

Hong Kong

9 October 2020

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

REVISION OF THE ANNUAL CAPS UNDER THE EXISTING SUPPLY AGREEMENT WITH YANCHANG PETROLEUM GROUP

INTRODUCTION

Reference is made to the Announcement dated 30 September 2020 in relation to, among others, the Supplemental Agreement and the transactions contemplated thereunder. On 30 September 2020, Henan Yanchang and Yanchang Petroleum Group entered into the Supplemental Agreement to revise the annual caps for the purchase of refined oil by Henan Yanchang from Yanchang Petroleum Group under the Existing Supply Agreement, i.e. the Original Annual Caps, for the three years ending 31 December 2022.

LETTER FROM THE BOARD

Pursuant to the Supplemental Agreement, the Proposed Revised Annual Caps for the purchase of refined oil by Henan Yanchang from Yanchang Petroleum Group are approximately RMB7,102 million, RMB9,675 million and RMB12,600 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 a substantial Shareholder beneficially holding 12,686,203,231 Shares as at the Latest Practicable Date representing approximately 69.19% of the existing issued share capital of the Company, is a connected person of the Company as defined under the Listing Rules and hence the transactions contemplated under the Supplemental Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Since the applicable percentage ratios as defined under the Listing Rules calculated for the Proposed Revised Annual Caps, for each of the three years ending 31 December 2022, exceed 5% on an annual basis, the Transactions are subject to the a 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 Supplemental Agreement and the transactions contemplated thereunder (together with the Proposed Revised Annual Caps); (ii) the letter of recommendation from the Independent Board Committee in respect of the Supplemental Agreement and the transactions contemplated thereunder (together with the Proposed Revised Annual Caps); (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Agreement and the transactions contemplated thereunder (together with the Proposed Revised Annual Caps); and (iv) a notice of the SGM.

BACKGROUND

Reference is made to the announcement dated 12 November 2019 and the circular dated 29 November 2019 in relation to, among others, the Existing Supply Agreement and transactions contemplated thereunder. Henan Yanchang and Yanchang Petroleum Group entered into the Existing Supply Agreement on 12 November 2019 pursuant to which Yanchang Petroleum Group has agreed to sell and Henan Yanchang has agreed to purchase refined oil for the three years ending 31 December 2022.

On 30 September 2020, Henan Yanchang and Yanchang Petroleum Group entered into the Supplemental Agreement to revise the annual caps for the purchase of refined oil by Henan Yanchang from Yanchang Petroleum Group under the Existing Supply Agreement, i.e. the Original Annual Caps, for the three years ending 31 December 2022.

LETTER FROM THE BOARD

THE EXISTING SUPPLY AGREEMENT

The principal terms of the Existing Supply Agreement are summarized 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

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 three years ended 31 December 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 three years ended 31 December 2019.

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Payment terms

The payment terms in respect of the refined oil under the Existing 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 Original Annual Caps and the basis of determining the Original Annual Caps

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

	For the year ending 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Original Annual Caps	4,020,000	4,020,000	4,020,000

The Original Annual Caps under the Existing Supply Agreement for the three years ending 31 December 2022 were determined in 2019 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 made in 2019; (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 2019 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.

Proposed Revised Annual Caps under the Supplemental Agreement

According to the interim report of the Company for the six months ended 30 June 2020 (“**2020 Interim report**”), the Group’s revenue from trading and distribution of oil related products was increased by approximately HK\$4,799.2 million or 144.4% from approximately HK\$3,323.3 million for the six months ended 30 June 2019 to approximately HK\$8,122.6 million for the six months ended 30 June 2020. In view of the above, the Directors anticipate that a larger demand of refined oil in the market will be noted and the Directors expect that the

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sales of refined oil will be increased in the second half year of 2020 as the PRC economic activities have been recovered from the outbreak of COVID-19.

In light of the foregoing, the Henan Yanchang and Yanchang Petroleum Group expect that the maximum purchase amount of refined oil by Henan Yanchang from Yanchang Petroleum Group under the Existing Supply Agreement for the each of the three years ending 31 December 2022 will exceed the Original Annual Caps. In this connection and in order to make room for the increase in purchase amounts of refined oil by Henan Yanchang from Yanchang Petroleum Group, on 30 September 2020, the Henan Yanchang and Yanchang Petroleum Group entered into the Supplemental Agreement to revise the Original Annual Caps as follows:

	For the year ending 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Original Annual Caps	4,020,000	4,020,000	4,020,000
Proposed Revised Annual Caps	7,102,400	9,675,000	12,600,000

Save for the revision to the Original Annual Caps set out above, the other terms of the Existing Supply Agreement remain unchanged.

Basis of determining the Proposed Revised Annual Caps

The Proposed Revised Annual Cap for the year ending 31 December 2020 is determined with reference to (i) the historical transaction amounts under Existing Supply Agreement for the eight months ended 31 August 2020 was approximately RMB3,223 million, representing approximately 80.2% of Original Annual Caps for the year ending 31 December 2020; (ii) the prevailing market demand of refined oil with reference to the increase in sales volume of refined oil of Henan Yanchang which was increased by approximately 0.84 million tonnes or 50.9% from approximately 1.65 million tonnes for the six months ended 30 June 2019 to approximately 2.49 million tonnes for the six months ended 30 June 2020; (iii) the percentage of refined oil purchased by Henan Yanchang from Yanchang Petroleum Group of Henan Yanchang's total purchase for the remaining period of the year ending 31 December 2020; (iv) the estimated purchase price of refined oil from Yanchang Petroleum Group; and (v) the expected increase in purchase amount of refined oil by Henan Yanchang from Yanchang Petroleum Group for the remaining period of the year ending 31 December 2020 as marketing team of Henan Yanchang has paid a great number of visits to Ningxia, Guangdong, Jiangsu, Yunnan, Hunan and Shenzhen in an effort to explore market potential and vigorously broaden new customer base during the first half of 2020 and the Group's business has been expanded to regions beyond Henan Province by further expanding geographical coverage of its sales network with a focus on the expansion towards south-west and north-west of PRC and nearly 244 new customers have been acquired in total for the eight months ended 31 August 2020.

LETTER FROM THE BOARD

Based on Henan Yanchang's total purchase of refined oil for the five months ended 31 August 2020 of approximately 2.9 million tonnes, the average monthly purchase volume was approximately 0.58 million. The Directors estimate the total purchase volume of refined oil shall be approximately 3.0 million tonnes for the four months ending 31 December 2020 with 30% buffer considered as appropriate. The Directors estimate that the percentage of refined oil purchased from Yanchang Petroleum Group of Henan Yanchang's total purchase shall be approximately 29% and the estimated purchase price of refined oil from Yanchang Petroleum Group shall be RMB4,500 per tonne for the four months ending 31 December 2020, which is determined with reference to the average weekly selling price of refined oil quoted from the NDRC of the PRC during the period from April to August 2020.

