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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
SALES OF REFINED OIL TO CONNECTED PARTIES
AND SALES AGREEMENTS
AND
NOTICE OF THE SPECIAL GENERAL MEETING**

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 6 to 19 of this circular. A letter from the Independent Board Committee containing its recommendation in respect of the Ratification and the Sales Agreements and the transactions and matters contemplated thereunder set out on pages 20 to 21 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 Ratification and the Sales Agreements and the transactions and matters contemplated thereunder is set out on pages 22 to 43 of this circular.

A notice convening a SGM of the Company to be held at Room Tianshan and Lushan, Level 5, Island Shangri-La, Pacific Place, Supreme Court Road, Central, Hong Kong on Monday, 28 June 2021 at 3:30 p.m. is set out on pages 49 to 50 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 51 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 resolutions 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:

“2016–2020 Annual Cap”	the annual cap in respect of the continuing connected transactions for the respective years
“Announcement”	the announcement of the Company dated 22 March 2021 in relation to, among others, the Sales of Refined Oil to Connected Parties
“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 Parties”	中油延長石油銷售股份有限公司 (China Petroleum Yanchang Petroleum Trading Stock Limited Company*), 中油延長石油銷售有限公司榆林分公司 (China Petroleum Yanchang Petroleum Trading Limited Yulin Branch*), 中油延長(舟山)石油化工有限公司 (China Petroleum Yanchang (Zhoushan) Petroleum Chemical Limited*), 中油延長石油銷售股份有限公司延川分公司 (China Petroleum Yanchang Petroleum Trading Stock Limited Yanchuan Branch*), 延長殼牌石油有限公司 (Yanchang Shell Petroleum Limited*), 延長殼牌河南石油有限公司 (Yanchang Shell Henan Petroleum Limited*), 陝西延長石油集團山西銷售有限公司 (Shaanxi Yanchang Petroleum Group Shanxi Trading Limited*), 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*), the associate(s) and/or subsidiary(ies), of Yanchang Petroleum Group

DEFINITIONS

“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transaction(s)”	transaction(s) between the Connected Parties and for the sales of refined oil and by-products from Henan Yanchang to the Connected Parties
“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
“Group”	collectively, the Company and its subsidiaries and associates controlled by the Company 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 to be established to advise the Independent Shareholders on the Ratification and matters contemplated thereunder
“Independent Financial Adviser” or “Astrum”	Astrum Capital Management Limited, a licensed corporation to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Ratification and the Sales Agreements and the transactions and matters contemplated thereunder
“Independent Shareholders”	Shareholders other than Yanchang Petroleum Group and its associates

DEFINITIONS

“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”	2 June 2021, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange and as amended from time to time
“London Stock Exchange”	the London Stock Exchange plc or its successor
“PRC”	the People’s Republic of China, which for the purpose of this circular, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
“Proposed Annual Caps”	the proposed annual caps for the continuing connected transaction under the Sales Agreements for each of the three years ending 31 December 2023
“Ratification”	the ratification of the 2016–2020 Annual Cap by an amount equal to the amount of Sales of Refined Oil for the respective years
“Sales Agreements”	the agreement 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 sales of refined oil and by-products from Henan Yanchang 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

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, modified and supplemented from time to time
“SGM”	the special general meeting of the Company to be convened held for the Independent Shareholders to consider and approve the Ratification and the Sales Agreements 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 Announcement”	the supplemental announcement of the Company dated 13 May 2021 in relation to, among others, the Sales of Refined Oil to Connected Parties and the Sales Agreements
“Transactions”	the Sales of Refined Oil
“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 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
“Yanchang Shell Henan”	延長殼牌河南石油有限公司 (Yanchang Shell Henan Petroleum Limited*)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

DEFINITIONS

“RMB” Renminbi, the lawful currency of the PRC

“%” per cent

Certain English translation of Chinese names or words in this circular are included for information only, and are not official English translations of such Chinese names or words.

* *For identification purpose only*

LETTER FROM THE BOARD



延長石油國際有限公司

YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00346)

Executive Directors:

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

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

7 June 2021

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
SALES OF REFINED OIL TO CONNECTED PARTIES
AND SALES AGREEMENTS**

INTRODUCTION

References are made to (i) the Announcement in relation to, among others, the Continuing Connected Transactions and the Ratification; and (ii) the Supplemental Announcement dated 13 May 2021 in relation to, among others, the Sales Transactions and the relevant historical transaction amounts of Sales of Refined Oil.

