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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)

**SUPPLEMENTAL ANNOUNCEMENT
CONTINUING CONNECTED TRANSACTIONS
SALES OF REFINED OIL
TO CONNECTED PARTIES**

Reference is made to the announcement of Yanchang Petroleum International Limited (the “**Company**”) dated 22 March 2021 (the “**Announcement**”) in relation to, among others, the Sales of Refined Oil to Connected Parties and the annual report of Company for the year ended 31 December 2020 (the “**Annual Report**”). Unless otherwise defined herein, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement and the Annual Report.

SUPPLEMENTAL INFORMATION ON THE SALES OF REFINED OIL

The Board wishes to provide the Shareholders and potential investors of the Company with additional information in relation to the Sales of Refined Oil as follows:

As set out in the Announcement and Annual Report, the relevant historical transaction amounts of the Sales of Refined Oil for the period from 1 January 2021 to date of the Announcement and Annual Report was approximately RMB7.1 million. After the Board’s review of the Henan Yanchang’s operation and certain orders request received from the Connected Parties from time to time, Henan Yanchang has therefore decided to continue the Sales of Refined Oil and the total Sales of Refined Oil from 1 January 2021 and up to the date of this announcement was approximately RMB 23.2 million.

Given the Board’s recent review of the Henan Yanchang’s business development and the benefits from the Sales of Refined Oil, Henan Yanchang would like to continue the Sales of Refined Oil with Yanan Energy Chemical and Yanchang Shell Henan through entering into the Sales Agreements. Details of the Sales Agreements please refer to below contents related to the Sales Agreements in this announcement.

SUPPLEMENTAL INFORMATION – CONTINUING CONNECTED TRANSACTIONS – SALES AGREEMENTS

Given the Board's recent review of the Henan Yanchang's business development with the prevailing market conditions and the long-term support and strong momentum from Yanan Energy Chemical and Yanchang Shell Henan with stable demand of refined oil and by-products, Henan Yanchang could steadily enhance its business development and further enhance and open up more business opportunities between the Group and Yanchang Petroleum Group.

The Board announces that on 13 May 2021 (after trading hours), Henan Yanchang entered into the Sales Agreements with Yanan Energy Chemical and Yanchang Shell Henan, respectively pursuant to which Henan Yanchang has agreed to sell, Yanan Energy Chemical and Yanchang Shell Henan has agreed to purchase refined oil and by-products for the three years ending 31 December 2023.

Henan Yanchang is a non wholly-owned subsidiary of the Company, while Yanan Energy Chemical is a wholly-owned subsidiary of and Yanchang Shell Henan is a non wholly-owned subsidiary of Yanchang Petroleum Group, being a substantial Shareholder beneficially holding 12,686,203,231 Shares as at the date of this announcement 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 and matters contemplated under the Sales Agreements constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest of applicable percentage ratios in respect of the amount of the Proposed Annual Caps exceeds 5% and the consideration exceeds HK\$10,000,000 on an annual basis, the Sales Transactions are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS – SALES AGREEMENTS

On 13 May 2021 (after trading hours), Henan Yanchang entered into the Sales Agreements with Yanan Energy Chemical and Yanchang Shell Henan in respect of the sales of refined oil and by-products from the Henan Yanchang to Yanan Energy Chemical and Yanchang Shell Henan. The principal terms of which are set out as follows.

Date : 13 May 2021 (after the trading hours)

Parties : (1) Henan Yanchang;
(2) Yanan Energy Chemical; and
(3) Yanchang Shell Henan