Having considered (i) the total estimated purchase volume of refined oil of Henan Yanchang was approximately 3.0 million tonnes for the four months ending 31 December 2020; (ii) approximately 29% of Henan Yanchang's total purchase volume of refined oil from Yanchang Petroleum Group for the four months ending 31 December 2020; (iii) the estimated purchase price of refined oil from Yanchang Petroleum Group at RMB4,500 per tonne; and (iv) the historical transaction amounts for the purchase of refined oil by Henan Yanchang from Yanchang Petroleum Group under the Existing Supply Agreement amounted to approximately RMB3,223 million for the eight months ended 31 August 2020, the Revised Proposed Cap for the year ending 31 December 2020 was therefore determined at approximately RMB7,102 million.

The Proposed Revised Annual Caps for the two years ending 31 December 2022 are determined based on approximately 36% and 30% annual growth rate for the year ending 31 December 2021 and 2022, respectively. In current business development of Henan Yanchang, Henan Yanchang has expanded its business to regions beyond Henan Province by further expanding geographical coverage of its sales network with a focus on the expansion towards south-west and north-west of PRC. In order to develop the north-west market of PRC, Henan Yanchang has entered into a strategic cooperation with a partner to operate an oil depot in Ningxia for expanding wholesale and trading of refined oil business. Henan Yanchang intends to expand its network of terminal gas stations in Ningxia by leveraging the strategic cooperative oil depot and Henan Yanchang has signed a letter of intent for cooperation with a newly-built local gas station. In addition, Henan Yanchang has actively conducted negotiation with four local gas stations in Ningxia in an attempt to establish cooperation relationship. For the continuing business development in Henan region, Henan Yanchang has initially confirmed with intent for cooperation with three gas stations in Zhoukou, Henan. With the above efforts on market expansion and new customers exploration, Henan Yanchang has acquired nearly 244 new customers for the eight months ended 31 August 2020 which contributed gross revenue of approximately RMB8,526 million by sales of refined oil of approximately 2.0 million tonnes, representing approximately 53% of total gross revenue and 56% of total sales volume of refined oil. The Group will focus on further expansion during the two years ending 31 December 2022 with the current business expansions plan.

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Having considered (i) the abovementioned business expansions of Henan Yanchang; (ii) the prevailing market demand and expected increase in sales volume of refined oil by Henan Yanchang with reference to the historical growth rate of approximately 50.9% of sales volume of refined oil of Henan Yanchang compared with the six months ended 30 June 2019 and 2020; (iii) the expected increase in purchase amount of refined oil of Henan Yanchang from Yanchang Petroleum Group for the two years ending 31 December 2022 due to the Group's successful expansion in geographical coverage of sales network from Henan Province towards south-west and north-west of PRC, the Directors are of the view that the Proposed Revised Annual Caps for the two years ending 31 December 2022 determined based on approximately 36% and 30% annual growth rate for the year ending 31 December 2021 and 2022, respectively, are fair and reasonable.

Due to the uncertainty of the amount required of refined oil for the purpose of the Group's business, additional buffer to the historical amount is included when determining the Proposed Revised Annual Caps to avoid any undue disruption and detriment to the business operations of the Group if any annual caps is to be revised and re-approved by Independent Shareholders.

Save for the revision to the Original Annual Caps set out above, the other terms of the Existing Supply Agreement remain unchanged and effective.

Condition Precedent

The revision of the Original Annual Caps for the three years ending 31 December 2022 contemplated under the Supplemental Agreement (together with the Proposed Revised Annual Caps for the three years ending 31 December 2022) will take effect conditional upon the Independent Shareholders' approval having been obtained at the SGM.

In the event that the Supplemental Agreement does not become effective, the Existing Supply Agreement will remain in full force and binding on the Henan Yanchang and Yanchang Petroleum Group.

Historical amounts

The relevant historical transaction amounts of refined oil purchased by Henan Yanchang from Yanchang Petroleum Group under the Previous Supply Agreement and Existing Supply Agreement are set out as follows:

	For the year ended 31 December			For the eight months ended
	2017	2018	2019	31 August 2020
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Historical transaction amounts	920	2,804	2,900	3,223

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For each of the three years ended 31 December 2019, the historical transaction amounts under the Previous Supply Agreement were approximately RMB920 million, RMB2,804 million and RMB2,900 million, respectively. The increase in transaction amounts under the Previous Supply Agreement from the year ended 31 December 2017 to the year ended 31 December 2019 was mainly due to the increase in amount of Henan Yanchang's overall purchases.

For the eight months ended 31 August 2020, the historical transaction amounts under the Existing Supply Agreement were approximately RMB3,223 million, representing approximately 80.2% of the Original Annual Cap for the year ending 31 December 2020. The Directors estimate that the aggregate purchase amount of refined oil by Henan Yanchang from Yanchang Petroleum Group under the Existing Supply Agreement for each of the three years ending 31 December 2022 will exceed the Original Annual Caps for each of the three years ending 31 December 2022 of RMB4,020 million.

REASONS FOR AND BENEFITS OF THE REVISION OF THE ANNUAL CAPS UNDER THE EXISTING SUPPLY AGREEMENT

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

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

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

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

With the revision of the Original Annual Caps under the Existing Supply Agreement, the historical transaction amounts under the Existing Supply Agreement was approximately RMB3,223 million for the eight months ended 31 August 2020, representing approximately 80.2% of the Original Annual Caps for the year ending 31 December 2020, and the Group will continue to leverage its purchase of refined oil from Yanchang Petroleum Group as one of major

LETTER FROM THE BOARD

suppliers with terms of which were negotiated based on normal commercial terms and the prices were determined after arm's length negotiation and on terms which the Group considers to be no less favourable to the Group than terms offered by independent third party suppliers to the Group for such oil of comparable product type, quality and quantity at the relevant time.

According to the 2020 Interim Report, since the beginning of 2020, marketing team of Henan Yanchang has paid a great number of visits to Ningxia, Guangdong, Jiangsu, Yunnan, Hunan and Shenzhen in an effort to explore market potential and vigorously broaden new customer base. The Group's business has been expanded to regions beyond Henan Province by further expanding geographical coverage of its sales network with a focus on the expansion towards south-west and north-west of China. Nearly 200 new customers have been acquired in total in the first half of 2020.

Besides, Henan Yanchang has entered into a strategic cooperation with a partner to operate an oil depot in Ningxia for expanding wholesale and trading of refined oil business, substantially developing the north-west market. Henan Yanchang intends to expand its network of terminal gas stations in Ningxia by leveraging the strategic cooperative oil depot. At present, it signs a letter of intent for cooperation with a newly-built local gas station. In addition, Henan Yanchang has actively conducted negotiation with four local gas stations in Ningxia in an attempt to establish cooperation relationship. Henan Yanchang has initially confirmed with intent for cooperation with three gas stations in Zhoukou, Henan.

In view of (i) the continuing support from Yanchang Petroleum Group with secured supply of refined oil; (ii) Henan Yanchang's effective strategies in market expansion and customer exploration for distribution and sales of refined oil in the whole PRC, the Group would be able to expand its refined oil business as well as its sales network in the PRC; and (iii) the no less favourable price of refined oil offered by Yanchang Petroleum Group as compared with the independent third party suppliers, the Directors estimate that the total purchase of the refined oil from Yanchang Petroleum Group for each of the three years ending 31 December 2022 will exceed the Original Annual Caps.