During a review of the trading data for the year ended 31 December 2020 in March 2021, the Group discovered that the highest of applicable percentage ratios in respect of the amount of the Sales of Refined Oil for the five years ended 31 December 2020 exceeds 5% and the consideration exceeds HK\$10,000,000 on an annual basis. However, due to an inadvertent oversight, the Company did not fulfill the requirement of entering into a written agreement for the Sales of Refined Oil during such period; and reporting, announcement, circular, independent financial advice, Independent Shareholders' approval, annual caps and annual review requirements in respect of the Sales of Refined Oil under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

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.

Henan Yanchang is a non wholly-owned subsidiary of the Company, while 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 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 Sales of Refined Oil exceeds 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 requirements under Chapter 14A of the Listing Rules.

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.

As at Latest Practicable Date, Yanchang Shell Henan is held by (i) Yanchang Petroleum Group being indirectly holding 46% of its interest; (ii) Shell (China) Co., Limited* (殼牌(中國)有限公司) ("**Shell (China)**") being indirectly holding 45% of its interest; and Shaanxi Tianli Investment Co., Limited* (陝西天力投資有限公司) ("**Shaanxi Tianli**") being indirectly holding 9% of its interest. Shell (China) is integrated energy and petrochemical company and principally engaged in energy related business. Shaanxi Tianli is principally engaged in the investment fund management and energy related business.

To the best of the Directors' knowledge, Shell (China) is a wholly-owned subsidiary of Royal Dutch Shell plc, the shares of which are listed on the London Stock Exchange and specializes in oil and natural gas production and distribution. To the best of the Directors' knowledge, the ultimate beneficial owners of Shaanxi Tianli are Sun Singlei* (孫勝利) and Wang Zeonling* (王俊玲), being holding approximately 19% and 81% interest in Shaanxi Tianli, respectively.

* For identification purpose only

LETTER FROM THE BOARD

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 respectively, 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.

The purpose of this circular is to provide you with information which includes, among other things, (i) further details in respect of the Ratification and the Sales Agreements and the transactions and matters contemplated thereunder; (ii) the letter of recommendation from the Independent Board Committee in respect of the Ratification and the Sales Agreements and the transactions and matters contemplated thereunder; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Ratification and the Sales Agreements and the transactions and matters contemplated thereunder; and (iv) a notice of the SGM.

SALES OF REFINED OIL TO CONNECTED PARTIES

Background

During a review of the trading data for the year ended 31 December 2020 in March 2021, the Group discovered that the highest of applicable percentage ratios in respect of the amount of the Sales of Refined Oil for the five years ended 31 December 2020 exceeds 5% and the consideration exceeds HK\$10,000,000 on an annual basis. However, due to an inadvertent oversight, the Company did not fulfill the requirement of entering into a written agreement for the Sales of Refined Oil during such period; and reporting, announcement, circular, independent financial advice, Independent Shareholders' approval, annual caps and annual review requirements in respect of the Sales of Refined Oil under Chapter 14A of the Listing Rules.

As the Company and its Directors are not aware of the Continuing Connected Transactions and the Company has no intention what-so-ever of not complying the requirements of the Listing Rules. The Company is therefore forthwith in the process of re-complying with the reporting, announcement and Independent Shareholders' approval requirements. The Board will seek the approval of the Independent Shareholders, among other things, to approve the Ratification at the SGM.

LETTER FROM THE BOARD

The Ratification

The Group is principally engaged in the 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.

For the years ended 31 December 2016, 2017, 2018, 2019 and 2020 and up to the Latest Practicable Date, the Group has conducted the sales of refined oil and by-products by Henan Yanchang to the Connected Parties. The relevant historical transaction amounts of Sales of Refined Oil are set out as follows:

	For the year ended 31 December					For the period from 1 January 2021 to the Latest Practicable Date
	2016	2017	2018	2019	2020	
	<i>Approximately RMB million</i>	<i>Approximately RMB million</i>	<i>Approximately RMB million</i>	<i>Approximately RMB million</i>	<i>Approximately RMB million</i>	<i>Approximately RMB million</i>
Historical transaction amounts	111.4	48.5	141.0	348.6	272.6	23.2

During the period from the date of the Announcement and up to the Latest Practicable Date, the transaction amounts of the Sales of Refined Oil were approximately RMB16.1 million. After the date of the Announcement, 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 Latest Practicable Date was approximately RMB23.2 million. The Board expects there will be no Sales of Refined Oil to be conducted before 1 July 2021.