Term	: From 1 July 2021 until 31 December 2023, and is renewable for another term of three years under negotiation between both parties at least 60 days prior to the expiry date, subject to the compliance with the Listing Rules
Subject matter	: Henan Yanchang has agreed to sell, Yanan Energy Chemical and Yanchang Shell Henan has agreed to purchase refined oil and by-products on a normal commercial term basis
Pricing basis	: The unit price of refined oil and by-products shall be no less favourable than those offered to other independent third-party customers of Henan Yanchang for the comparable product type and quantity at the relevant time
Payment terms	: The unit price of refined oil and by-products shall be paid by Yanan Energy Chemical and Yanchang Shell Henan upon the receipt of refined oil and by-products. The payment terms offered by Henan Yanchang to Yanan Energy Chemical and Yanchang Shell Henan shall be no less favourable than those offered to other independent third-party customers of Henan Yanchang for the comparable product type and quantity at the relevant time
Condition precedent	: The Independent Shareholders have approved at the SGM in accordance with the Company's memorandum of association and bye-laws and the Listing Rules, the Sales Agreements and the transactions and matters contemplated thereunder

PROPOSED ANNUAL CAPS

The Proposed Annual Caps are set out as follow:

	For the six months ending 31 December 2021	For the year ending 31 December	
	<i>RMB million</i>	2022	2023
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Proposed Annual Caps			
– <i>Yanan Energy Chemical</i>	16	32	42
– <i>Yanchang Shell Henan</i>	120	340	470
	<u>136</u>	<u>372</u>	<u>512</u>
Total	<u><u>136</u></u>	<u><u>372</u></u>	<u><u>512</u></u>

The relevant historical transaction sales amounts of refined oil and by-products from Henan Yanchang to Yanan Energy Chemical and Yanchang Shell Henan are set out as follows:

	For the year ended 31 December			For the period from 1 January 2021 to the date of this announcement
	2018	2019	2020	2021
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Historical transaction amounts				
– <i>Yanan Energy Chemical</i>	–	139.0	18.1	1.0
– <i>Yanchang Shell Henan</i>	1.4	8.1	37.1	10.3
	<u>1.4</u>	<u>147.1</u>	<u>55.2</u>	<u>11.3</u>
Total	<u><u>1.4</u></u>	<u><u>147.1</u></u>	<u><u>55.2</u></u>	<u><u>11.3</u></u>

The Directors estimate that the aggregate sales amount of refined oil and by-products by Henan Yanchang to Yanan Energy Chemical and Yanchang Shell Henan under the Sales Agreements for the six months ending 31 December 2021 and two years ending 31 December 2023 will not exceed RMB136 million, RMB372 million and RMB512 million, respectively.

The Proposed Annual Caps under the Sales Agreements are determined after taking into account: (i) the historical amounts for the sales of refined oil and by-products from Henan Yanchang to Yanan Energy Chemical and Yanchang Shell Henan; (ii) the forecast amounts of sales of refined oil and by-products from Henan Yanchang to Yanan Energy Chemical and Yanchang Shell Henan for the three years ending 31 December 2023; (iii) the unit price per tonne of refined oil and by-products of approximately RMB6,900 and RMB2,400 with reference to the selling price range recently suggested by the National Development and Reform Commission of the PRC and the prevailing market prices, respectively; and (iv) Henan Yanchang holding a valid licence for distribution and sales of refined oil and by-products in the whole PRC.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SALES AGREEMENTS

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 and by-products (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 and by-products in the PRC.

Yanan Energy Chemical and Yanchang Shell Henan are principally engaged in oil and gas processing and sales of oil, gas and by-products.

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 Sales Agreements were 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 than those terms offered by Henan Yanchang to its independent third-party customers for such oil of comparable product type and quantity at the relevant time.

Henan Yanchang is continuing to deepen the partnerships with various customers including Yanan Energy Chemical and Yanchang Shell Henan. The development of direct sales selling external sourcing products has broadened the procurement channels and improved factory sales potential. While fortifying the dominant position in the south-western PRC market, railway direct sales deepened the strategic co-operation with customers beyond Henan Province, and gradually developed towards north-western PRC, Hubei and Hunan. Sales in north-western PRC have increased significantly. The railway direct sales exceeded 100,000

tonnes, hitting historic high in 2020. The expansion of customer base accelerated business transformation, forged professional teams, paid close attention to risk management and control, and extended business chain, with sales volume and results both achieved substantive breakthrough. The cumulative sales volume from external sourcing was over 200% increase year-on-year in 2020.