The Board (excluding the independent non-executive Directors whose view will be rendered upon receiving the advice of the Independent Financial Adviser) is of the opinion that the terms of the Supplemental Agreement are fair and reasonable so far as the Independent Shareholders are concerned and the entering into the Supplemental Agreement is in the interests of the Company and the Shareholders as a whole.

IMPLICATION UNDER THE LISTING RULES

Henan Yanchang is a non wholly-owned subsidiary of the Company and Yanchang Petroleum Group, being a substantial Shareholder beneficially holding 12,686,203,231 Shares representing approximately 69.19% of the existing issued share capital of the Company, is a connected person of the Company as defined under the Listing Rules and hence the Transactions 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 Proposed

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Revised Annual Caps exceed 5% and the consideration exceeds HK\$10,000,000 on an annual basis, the Transactions are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

None of the Directors have a material interest in the Supplemental Agreement and the transactions contemplated thereunder. Yanchang Petroleum Group and its associates shall abstain from voting in favour of the Supplemental 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 Supplemental Agreement and the transactions and matters contemplated thereunder, and accordingly are required to abstain from voting at the SGM.

Independent Board Committee

An Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders in relation to, among other things, the Supplemental Agreement and the transactions and matters 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 approval from the Independent Shareholders for the Supplemental Agreement and the transactions and matters contemplated thereunder by way of poll. As at the Latest Practicable Date, Yanchang Petroleum Group, being a substantial Shareholder beneficially holding 12,686,203,231 Shares representing approximately 69.19% of the existing issued share capital of the Company, is a connected person and hence Yanchang Petroleum Group, together with its associates, will abstain from voting at the SGM.

The notice convening the SGM to be held at Queensway and Victoria Room, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, 30 October 2020 at 3:30 p.m. is set out on pages 44 to 45 of this circular. An ordinary resolution will be proposed at the SGM to approve, among other things, (i) the Supplemental Agreement and the transactions contemplated thereunder; and (ii) the corresponding Proposed Revised Annual Caps. The resolution proposed to be approved at the SGM will be taken by poll and an announcement will be made by the Company after the SGM on the result of the SGM.

A form of proxy for use 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

LETTER FROM THE BOARD

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 a substantial Shareholder beneficially holding 12,686,203,231 Shares representing approximately 69.19% of the existing issued share capital of the Company, is a connected person and hence Yanchang Petroleum Group, together with its associates, will abstain from voting at the SGM. Save for the above, no other Shareholders or any of their respective associates have any interests in the transaction contemplated under the Supplemental Agreement and are required to abstain from voting at the SGM in relation to the resolution regarding the Supplemental Agreement and the transactions contemplated thereunder.

RECOMMENDATIONS

Taking into account the reasons as set out in the paragraph headed "Reasons for and benefits of the revision of the annual caps under the Existing Supply Agreement" above, the Directors (including the independent non-executive Directors) consider that the terms of the Supplemental Agreement and the Proposed Revised 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 resolution be proposed at the SGM to approve the Supplemental Agreement and the corresponding Proposed Revised Annual Caps.

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 16 to 17 of this circular containing the recommendation of the Independent Board Committee to the Independent Shareholders regarding the Supplemental Agreement and the corresponding Proposed Revised 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 18 to 38 of this circular; and (iii) the information set out in the appendix of this circular.

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

LETTER FROM INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of recommendation, prepared for the purpose of incorporation in the circular, from the Independent Board Committee to the Independent Shareholders in relation to the Supplemental 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)

9 October 2020

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

REVISION OF THE ANNUAL CAPS UNDER THE EXISTING SUPPLY AGREEMENT WITH YANCHANG PETROLEUM GROUP

We refer to the circular (the “**Circular**”) dated 9 October 2020 issued by the Company of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless specified otherwise.

We have been formed to advise the Independent Shareholders in relation to the terms of (i) the Supplemental Agreement and the transactions contemplated thereunder and (ii) the corresponding Proposed Revised 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 18 to 38 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.

LETTER FROM INDEPENDENT BOARD COMMITTEE

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

LETTER FROM INDEPENDENT FINANCIAL ADVISER

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



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

9 October 2020

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

REVISION OF THE ANNUAL CAPS UNDER THE EXISTING SUPPLY AGREEMENT WITH YANCHANG PETROLEUM GROUP

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 “**Transactions**”) contemplated under the Supplemental Agreement with the proposed revised annual caps (the “**Proposed Revised Annual Caps**”). The details of the Transactions are disclosed in the announcement of the Company dated 30 September 2020 (the “**Announcement**”) and in the letter from the Board (the “**Letter from the Board**”) set out on pages 5 to 15 of the circular of the Company dated 9 October 2020 (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 30 September 2020, Henan Yanchang, an indirect non-wholly owned subsidiary of the Company, and Yanchang Petroleum Group, a substantial Shareholder, entered into the Supplemental Agreement to revise the annual caps for the purchase of refined oil by Henan Yanchang from Yanchang Petroleum Group under the Existing Supply Agreement, i.e. the

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Original Annual Caps, for the three years ending 31 December 2022. Pursuant to the Supplemental Agreement, the Proposed Revised Annual Caps for the purchase of refined oil by Henan Yanchang from Yanchang Petroleum Group are approximately RMB7,102 million, approximately RMB9,675 million and approximately RMB12,600 million for the three years ending 31 December 2022, respectively.

Yanchang Petroleum Group is a substantial Shareholder beneficially holding 12,686,203,231 Shares as at the Latest Practicable Date, representing approximately 69.19% of the existing issued share capital of the Company. Accordingly, Yanchang Petroleum Group is a connected person of the Company as defined under the Listing Rules and hence the transactions contemplated under the Supplemental Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Since the applicable percentage ratios as defined under the Listing Rules calculated for the Proposed Revised Annual Caps for each of the three years ending 31 December 2022 exceed 5% on an annual basis, the Transactions are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

None of the Directors have a material interest in the Supplemental Agreement and the transactions contemplated thereunder. Yanchang Petroleum Group and its associates shall abstain from voting in favour of the Supplemental 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 Supplemental 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 Supplemental Agreement and the transactions contemplated thereunder (including the Proposed Revised Annual Caps) and as to voting at the SGM. We, Astrum Capital Management Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

INDEPENDENCE DECLARATION

As at the Latest Practicable Date, we were not aware of any relationships or interests between Astrum Capital Management Limited, the Company, Henan Yanchang and Yanchang Petroleum Group and/or any of their respective substantial shareholders, directors or chief executive, or any of their respective associates. In the last two years, save for the appointment as the independent financial adviser of the Company in respect of (i) the entering into of the loan agreement between the Group and Yanchang Petroleum Group (Hong Kong) Co., Limited (details of which were set out in the circular of the Company dated 29 November 2019); and (ii) the continuing connected transactions contemplated under the Existing Supply Agreement (details of which were set out in the circular of the Company dated 29 November 2019), there

LETTER FROM INDEPENDENT FINANCIAL ADVISER

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 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 Transactions.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have reviewed, *inter alia*, the Announcement, the Circular, the Supplemental Agreement, the Existing Supply Agreement, the annual report of the Company for the financial year ended 31 December 2019 (the “**2019 Annual Report**”) and the interim report of the Company for the six months ended 30 June 2020 (the “**2020 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 (i) considered such other information, analyses and market data which we deemed relevant; and (ii) conducted discussions with the Management regarding the Transactions, the businesses and future outlook of the Group. We have assumed that such information and statements, and any representation made to us, are true, accurate and complete in all material respects as of the date hereof and we have relied upon them in formulating our opinion.