Since and before the 2011, Henan Yanchang has been a non wholly-owned subsidiary of the Company, while Yanchang Petroleum Group, being a substantial Shareholder. As at the Latest Practicable Date, Henan Yanchang is a non wholly-owned subsidiary of the Company, while 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 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 Sales of Refined Oil 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 requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

However, due to an inadvertent oversight, the Company did not fulfill the requirement of entering into a written agreement for the Sales of Refined Oil during such period; and reporting, announcement, circular, independent financial advice, Independent Shareholders' approval, annual caps and annual review requirements in respect of the Sales of Refined Oil for the five years ended 31 December 2020 under Chapter 14A of the Listing Rules.

For the period from 1 January 2021 to the Latest Practicable Date, since one or more of the applicable percentage ratios as defined under the Listing Rules calculated for the Company in respect of the Transactions exceed 0.1% but are less than 5%, the Transactions constitutes continuing connected transactions of the Company subject to the reporting, announcement and annual review requirements but exempt from the Independent Shareholder's approval requirement under Chapter 14A of the Listing Rules. However, due to an inadvertent oversight, the Company did not fulfill the requirements of entering into a written agreement for the Transactions, reporting and announcement under Chapter 14A of the Listing Rules.

Should there be Sales of Refined Oil are expected to be traded from now on, the Company will comply with the relevant requirements in accordance with the Listing Rules such as by publication of a further announcement or to seek approval from independent Shareholders, if applicable.

Basis of determining the 2016–2020 Annual Cap

For Ratification purpose, the 2016–2020 Annual Cap was determined based on the historical amounts of Sales of Refined Oil on annual basis.

Confirmation of the Board

The Directors (including all the independent non-executive Directors) are of the view that (i) the Continuing Connected Transactions for the five years ended 31 December 2020 and the period from 1 January 2021 to the Latest Practicable Date have been conducted in the ordinary and usual course of the business of the Group; and (ii) the Ratification is in the interests of the Company and the Shareholders as a whole.

None of the Directors have any material interest in the Continuing Connected Transactions for which they would be required to abstain from voting on the relevant board resolution approving the Ratification pursuant to the articles of association of the Company.

LETTER FROM THE BOARD

Remedial Measures

The Company would like to emphasise that such non-compliance was inadvertent. The Company and its Directors are not aware of the Continuing Connected Transactions and the Company has no intention what-so-ever of not complying the requirements of the Listing Rules. The Company is therefore forthwith in the process of re-complying with the said requirements of the Listing Rules. The current internal control measure adopted by the Company to ascertain whether a transaction is a connected transaction involves maintaining a list of connected persons and circulating such list together with copies of the relevant extracts of the Listing Rules to the personnel/senior management of each member of the Group. The personnel/senior management of the relevant subsidiary should update from time to time the connected persons list and report any potential connected transaction(s) to the personnel/senior management of the Company in advance in order to ascertain whether there will be any implications under the Listing Rules.

The Company will take further remedial measures to tighten its internal control procedure with a view to ensuring timely compliance with the Listing Rules and to prevent recurrence of similar events. These measures include (1) relevant internal training session will be arranged for all the personnel/senior management involving in all business departments (especially sales and purchases) of the Company's subsidiaries to reinforce and re-explain the relevant requirements under Chapter 14A of the Listing Rules; and (2) for any potential transaction(s) which may constitute new connected transaction(s) of the Group, the Company will consult legal advisers and the Stock Exchange (where necessary) in a timely manner prior to entering into of such transaction(s).

SALES AGREEMENTS

Background

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. 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

LETTER FROM THE BOARD

- 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 with reference to the actual trading price quoted by Henan Yanchang to customers and the unit price paid by Yanan Energy Chemical and Yanchang Shell Henan 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

Pricing terms

The price of refined oil and by-products to be supplied by Henan Yanchang to Yanan Energy Chemical and Yanchang Shell Henan is determined with reference to 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 (the "NDRC") in April 2021 and the prevailing market prices, respectively.