In view of (i) Henan Yanchang continues to strengthen its business relationships with customers and expand the market for refined oil and by-products; (ii) Henan Yanchang holding valid licence for distribution and sales of refined oil and by-products in the whole PRC, the Group would be able to expand its refined oil and by-products business as well as its sales network in the PRC; and (iii) the unit price of refined oil and by-products offered to Yanan Energy Chemical and Yanchang Shell Henan shall be no less favourable than those offered to other independent third-party customers of Henan Yanchang for the comparable product type and quantity at the relevant time, the Group would be able to expand its refined oil and by-products business in the PRC. The entering into of the Sales Agreements with Yanan Energy Chemical and Yanchang Shell Henan, Henan Yanchang could enhance its business and operation so as to foster its long-term development.

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 Sales Agreements are fair and reasonable so far as the Independent Shareholders are concerned and the entering into the Sales Agreements is in the interests of the Company and the Shareholders as a whole.

IMPLICATION UNDER THE LISTING RULES

Henan Yanchang is a non wholly-owned subsidiary of the Company, while Yanan Energy Chemical is a wholly-owned subsidiary of and Yanchang Shell Henan is a non wholly-owned subsidiary of Yanchang Petroleum Group, being a substantial Shareholder beneficially holding 12,686,203,231 Shares as at the date of this announcement 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 Sales Transactions constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest of applicable percentage ratios in respect of the amount of the Proposed Annual Caps exceeds 5% and the consideration exceeds HK\$10,000,000 on an annual basis, the Sales Transactions are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Yanchang Petroleum Group and its associates shall abstain from voting in favour of the Sales Agreements 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 Sales Agreements and the transactions and matters contemplated thereunder, and accordingly are required to abstain from voting at the SGM.

SGM

The SGM will be convened by the Company to seek approval from the Independent Shareholders for the Sales Agreements and the transactions and matters contemplated thereunder by way of poll. As at the date of this announcement, Yanchang Petroleum Group, being a substantial Shareholder beneficially holding 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.

GENERAL

A circular containing, amongst other things, (i) further details of the Ratification and the Sales Agreements and transactions and matters contemplated thereunder; (ii) the recommendation of the Independent Board Committee; (iii) the letter from an independent financial adviser; and (iv) a notice of the SGM will be despatched to the Shareholders as soon as practicable, which is expected to be on or before 7 June 2021.

Save for the aforesaid, there is no change to the other information disclosed in the Announcement.

DEFINITIONS USED IN THIS ANNOUNCEMENT

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

“PRC”	the People’s Republic of China, which for the purpose of this announcement, excluding Hong Kong and Macao Special Administrative Regions of the PRC and Taiwan
“Proposed Annual Caps”	the proposed annual caps for the continuing connected transactions under the Sales Agreements for each of the three years ending 31 December 2023
“Sales Agreements”	the agreements dated 13 May 2021 entered into between Henan Yanchang and (i) Yanan Energy Chemical; and (ii) Yanchang Shell Henan, respectively, in respect of the sales of refined oil and by-products from Henan Yanchang to Yanan Energy Chemical and Yanchang Shell Henan, respectively for the three years ending 31 December 2023
“Sales of Refined Oil	the sale of refined oil and by-products from Henan Yancheng to the Connected Parties

“Sales Transactions”	transactions for the sales of refined oil and by-products from Henan Yanchang to Yanan Energy Chemical and Yanchang Shell Henan, respectively with terms and conditions in accordance with the Sales Agreements
“Yanan Energy Chemical”	陝西延長石油延安能源化工有限責任公司 (Shaanxi Yanchang Petroleum Yanan Energy Chemical Company Limited*)
“Yanchang Shell Henan”	延長殼牌河南石油有限公司 (Yanchang Shell Henan Petroleum Limited*)

* For identification purposes only

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

Hong Kong, 13 May 2021

Executive Directors:

Mr. Feng Yinguo (*Chairman*)
Mr. Zhang Jianmin
Mr. Ding Jiasheng

Independent Non-Executive Directors:

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