All Directors collectively and individually accept full responsibility for the purpose of giving information with regard to the Company in the Announcement and the Circular and, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Announcement and the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters not contained in the Announcement and the Circular, the omission of which would make any statement herein or in the Announcement and the Circular misleading. We consider that we have performed all necessary steps to enable us to reach an informed view regarding the terms of, and the reasons for entering into, the Supplemental 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 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.

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PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Information of the Group

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

The following table sets out (i) the audited financial information of the Group for the two financial years ended 31 December 2018 and 31 December 2019 (“**FY2018**” and “**FY2019**”, respectively) as extracted from the 2019 Annual Report; and (ii) the unaudited financial information of the Group for the six months ended 30 June 2019 and 30 June 2020 (“**1H2019**” and “**1H2020**”, respectively) as extracted from the 2020 Interim Report:

Table 1: Financial information of the Group

	FY2018	FY2019	1H2019	1H2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	5,933,388	8,197,422	3,423,727	8,161,298
– <i>Exploration, exploitation and operation business</i>	272,895	228,803	100,419	38,746
– <i>Supply and procurement business</i>	5,660,493	7,968,619	3,323,308	8,122,552
Gross profit (<i>Note</i>)	220,143	218,059	97,153	64,684
Profit/(loss) from operating activities	99,676	(310,254)	(14,912)	(22,016)
Profit/(loss) before taxation	40,479	(372,104)	(43,351)	(54,552)
(Loss) for the year/period attributable to owners of the Company	(741)	(443,742)	(47,091)	(68,630)

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	As at 31 December 2018	As at 31 December 2019	As at 30 June 2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)	(unaudited)
Total assets	2,989,682	2,545,384	3,123,119
Non-current assets	2,096,430	1,776,739	1,662,037
Current assets	893,252	768,645	1,461,082
Total (liabilities)	(1,518,745)	(1,452,038)	(1,682,694)
Non-current (liabilities)	(603,896)	(419,108)	(408,780)
Current (liabilities)	(914,849)	(1,032,930)	(1,273,914)
Total equity attributable to the owners of the Company	1,364,040	964,061	1,306,049

Sources: the 2019 Annual Report and the 2020 Interim Report

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

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

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

In FY2019, loss attributable to owners of the Company increased from approximately HK\$0.7 million in FY2018 to approximately HK\$443.7 million. Such drastic increase was mainly attributable to (i) the recognition of impairment loss on property, plant and equipment of approximately HK\$286.0 million in FY2019 (FY2018: reversal of impairment loss of approximately HK\$104.5 million); and (ii) the fair value loss on derivative financial instruments of approximately HK\$15.0 million in FY2019 (FY2018: fair value gain of approximately HK\$7.7 million).

As at 31 December 2019, the Group's total assets and total liabilities amounted to approximately HK\$2,545.4 million (31 December 2018: approximately HK\$2,989.7 million) and approximately HK\$1,452.0 million (31 December 2018: approximately HK\$1,518.7 million), respectively. Equity attributable to owners of the Company decreased from approximately HK\$1,364.0 million as at 31 December 2018 to approximately HK\$964.1 million as at 31 December 2019. Such decrease was primarily due to loss attributable to owners of the Company of approximately HK\$443.7 million in FY2019, which was

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partially offset by the gain derived from exchange differences on translation of financial statements of subsidiaries outside Hong Kong of approximately HK\$43.4 million in FY2019.

(ii) For the six months ended 30 June 2020 (i.e. 1H2020)

In 1H2020, the Group recorded revenue of approximately HK\$8,161.3 million, representing a significant increase of approximately 138.4% as compared to approximately HK\$3,423.7 million in 1H2019. As disclosed in the 2020 Interim Report, such increase was mainly attributable to the increase in revenue generated from supply and procurement business from approximately HK\$3,323.3 million in 1H2019 to approximately HK\$8,122.6 million in 1H2020 due to the increase in sales volume of refined oil from approximately 1.7 million tonnes in 1H2019 to approximately 2.6 million tonnes in 1H2020.

Notwithstanding the increase in revenue, loss attributable to owners of the Company increased from approximately HK\$47.1 million for 1H2019 to approximately HK\$68.6 million for 1H2020, representing an increase of approximately 45.7%. Such deterioration was mainly due to (i) the decrease in gross profit of approximately HK\$32.5 million; and (ii) the increase in finance costs of approximately HK\$4.1 million, which was partially offset by (i) the decrease in administrative expenses of approximately HK\$15.8 million; and (ii) the decrease in depreciation, depletion and amortisation of approximately HK\$10.6 million.

As at 30 June 2020, the Group's total assets and total liabilities amounted to approximately HK\$3,123.1 million (31 December 2019: approximately HK\$2,545.4 million) and approximately HK\$1,682.7 million (31 December 2019: approximately HK\$1,452.0 million), respectively. Equity attributable to the owners of the Company increased from approximately HK\$964.1 million as at 31 December 2019 to approximately HK\$1,306.0 million as at 30 June 2020. Such increase was primarily due to the issue of Shares upon conversion of convertible bonds of approximately HK\$469.1 million in 1H2020 which was partially offset by (i) loss attributable to owners of the Company of approximately HK\$68.6 million in 1H2020; and (ii) the loss derived from exchange differences on translation of financial statements of subsidiaries outside Hong Kong of approximately HK\$60.0 million in 1H2020.

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

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

Henan Yanchang is an indirect 70% owned subsidiary of the Company and acts as the core 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 (gasoline, diesel oil, paraffin fuel

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oil, lubricating oil, grease and asphalt). Henan Yanchang was granted a valid licence for the distribution and sale of refined oil in the PRC (without expiry date) on 21 December 2006. According to the financial reports of the Company, Henan Yanchang's sales of refined oil achieved approximately 3.2 million tonnes, approximately 3.7 million tonnes and approximately 2.5 million tonnes for FY2018, FY2019 and 1H2020, respectively. The Group's refined oil trading business, being mainly operated by Henan Yanchang, remained as the core revenue driver of the Group for the past few years. Revenue derived from the Group's refined oil trading business amounted to approximately HK\$5,660.5 million, approximately HK\$7,968.6 million and approximately HK\$8,122.6 million for FY2018, FY2019 and 1H2020, respectively, representing approximately 95.4%, approximately 97.2% and approximately 99.5% of the Group's total revenue for the respective years or period. During the same periods, Henan Yanchang contributed operating profit of approximately HK\$20.2 million, approximately HK\$42.4 million and approximately HK\$35.9 million to the Group, respectively.