LETTER FROM THE BOARD

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 2022	2023
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Proposed Annual Caps			
– Yanan Energy Chemical	16	32	42
– Yanchang Shell Henan	120	340	470
Total	136	372	512

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 Latest Practicable Date
	2018	2019	2020	Date
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Historical transaction amounts				
– Yanan Energy Chemical	–	139.0	18.1	1.0
– Yanchang Shell Henan	1.4	8.1	37.1	10.3
Total	1.4	147.1	55.2	11.3

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 three years ending 31 December 2023 will not exceed RMB136 million, RMB372 million and RMB512 million, respectively.

LETTER FROM THE BOARD

The Proposed Annual Caps is determined with reference to (i) the historical transaction amounts of Yanchang Shell Henan for the three years ended 31 December 2020 of approximately RMB1.4 million, RMB8.1 million and RMB37.1 million, representing an increase of approximately 358.0% compared with the approximately RMB8.1 million for year ended 31 December 2019 and compound annual growth rate of approximately 414.8% for three years ended 31 December 2020; (ii) the unit price per tonne of refined oil suggested by the NDRC increased from approximately RMB5,800 in January 2021 to approximately RMB6,900 in April 2021, representing an increase of approximately 19.0% during such period of time and approximately RMB5,700 for the year of 2020, representing an increase of approximately 21.1% compared with approximately RMB6,900 in April 2021; and (iii) Yanchang Shell Henan is wholly-owned subsidiary of 延長殼牌石油有限公司 (Yanchang Shell Petroleum Limited*) (“**Yanchang Shell Petroleum**”) and Yanchang Shell Petroleum was established in 2008 with the rapid development from one gas station in 2009 to over 600 gas stations in 2020 and its rapid development will contribute expected increase in demand of refined oil; (iv) the historical transaction amounts of Yanan Energy Chemical for the year ended 31 December 2020 of approximately RMB18.1 million; and (v) the prevailing market price of unit price per tonne of by-products increased from approximately RMB1,800 in 2020 to approximately RMB2,400 in 2021, representing an increase of approximately 33.3%.

According to the Directors’ view, the historical transaction amounts of Yanchang Shell Henan was increased from approximately RMB1.4 million for the year ended 31 March 2018 to approximately RMB37.1 million for the year ended 31 March 2020 was mainly attributable to (i) Yanchang Shell Henan has strengthened development and marketing of its-owned brands to speed up the growth of refined oil business in these years; (ii) Henan Yanchang has expanded its refined oil sales network nearby the gas stations of Yanchang Shell Henan and such distribution network provided synergy effect to capture the market demand of refined oil and also strengthen the demand of refined oil from Yanchang Shell Henan to Henan Yanchang as a result. In 2021, Henan Yanchang received certain requested orders of sales of refined oils from Yanchang Shell Henan and the Directors are of the view that the above factors will sustain the continuous growth in the demand of the refined oil from Yanchang Shell Henan and it is fair and reasonable to estimate the Proposed Annual Caps with considering the possible orders from Yanchang Shell Henan.

The transaction amounts of Yanchang Shell Henan in 2021 of up to the Latest Practicable date was approximately RMB10.3 million was mainly attributable to that the Directors aware the such transactions are subject to the reporting, announcement, annual review and the Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules therefore the sales of refined oil to Yanchang Shell Henan for 2021 was temporarily suspended and the above transaction amounts did not represent the actual demand of refined oil from Yanchang Shell Henan. The Proposed Annual Cap was determined with considering (i) Yanchang Shell Henan would like to further increase its percentage of total purchase of refined oil from Henan Yanchang from approximately 30% for the year ended 31 December 2020 to 60% annually due to closely business relationship established; (ii) Yanchang Shell Henan would like to expand three to five new gas stations annually which will increase its demand of refined oil from Henan

* For identification purpose only

LETTER FROM THE BOARD

Yanchang; and (iii) Yanchang Shell Henan, together with its group members under its directly holding company, Yanchang and Shell Petroleum Company Limited, consumed over 1.4 million tons of refined oil annually and the sales of refined oil from Henan Yanchang to Yanchang Shell Henan of approximately 7,900 tons for the year ended 31 December 2020 represented limited percentage of its demand of refined oil.

Due to the uncertainty of the amounts required of refined oil from Yanchang Shell Henan and fluctuation of market unit price of refined oil from time to time, additional buffer 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 the Independent Shareholders. Yanchang Shell Henan has confirmed that it intends to purchase not less than 15,000 tonnes of refined oil from Henan Yanchang for the six months ending 31 December 2021.

In order to provide sufficient buffer to cater for the possible increase in the demand for refined oil from Yanchang Shell Henan for the rapid growth in its business development, the Directors estimate the maximum sales volume of refined oil shall be approximately 21,800 tonnes for the six months ending 31 December 2021. Besides, the Directors have considered the fluctuation of market unit price per tonne of refined oil increased from approximately RMB5,800 in January 2021 to approximately RMB6,900 in April 2021 and may further increase in the remaining period of 2021. Therefore, the Directors are of the view that the proposed annual cap for the six months ending 31 December 2021 of approximately RMB120 million in monetary value, based on the possible sales of refined oil to Yanchang Shell Henan of 21,800 tonnes at RMB5,500 per tonne (representing a discount of approximately 20% to the refined oil prevailing market price of approximately RMB6,900 per tonne) after considering both uncertainty of price and quantities in sales of refined oil, is fair and reasonable.

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 price, 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 the investment in the oil, gas and energy related business; oil and gas exploration, exploitation and operation; and trading and distribution of oil related products.

LETTER FROM THE BOARD

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 refined oil and by-products 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.

LETTER FROM THE BOARD

The Board (including all the independent non-executive Directors) 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

As at the Latest Practicable Date, 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 subsidiaries of 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 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 (i) the amount of the 2016–2020 Annual Cap; and (ii) the amount of the Proposed Annual Caps exceeds 5% and the consideration exceeds HK\$10,000,000 on an annual basis, respectively, the Sales of Refined Oil and 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 Ratification and 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 Ratification and the Sales Agreements 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 Ratification and the Sales Agreements 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 the approval from the Independent Shareholders for the Ratification 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.

LETTER FROM THE BOARD

The notice convening the SGM to be held at Room Tianshan and Lushan, Level 5, Island Shangri-La, Pacific Place, Supreme Court Road, Central, Hong Kong on Monday, 28 June 2021 at 3:30 p.m. is set out on pages 49 to 50 of this circular. Ordinary resolutions will be proposed at the SGM to approve, among other things, the Ratification and the Sales Agreements and the transactions and matters contemplated thereunder. The resolutions proposed to be approved at the SGM will be taken by poll and an announcement will be made by the Company after the SGM on the result of the SGM.

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

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, as at the Latest Practicable Date, Yanchang Petroleum Group, being 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 Ratification and the Sales Agreements and the transactions and matters contemplated thereunder and are required to abstain from voting at the SGM in relation to the resolutions regarding the Ratification and the Sales Agreements and the transactions and matters contemplated thereunder.

RECOMMENDATIONS

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 20 to 21 of this circular containing the recommendation of the Independent Board Committee to the Independent Shareholders regarding the Ratification and the Sales Agreements; (ii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 22 to 43 of this circular; and (iii) the information set out in the appendix to this circular.

The Independent Board Committee, having taken into account the advice of Astrum, considers that the Continuing Connected Transactions for the five years ended 31 December 2020 are in the ordinary and usual course of business of the Group, on normal commercial terms and on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, it recommends that the Independent Shareholders vote in favour of the resolutions to approve, confirm and ratify the Ratification.

LETTER FROM THE BOARD

The Independent Board Committee, having taken into account the advice of Astrum, considers that the Sales Transactions for the three years ending 31 December 2023 are in the ordinary and usual course of business of the Group, on normal commercial terms and on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, it recommends that the Independent Shareholders vote in favour of the resolutions to approve, confirm and ratify the Sales Agreements.

The Directors consider that the resolutions as set out in the Notice of the SGM are in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend that the Independent Shareholders vote in favour of all resolutions to be proposed at the SGM.

Yours faithfully,
By order of the Board
Yanchang Petroleum International Limited
Mr. Feng Yinguo
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 Ratification and the Sales Agreements and the transactions and matters contemplated thereunder.



延長石油國際有限公司

YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00346)

7 June 2021

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
SALES OF REFINED OIL TO CONNECTED PARTIES
AND SALES AGREEMENTS**

We refer to the circular (the “**Circular**”) dated 7 June 2021 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 Ratification and the Sales Agreements and the transactions and matters contemplated thereunder. 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 22 to 43 of the Circular. Your attention is also drawn to the letter from the Board and the additional information set out in the appendix to the Circular.