Under the shadow of the spread of coronavirus pandemic (“COVID-19”) and the plunge in international oil price, Henan Yanchang has been putting extra effort in market expansion and customer exploration, as well as building up oil depot network in the first half of 2020. According to the 2020 Interim Report, the marketing team of Henan Yanchang has paid a great number of visits to Ningxia, Guangdong, Jiangsu, Yunnan, Hunan and Shenzhen in an effort to explore market potential and vigorously broaden new customer base since the beginning of 2020. Henan Yanchang expanded its business to regions beyond Henan Province by further expanding geographical coverage of its sales network with a focus on the expansion towards south-west and north-west of the PRC, and nearly 200 new customers have been procured in the first half of 2020. In addition, Henan Yanchang entered into a strategic cooperation with a partner to operate an oil depot in Ningxia for expanding wholesale and trading of refined oil business, substantially developing the north-west market. Besides, Henan Yanchang intended to expand its network of terminal gas stations in Ningxia by leveraging the strategic cooperative oil depot. Currently, Henan Yanchang has signed a letter of intent for cooperation with a newly-built local gas station and will continue to conduct negotiation with 4 local gas stations in Ningxia in an attempt to establish cooperation relationship. With the measures proactively taken by Henan Yanchang as detailed above, coupled with the recovery of the PRC's economic activities from the outbreak of COVID-19 since April 2020, the Directors anticipated that the sales of refined oil of Henan Yanchang will further improve in the second half of 2020.

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 12 November 2019 in relation to the supply of refined oil from Yanchang Petroleum Group to Henan Yanchang, which constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The Existing Supply Agreement and the transactions contemplated thereunder (including the annual caps) were duly approved by the then Independent Shareholders at the special general meeting of the Company held on 19 December 2019. Please refer to the circular of the Company dated 29 November 2019 for further details of the Existing Supply Agreement. According to the Letter from the Board, the historical

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transaction amounts for the purchase of refined oil by Henan Yanchang from Yanchang Petroleum Group under the Existing Supply Agreement amounted to approximately RMB3,223 million for the eight months ended 31 August 2020 (“8M2020”), representing approximately 80.2% of the Original Annual Cap for the year ending 31 December 2020. The Management anticipated that the maximum purchase amount of refined oil by Henan Yanchang from Yanchang Petroleum Group under the Existing Supply Agreement for each of the three years ending 31 December 2022 will exceed the Original Annual Caps. In this connection and in order to make extra room for the increase in purchase amount of refined oil by Henan Yanchang from Yanchang Petroleum Group under the rule that the terms offered by Yanchang Petroleum Group are no less favourable to the Group than those offered by independent third party suppliers to the Group for such oil of comparable product type and quantity at the relevant time, on 30 September 2020, Henan Yanchang and Yanchang Petroleum Group entered into the Supplemental Agreement to revise the Original Annual Caps.

According to the Letter from the Board, Yanchang Petroleum Group is principally engaged in (i) oil and gas exploration, exploitation, processing, pipeline transportation and sales of oil and gas; (ii) chemical engineering of oil, gas and coal, machinery manufacturing, project construction; and (iii) oil and gas research and development. Yanchang Petroleum Group owns the right for exploration, exploitation and operation of oil and natural gas resources 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 FY2018, FY2019 and 8M2020, Yanchang Petroleum Group supplied approximately 458,000 tonnes, approximately 524,000 tonnes and approximately 691,000 tonnes of refined oil, respectively, to Henan Yanchang under the Previous Supply Agreement and the Existing Supply Agreement, representing approximately 14.2%, approximately 14.1% and approximately 19.6% 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 the Group’s major suppliers of refined oil and has commenced to supply refined oil to Henan Yanchang since 2011; and (iii) Yanchang Petroleum Group supplied approximately 14.2%, approximately 14.1% and approximately 19.6% of the total volume of refined oil purchased by Henan Yanchang for FY2018, FY2019 and 8M2020, 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.

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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 transaction amounts for the purchase of refined oil by Henan Yanchang from Yanchang Petroleum Group under the Existing Supply Agreement for 8M2020 amounted to approximately RMB3,223 million, representing approximately 80.2% of the Original Annual Cap for the year ending 31 December 2020; (iv) it is expected that the maximum purchase amount of refined oil by Henan Yanchang from Yanchang Petroleum Group under the Existing Supply Agreement for each of the three years ending 31 December 2022 will exceed the Original Annual Caps; (v) Yanchang Petroleum Group is considered as a reliable and stable source of refined oil to Henan Yanchang; and (vi) the terms of the Supplemental Agreement (including the Proposed Revised 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 Supplemental Agreement*” and “4. *The Proposed Revised Annual Caps for the Transactions*” below), we concur with the Management’s view that the entering into of the Supplemental 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 Supplemental Agreement

According to the Letter from the Board, the principal terms of the Existing Supply Agreement (as supplemented by the Supplemental Agreement) are as follows:

Date	:	Existing Supply Agreement: 12 November 2019 (after the trading hours)
		Supplemental Agreement: 30 September 2020 (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

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- 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

As advised by the Management, the terms of the Existing Supply Agreement (as supplemented by the Supplemental 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.

In assessing the fairness and reasonableness of the terms of the Supplemental Agreement, we have reviewed the terms of the Existing Supply Agreement and the Supplemental Agreement, and noted that the entering into of the Supplemental Agreement is merely for the purpose of revising the Original Annual Caps to the Proposed Revised Annual Caps so as to cater for the possible increase in purchase volume of refined oil by Henan Yanchang from Yanchang Petroleum Group. Save and except for the above, all other terms of the Existing Supply Agreement remain unchanged. In addition, we have discussed with the Management on the terms of the Existing Supply Agreement (as supplemented by the Supplemental 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 ("NDRC"). As mentioned in the Letter from the Board, 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 three years ended 31 December 2019. Pursuant to the Supplemental 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 Supplemental 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

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

- (i) Before every purchase of refined oil, 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 2018 to 31 August 2020 (the “**Review Period**”).

Based on our sample review on the Walk-through Documents, we noted that (i) the transactions under the Previous Supply Agreement for the two years ended 31 December 2019 and the transactions under the Existing Supply Agreement for 8M2020 were carried out in accordance with the Procedure Manual; and (ii) Henan Yanchang would purchase refined oil from Yanchang Petroleum Group under the Previous Supply Agreement and 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.

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Having considered the facts that (i) the terms of the Supplemental 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 Supplemental Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

4. The Proposed Revised Annual Caps for the Transactions

The table below sets forth (i) the Original Annual Caps for the continuing connected transactions contemplated under the Existing Supply Agreement for the three years ending 31 December 2022; and (ii) the Proposed Revised Annual Caps under the Supplemental Agreement for the three years ending 31 December 2022:

Table 2: Annual caps

	For the year ending 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Original Annual Caps	4,020,000	4,020,000	4,020,000
Proposed Revised Annual Caps	7,102,400	9,675,000	12,600,000

According to the Letter from the Board, the Proposed Revised Annual Cap for the year ending 31 December 2020 (the "**Revised 2020 Annual Cap**") was determined with reference to (i) the historical transaction amounts under Existing Supply Agreement for the eight months ended 31 August 2020 was approximately RMB3,223 million, representing approximately 80.2% of the Original Annual Caps for the year ending 31 December 2020; and (ii) the prevailing market demand of refined oil with reference to the increase in sales volume of refined oil by Henan Yanchang increased by approximately 0.84 million tonnes or approximately 50.9% from approximately 1.65 million tonnes for 1H2019 to approximately 2.49 million for 1H2020; and (iii) the percentage of refined oil purchased by Henan Yanchang from Yanchang Petroleum Group of Henan Yanchang's total purchase for the remaining period of the year ending 31 December 2020; (iv) the estimated purchase price of refined oil from Yanchang Petroleum Group; and (v) the expected increase in purchase amount of refined oil by Henan Yanchang from Yanchang Petroleum Group for the remaining period of the year ending 31 December 2020 as marketing team of Henan Yanchang has paid a great number of visits to Ningxia, Guangdong, Jiangsu, Yunnan, Hunan and Shenzhen in an effort to explore market potential and vigorously

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broaden new customer base during the first half of 2020 and the Group's business has been expanded to regions beyond Henan Province by further expanding geographical coverage of its sales network with a focus on the expansion towards south-west and north-west of the PRC and nearly 244 new customers have been acquired in total in 8M2020.

The Proposed Revised Annual Caps for the two years ending 31 December 2021 and 31 December 2022 (the “**Revised 2021 Annual Caps**” and “**Revised 2022 Annual Caps**”, respectively) are determined based on approximately 36% and 30% annual growth rate for the year ending 31 December 2021 and 2022, respectively. In current business development of Henan Yanchang, Henan Yanchang has expanded its business to regions beyond Henan Province by further expanding geographical coverage of its sales network with a focus on the expansion towards south-west and north-west of PRC. In order to develop the north-west market of PRC, Henan Yanchang has entered into a strategic cooperation with a partner to operate an oil depot in Ningxia for expanding wholesale and trading of refined oil business. Henan Yanchang intends to expand its network of terminal gas stations in Ningxia by leveraging the strategic cooperative oil depot and Henan Yanchang has signed a letter of intent for cooperation with a newly-built local gas station. In addition, Henan Yanchang has actively conducted negotiation with four local gas stations in Ningxia in an attempt to establish cooperation relationship. For the continuing business development in Henan region, Henan Yanchang has initially confirmed with intent for cooperation with three gas stations in Zhoukou, Henan. With the above efforts on market expansion and new customers exploration, Henan Yanchang has acquired nearly 244 new customers for 8M2020 which contributed gross revenue of approximately RMB8,526 million by sales of refined oil of approximately 2.0 million tonnes, representing approximately 53% of total gross revenue and 56% of total sales volume of refined oil. The Group will focus on further expansion during the two years ending 31 December 2022 with the current business expansions plan.

In order to assess the fairness and reasonableness of the Proposed Revised Annual Caps, we have discussed with the Management in relation to the estimation of the Revised 2020 Annual Cap and were given to understand that the Revised 2020 Annual Cap was estimated based on the following formula:

$$\text{Revised 2020 Annual Cap} = A + B \times C \times D$$

where

A = the historical transaction amount of refined oil purchased by Henan Yanchang from Yanchang Petroleum Group for 8M2020 (i.e. approximately RMB3,223 million)

B = the estimated total volume of refined oil to be purchased by Henan Yanchang from all suppliers (including but not limited to Yanchang Petroleum Group) from 1 September 2020 to 31 December 2020 (“**Sep-Dec 2020**”) (the “**Estimated Purchase Volume**”) (i.e. approximately 3.0 million tonnes)

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C = the estimated proportion of the total volume of refined oil to be purchased by Henan Yanchang from Yanchang Petroleum Group for Sep–Dec 2020 (the “**Estimated Proportion**”) (i.e. approximately 28.7%)

D = the estimated purchase price of refined oil per tonne (the “**Estimated Purchase Price**”) (i.e. RMB4,500 per tonne)

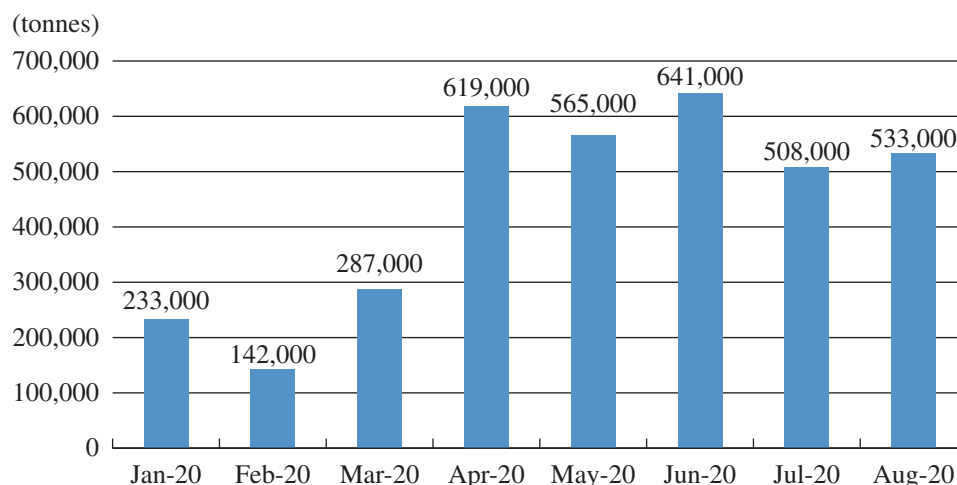
In this regard, we have discussed with the Management about the determination of each of (i) the Estimated Purchase Volume; (ii) the Estimated Proportion; and (iii) the Estimated Purchase Price as detailed below:

(i) the Estimated Purchase Volume

We were given to understand that in determining the Estimated Purchase Volume, the Management first projected the total volume of refined oil to be purchased by Henan Yanchang for Sep–Dec 2020 (the “**Projected Volume**”) based on the actual total volume of refined oil purchased by Henan Yanchang from all suppliers (including but not limited to Yanchang Petroleum Group) for the period from 1 April 2020 to 31 August 2020 (“**Apr–Aug 2020**”) of approximately 2.9 million tonnes (the “**Apr–Aug 2020 Purchase Volume**”) (i.e. approximately 2.9 million tonnes/5*4 = approximately 2.3 million tonnes). The Management then applied a buffer of 30% (the “**Potential Growth Rate**”) to the Projected Volume to come with the Estimated Purchase Volume (i.e. approximately 2.3 million tonnes*(1+30%) = approximately 3.0 million tonnes).

We have enquired with the Management regarding the reason for applying the Apr–Aug 2020 Purchase Volume as a basis of the Projected Volume instead of the total volume of refined oil purchased by Henan Yanchang for 8M2020, and were advised that the outbreak of COVID-19 in early 2020 has vigorously hampered the economic activities in the PRC, leading to the weak demand for refined oil in the first quarter of 2020. The demand for refined oil then demonstrated an exciting rebound after April 2020 as the PRC got COVID-19 under control. The following chart depicts the total volume of refined oil purchased by Henan Yanchang for 8M2020:

Chart 1: Total volume of refined oil purchased by Henan Yanchang for 8M2020



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As shown in Chart 1 above, the average monthly purchase volume of refined oil for Apr–Aug 2020 amounted to approximately 573,000 tonnes, which was significantly higher than that for the period from January 2020 to March 2020 of approximately 221,000 tonnes. In view of the impact of COVID-19 on the PRC’s economics activities and thus the weak demand for refined oil in the first quarter of 2020, we concur with the Management’s view that it is reasonable to use the Apr–Aug 2020 Purchase Volume as a basis of the Projected Volume for Sep–Dec 2020.