After taking into account the factors and reasons considered by Astrum and its conclusion and advice, we concur with its views and consider that (i) the Continuing Connected Transactions for the five years ended 31 December 2020 have been conducted in the ordinary and usual course of business of the Group, on normal commercial terms and on terms that are fair and reasonable; (ii) the Sales Transactions for the three years ending 31 December 2023 are conducted in the ordinary and usual course of business of the Group, on normal commercial terms and on terms that are fair and reasonable; and (iii) the Ratification and the Sales

LETTER FROM INDEPENDENT BOARD COMMITTEE

Agreements are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders should vote in favor of the resolutions to be proposed at the SGM to approve, confirm and ratify the Ratification and the Sales Agreements.

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 Ratification and the Sales Agreements and the transactions and matters 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

7 June 2021

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS SALES OF REFINED OIL TO CONNECTED PARTIES AND SALES AGREEMENTS

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 (i) the ratification of the annual cap in respect of the continuing connected transactions for the five years ended 31 December 2020 by an amount equal to the transaction amount for sales of refined oil and by-products for the respective years (the “**Ratification**”) and matters contemplated thereunder; and (ii) the continuing connected transactions (the “**Sales Transactions**”) contemplated under the sales agreements (the “**Sales Agreements**”) dated 13 May 2021 entered into between 河南延長石油銷售有限公司 (Henan Yanchang Petroleum Sales Co., Limited*, “**Henan Yanchang**”) and (i) 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*, “**Yanan Energy Chemical**”); and (ii) 延長殼牌河南石油有限公司 (Yanchang Shell Henan Petroleum Limited*, “**Yanchang Shell Henan**”), respectively, with the proposed annual caps (the “**Proposed Annual Caps**”). The details of the Ratification and the Sales Transactions are disclosed in the announcements of the Company dated 22 March 2021 (the “**Announcement**”) and 13 May 2021 (the “**Supplemental Announcement**”) and in the letter from the Board (the “**Letter from the Board**”) set out on

LETTER FROM INDEPENDENT FINANCIAL ADVISER

pages 6 to 19 of the circular of the Company dated 7 June 2021 (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.

Since 2016, the Group has conducted the sales of refined oil and by-products by Henan Yanchang to the Connected Parties (namely, 中油延長石油銷售股份有限公司 (China Petroleum Yanchang Petroleum Trading Stock Limited Company*), 中油延長石油銷售有限公司榆林分公司 (China Petroleum Yanchang Petroleum Trading Limited Yulin Branch*), 中油延長(舟山)石油化工有限公司 (China Petroleum Yanchang (Zhoushan) Petroleum Chemical Limited*), 中油延長石油銷售股份有限公司延川分公司 (China Petroleum Yanchang Petroleum Trading Stock Limited Yanchuan Branch*), 延長殼牌石油有限公司 (Yanchang Shell Petroleum Limited*), 延長殼牌河南石油有限公司 (Yanchang Shell Henan Petroleum Limited*) (“**Yanchang Shell Henan**”), 陝西延長石油集團山西銷售有限公司 (Shaanxi Yanchang Petroleum Group Shanxi Trading Limited*) and 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*) (“**Yanan Energy Chemical**”), being the associates and/or subsidiaries of Yanchang Petroleum Group). For the five years ended 31 December 2020, the aggregate transaction amounts for the sales of refined oil and by-products by Henan Yanchang to the Connected Parties amounted to approximately RMB922.1 million.

Henan Yanchang has become a non wholly-owned subsidiary of the Company since 2011, while Yanchang Petroleum Group has remained as a substantial Shareholder since 2010. As at the Latest Practicable Date, Henan Yanchang was 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 Continuing Connected 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 2016 – 2020 Annual Cap (which was determined based on the historical amounts of the Sales of Refined Oil on an annual basis) exceeds 5% and the consideration exceeds HK\$10,000,000 on an annual basis, the Continuing Connected Transactions are subject to the reporting, announcement, annual review and the Independent Shareholders’ approval requirement under Chapter 14A of the Listing Rules.

However, due to an inadvertent oversight, the Company did not fulfill the requirement of entering into a written agreement for the Sales of Refined Oil during such period, and did not comply with the reporting, announcement, circular, independent financial advice, Independent Shareholders’ approval, annual caps and annual review requirements in respect of the Sales of Refined Oil under Chapter 14A of the Listing Rules.

For the period from 1 January 2021 to the Latest Practicable Date, since one or more of the applicable percentage ratios as defined under the Listing Rules calculated for the Company in respect of the Transactions exceed 0.1% but are less than 5%, the Transactions constitutes continuing connected transactions of the Company subject to the reporting, announcement and annual review requirements but exempt from the Independent Shareholder’s approval requirement under Chapter 14A of the Listing Rules. However, due to an inadvertent oversight,

LETTER FROM INDEPENDENT FINANCIAL ADVISER

the Company did not fulfill the requirements of entering into a written agreement for the Transactions, reporting and announcement under Chapter 14A of the Listing Rules. The Company is in the process of re-complying with the reporting, announcement and Independent Shareholders' approval requirements. The Board will seek the approval of the Independent Shareholders, among other things, to approve the Ratification at the SGM.

Given the Board's recent review of the Henan Yanchang's business development with the prevailing market conditions and the considering 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.

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, and each of Yanan Energy Chemical and Yanchang Shell Henan has agreed to purchase refined oil and by-products for the three years ending 31 December 2023.

As at the Latest Practicable Date, Yanchang Shell Henan was held (i) as to 46% by Yanchang Petroleum Group; (ii) as to 45% by Shell (China) Co., Limited* (殼牌(中國)有限公司) ("**Shell (China)**"); and (iii) as to 9% by Shaanxi Tianli Investment Co., Limited* (陝西天力投資有限公司) ("**Shaanxi Tianli**").

Shell (China) is an integrated energy and petrochemical company and is principally engaged in energy related business. As at the Latest Practicable Date, to the best of the Directors' knowledge, Shell (China) is a wholly-owned subsidiary of Royal Dutch Shell plc ("**Royal Shell**"), the shares of which are listed on the London Stock Exchange and specializes in oil and natural gas production and distribution.

Shaanxi Tianli is principally engaged in investment fund management and energy related business. As at the Latest Practicable Date, to the best of the Directors' knowledge, Shaanxi Tianli was held (i) as to 19% by Sun Singlei* (孫勝利); and (ii) as to 81% by Wang Zeonling* (王俊玲).

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 Latest Practicable Date representing approximately 69.19% of the existing issued share capital of the Company. Therefore, Yanan Energy Chemical and Yanchang Shell Henan are connected persons 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.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Yanchang Petroleum Group and its associates shall abstain from voting in favour of the Ratification, 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 Ratification, the Sales Agreements, 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 as to (i) whether the terms of the Continuing Connected Transactions are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned, and the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole; and (ii) whether the terms of the Sales Agreements are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned, and the Sales Transactions are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote on the resolutions in respect of the Ratification, the Sales Agreements, and the transactions and matters contemplated thereunder to be proposed 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, Yanchang Petroleum Group and the Connected Parties (including Yanan Energy Chemical and Yanchang Shell Henan) 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); (ii) the renewal of continuing connected transactions (details of which were set out in the circular of the Company dated 29 November 2019); and (iii) the revision of annual caps for the continuing connected transactions (details of which were set out in the circular of the Company dated 9 October 2020), there was no other engagement between the Group and Astrum Capital Management Limited. Apart from the normal advisory fees payable to us for the relevant engagement in relation to the Ratification and the Sales 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 Ratification and the Sales Transactions.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have reviewed, *inter alia*, the Announcement, the Supplemental Announcement, the Circular, the Sales Agreements and the annual reports of the Company for the financial years ended 31 December 2019 and 31 December 2020. 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 Ratification and the Sales 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 Ratification and the Sales Transactions, 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 Ratification, the Sales Agreements, and the transactions and matters contemplated thereunder. Except for the inclusion in the Circular, this letter shall not be quoted or referred to, in whole or in part, nor shall it be used for any other purposes, without our prior written consent.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing whether the terms of the Continuing Connected Transactions and the Sales Transactions 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. Background of, reasons for, and benefits of the Continuing Connected Transactions and the Sales Transactions