In addition, as mentioned in the section headed “*2. Background of, reasons for, and benefits of the entering into of the Supplemental Agreement*” above, Henan Yanchang has put extra effort in market expansion and customer exploration, as well as building up oil depot network in the first half of 2020 under the shadow of the spread of COVID-19 and the plunge in international oil price. Particularly, Henan Yanchang expanded its business to regions beyond Henan Province by further expanding geographical coverage of its sales network with a focus on the expansion towards south-west and north-west of the PRC, and nearly 200 new customers have been procured in the first half of 2020. In view of the above, coupled with the recovery of the PRC’s economic activities from the outbreak of COVID-19 since April 2020, the Management anticipated that the sales of refined oil of Henan Yanchang will further improve in the second half of 2020, and we concur with the Management’s view that it is necessary to provide sufficient buffer to cater for the possible increase in the demand for refined oil for Sep–Dec 2020 by applying the Potential Growth Rate.

To assess the fairness and reasonableness of the Potential Growth Rate, we have obtained from the Management the historical monthly purchase volume of refined oil by Henan Yanchang for FY2019. It is noted that the average monthly purchase volume of refined oil by Henan Yanchang for the period from September 2019 to December 2019 of approximately 365,000 tonnes was higher than that for the period from April 2019 to August 2019 of approximately 284,000 tonnes by approximately 28.7%, which is similar to the Potential Growth Rate of 30%. Accordingly, we consider that the Potential Growth Rate is justifiable.

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(ii) the Estimated Proportion

The historical and estimated proportion of Henan Yanchang's total purchase amount from Yanchang Petroleum Group and independent third party suppliers for the three years ended 31 December 2019, 8M2020 and Sep–Dec 2020 are set out as follow:

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

	For the year ended 31 December				Sep–Dec
	2017	2018	2019	8M2020	2020
	<i>(Historical)</i>	<i>(Historical)</i>	<i>(Historical)</i>	<i>(Historical)</i>	<i>(Estimated)</i>
Yanchang Petroleum Group	6.5%	14.2%	14.1%	19.6%	28.7%
Independent third-party suppliers	93.5%	85.8%	85.9%	80.4%	71.3%
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

As set out in Table 3 above, it is estimated by the Directors that the Estimated Proportion for Sep–Dec 2020 is approximately 28.7%. We noted that the Estimated Proportion for Sep–Dec 2020 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 ended 31 December 2019 and for 8M2020. 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 favorable 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, and 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. Indeed, the proportion of purchase volume of refined oil by Henan Yanchang from Yanchang Petroleum Group has increased gradually from approximately 6.5% for the year ended 31 December 2017 to approximately 14.1% for FY2019, and further to approximately 19.6% for 8M2020.

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Furthermore, Henan Yanchang would purchase refined oil from Yanchang Petroleum Group only when the terms offered by Yanchang Petroleum Group (including the pricing terms) are no less favourable to the Group than those offered by independent third party suppliers to the Group for such oil of comparable product type and quantity at the relevant time. 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 section headed "2. *Background of, reasons for, and benefits of the entering into of the Supplemental 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 RMB4,500 per tonne. To assess the fairness and reasonableness of the Estimated Purchase Price, we have discussed with the Management and were advised that the price of refined oil to be supplied by Yanchang Petroleum Group to Henan Yanchang under the Existing Supply Agreement (as supplemented by the Supplemental Agreement) will be determined with reference to the average weekly selling price of refined oil quoted from NDRC. In this regard, we have reviewed the relevant documents in respect of the average selling price of refined oil (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) (the "**NDRC Quoted Average Price**") issued by NDRC. It is noted that the average purchase price of refined oil purchased by Henan Yanchang from Yanchang Petroleum Group of approximately RMB4,490 per tonne for Apr–Aug 2020 and approximately RMB4,665 per tonne for 8M2020 represent a discount of approximately 18.4% (the "**Apr–Aug 2020 Discount Rate**") and approximately 19.3% (the "**Jan–Aug 2020 Discount Rate**"), respectively, to the NDRC Quoted Average Price of approximately RMB5,501 per tonne and approximately RMB5,778 per tonne for the relevant periods. As advised by the Management, the Estimated Purchase Price was determined by the Management with reference to (i) the Apr–Aug 2020 Discount Rate; and (ii) the average of the NDRC Quoted Average Price in August 2020. Based on the information published by NDRC, the average of the NDRC Quoted Average Price in August 2020 was approximately RMB5,572 per tonne, and that the Estimated Purchase Price represents a discount of approximately 19.2% to the NDRC Quoted Average Price in August 2020, which is similar to the Apr–Aug 2020 Discount Rate and the Jan–Aug 2020 Discount Rate. As such, we consider that the Estimated Purchase Price is justifiable.

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In view of the foregoing, and upon our review on the calculation of the Revised 2020 Annual Cap, we are of the view that the Revised 2020 Annual Cap was determined by the Management under reasonable ground and due care, and that the Revised 2020 Annual Cap is justifiable, fair and reasonable so far as the Company and the Independent Shareholders are concerned.

In addition, we have discussed with the Management about the determination of the Revised 2021 Annual Cap and the Revised 2022 Annual Cap. We were given to understand that in determining the Revised 2021 Annual Cap and the Revised 2022 Annual Cap, the Management applied estimated growth rates (the “**Estimated Growth Rates**”) of approximately 36% and approximately 30% to the Revised 2020 Annual Cap and the Revised 2021 Annual Cap, respectively, to come up with the Revised 2021 Annual Cap and the Revised 2022 Annual Cap. We have enquired the Management about the basis of determination of the Estimated Growth Rates, and were given to understand that in determining the Estimated Growth Rates, they have taken into consideration the expected increase in sales volume of refined oil by Henan Yanchang with reference to the historical growth rate of sales volume of refined oil by Henan Yanchang for 1H2020 as compared to that of 1H2019, assuming that the Estimated Proportion and the Estimated Purchase Price remain constant for the two years ending 31 December 2021 and 31 December 2022. As mentioned in the section headed “*2. Background of, reasons for, and benefits of the entering into of the Supplemental Agreement*” above, Henan Yanchang has been putting extra effort in market expansion and customer exploration, as well as building up oil depot network in the first half of 2020 under the shadow of the spread of COVID-19 and the plunge in international oil price. Particularly, Henan Yanchang expanded its business to regions beyond Henan Province by further expanding geographical coverage of its sales network with a focus on the expansion towards south-west and north-west of the PRC. In addition, Henan Yanchang entered into a strategic cooperation with a partner to operate an oil depot in Ningxia for expanding wholesale and trading of refined oil business, substantially developing the north-west market. Besides, Henan Yanchang intended to expand its network of terminal gas stations in Ningxia by leveraging the strategic cooperative oil depot. Currently, Henan Yanchang has signed a letter of intent for cooperation with a newly-built local gas station and will continue to conduct negotiation with 4 local gas stations in Ningxia in an attempt to establish cooperation relationship. For the continuing business development in Henan region, Henan Yanchang has initially confirmed with intent for cooperation with 3 gas stations in Zhoukou, Henan. With the effort paid by the management of Henan Yanchang for the business expansion, 244 new customers have been procured for 8M2020, contributing approximately 53% of the total gross revenue and approximately 56% of total sales volume of refined oil of Henan Yanchang in the same period. In the coming two years, Henan Yanchang will continue to further expand the geographical coverage of its sales network in the PRC with an aim to procure 150 new customers per year. Accordingly, the Directors are confident that the demand for refined oil from Henan Yanchang’s customers will remain encouraging in the next two years. Furthermore, we

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have obtained from the Management the purchase volume and sales volume of refined oil of Henan Yanchang for the period from April 2019 to August 2019 (“**Apr–Aug 2019**”) and for Apr–Aug 2020 as summarized below:

Table 4: Henan Yanchang’s total purchase volume and sales volume of refined oil in Apr–Aug 2019 and Apr–Aug 2020

	Apr–Aug 2019	Apr–Aug 2020	Growth rate
	<i>(tonne)</i>	<i>(tonne)</i>	<i>(Approximate %)</i>
Purchase volume of refined oil	1,419,000	2,866,000	102.0 (the “ Apr–Aug 2020 Purchase Growth Rate ”)
Sales volume of refined oil	1,419,000	2,866,000	102.0 (the “ Apr–Aug 2020 Sales Growth Rate ”)

As shown in Table 4 above, the Apr–Aug 2020 Purchase Growth Rate and the Apr–Aug 2020 Sales Growth Rate are approximately 102.0%, which are much higher than the Estimated Growth Rates. On a conservative basis, the Management determined to set the Estimated Growth Rates at a lower level of approximately 36% and approximately 30% for each of the years ending 31 December 2021 and 31 December 2022, respectively. Having considered the facts that (a) it is the business strategy of Henan Yanchang to further expand the geographical coverage of its sales network in the PRC with an aim to procure 150 new customers in each of 2021 and 2022; and (b) the Estimated Growth Rates (i) are adopted by the Management to capture the future business expansion for the two years ending 31 December 2021 and 31 December 2022; (ii) were estimated by the Management under due and careful consideration and on a conservative basis; and (iii) are lower than both of the Apr–Aug 2020 Purchase Growth Rate and the Apr–Aug 2020 Sales Growth Rate, we consider that the adoption of the Estimated Growth Rates is reasonable.

Upon our review on the calculation of the Revised 2021 Annual Cap and the Revised 2022 Annual Cap, we are of the view that the Revised 2021 Annual Cap and the Revised 2022 Annual Cap were determined by the Management under reasonable ground and due care, and that the Revised 2021 Annual Cap and the Revised 2022 Annual Cap 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 Revised Annual Caps relate to future events and do not represent a forecast of transaction amounts to be incurred as a result of the Transactions. Consequently, we express no opinion as to how closely the actual transaction amounts of the Transactions correspond with the Proposed Revised Annual Caps as discussed above.

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5. Reporting requirements and conditions of the Transactions

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

- (a) Each year, the independent non-executive Directors must review the Transactions and confirm in the annual report and accounts of the Company that the 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 Existing Supply Agreement (as supplemented by the Supplemental 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 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 Existing Supply Agreement (as supplemented by the Supplemental Agreement) governing the Transactions; and
 - (iv) have exceeded the Proposed Revised Annual Caps;
- (c) the Company must allow, and ensure that the relevant counterparties to the Transactions allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the 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 Transactions under the Existing Supply Agreement (as supplemented by the Supplemental Agreement). Taking into account the aforementioned reporting requirements attached to the Transactions, in particular, (i) the restriction of the value of the Transactions by way of the

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Proposed Revised Annual Caps; and (ii) the on-going review by the independent non-executive Directors and auditors of the Company of the Transactions, we are of the view that there exist appropriate measures to monitor the conduct of the Transactions so as to ensure that the Transactions contemplated under the Existing Supply Agreement (as supplemented by the Supplemental 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 Supplemental Agreement is in the ordinary and usual course of business of the Group and the terms of the Supplemental 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 favour of the relevant resolution(s) at the SGM to approve the entering into of the Supplemental Agreement and the transactions contemplated thereunder (including the Proposed Revised 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	0.003%
Dr. Mu Guodong ("Dr. Mu")	Personal interest and interest of spouse ^(Note)	Long position	300,000	0.002%

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

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

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

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

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

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

Out of these 12,686,203,231 shares, 6,189,473,684 shares were issued on 15 May 2020. On 15 May 2020, the convertible bonds in aggregate principal amount of US\$60,000,000 issued by the Company were fully converted into 6,189,473,684 ordinary shares of HK\$0.02 each at the conversion price of HK\$0.076 per share pursuant to a subscription agreement entered into on 12 October 2018.

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 be acquired or disposed of by or leased to any members of the Group since 31 December 2019, 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 References are made to the profit warning announcement dated 3 August 2020, the interim report for the six months ended 30 June 2020 dated 27 August 2020 regarding the performance of the Group for the six months ended 30 June 2020 and the related information included therein. Save as disclosed in the publication above, 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 2019 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 Supplemental Agreement and the transactions contemplated thereunder and the Proposed Revised 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 2019 (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 Existing Supply Agreement;
- (b) the Supplemental Agreement;
- (c) the letter from the Independent Board Committee, the text of which is set out on pages 16 to 17 of this circular;
- (d) 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 18 to 38 of this circular;
- (e) the memorandum of association and the bye-laws of the Company;
- (f) the annual report of the Company for the year ended 31 December 2017;
- (g) the annual report of the Company for the year ended 31 December 2018;
- (h) the annual report of the Company for the year ended 31 December 2019;
- (i) the interim report of the Company for the six months ended 30 June 2020;
- (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 Queensway and Victoria Room, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, 30 October 2020 at 3:30 p.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT:**

subject to the fulfilment of the terms and conditions set out in the supplemental agreement dated 30 September 2020 (the “**Supplemental 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 Supplemental 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 supply of refined oil from Yanchang Petroleum Group to Henan Yanchang for the three years ending 31 December 2022:

- (i) the Supplemental Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (ii) the Proposed Revised Annual Caps for the continuing connected transactions contemplated under the Existing Supply Agreement for the three years ending 31 December 2022, being approximately RMB7,102 million, RMB9,675 million and RMB12,600 million, respectively be and are hereby approved; and

NOTICE OF THE SGM

- (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 Supplemental Agreement and the transactions contemplated thereunder and the Proposed Revised Annual Caps.”

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

Hong Kong, 9 October 2020

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, 23 October 2020. 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, 23 October 2020.

PRECAUTIONARY MEASURES FOR THE SGM

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

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

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

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

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

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