According to the Letter from the Board, the Group is principally engaged in the 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 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 and by-products (gasoline, diesel oil, paraffin fuel oil, lubricating oil, grease and asphalt). Henan Yanchang was granted a valid licence for the distribution and sale of refined oil and by-products in the PRC (without expiry date) on 21 December 2006. 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. According to the financial reports of the Company, revenue derived from the Group's trading business of refined oil and by-products amounted to approximately HK\$5,660.5 million, approximately HK\$7,968.6 million and approximately HK\$27,161.0 million for the three years ended 31 December 2020, respectively, representing approximately 95.4%, approximately 97.2% and approximately 99.6% of the Group's total revenue for the respective years. During the same periods, Henan Yanchang contributed operating profit of approximately HK\$20.2 million, approximately HK\$42.4 million and approximately HK\$57.3 million to the Group, respectively.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

In its ordinary course of business, Henan Yanchang has been from time to time selling refined oil and by-products to different customers (including but not limited to the Connected Parties). The following table sets out the trading volume and transaction amount of sales of refined oil and by-products by Henan Yanchang to the Connected Parties (including Yanan Energy Chemical and Yanchang Shell Henan) and independent customers for the five years ended 31 December 2020 and for the period from 1 January 2021 to the Latest Practicable Date:

Table 1: the historical trading volume and transaction amount of sales of refined oil and by-products

Sales volume of refined oil and by-products	For the year ended 31 December					For the period from 1 January 2021 to the Latest Practicable Date
	2016	2017	2018	2019	2020	Date
	<i>tonnes</i>	<i>tonnes</i>	<i>tonnes</i>	<i>tonnes</i>	<i>tonnes</i>	<i>tonnes</i>
Connected Parties	25,208	10,164	20,280	107,472	68,629	5,006
– Yanan Energy Chemical	–	–	–	70,862	12,300	491
– Yanchang Shell Henan	–	18	203	1,370	7,904	2,202
– Other Connected Parties	25,208	10,146	20,077	35,240	48,424	2,313
Independent customers	4,176,188	2,745,171	3,174,089	3,646,863	5,958,524	1,434,441
Total	4,201,396	2,755,335	3,194,369	3,754,335	6,027,153	1,439,447
Transaction amounts for sales of refined oil and by-products	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Connected Parties	111.4	48.5	141.0	348.6	272.6	23.2
– Yanan Energy Chemical	–	–	–	139.0	18.1	1.0
– Yanchang Shell Henan	–	0.1	1.4	8.1	37.1	10.3
– Other Connected Parties	111.4	48.4	139.6	201.5	217.3	11.9
Independent customers	18,292.9	13,788.1	19,631.9	20,926.5	31,002.8	7,026.2
Total	18,404.3	13,836.6	19,772.9	21,275.1	31,275.4	7,049.4

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As shown in the table above, the aggregate transaction amounts for the sales of refined oil and by-products by Henan Yanchang to the Connected Parties amounted to approximately RMB922.1 million for the five years ended 31 December 2020. As advised by the Management, after identifying the non-compliance of the Listing Rules requirements due to an inadvertent oversight, Henan Yanchang did not enter into any new sales agreement with the Connected Parties (including Yanan Energy Chemical and Yanchang Shell Henan) in respect of the supply of refined oil and by-products since the date of the Announcement. Save for those transactions contemplated under the existing sales agreements which have been entered into prior to the date of the Announcement, no other sales of refined oil and by-products to the Connected Parties (including Yanan Energy Chemical and Yanchang Shell Henan) has been conducted from the date of the Supplemental Announcement.

Upon the Board's recent review of Henan Yanchang's business development with the prevailing market conditions and having considered the long-term support and strong momentum from Yanan Energy Chemical and Yanchang Shell Henan with stable demand of refined oil and by-products, it is expected that Henan Yanchang will continue to enter into transactions of similar nature with Yanan Energy Chemical and Yanchang Shell Henan from time to time as part of its ordinary course of business. Accordingly, 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, and each of Yanan Energy Chemical and Yanchang Shell Henan has agreed to purchase, refined oil and by-products for the six months ending 31 December 2021 ("**6M2021**") and the two years ending 31 December 2022 ("**FY2022**") and 31 December 2023 ("**FY2023**"). As advised by the Management, Yanan Energy Chemical and Yanchang Shell Henan are principally engaged in oil and gas processing and sales of oil, gas and by-products, and have commenced to purchase refined oil and by-products from Henan Yanchang since 2019 and 2017, respectively. The Directors considered that the entering into of the Sales Agreements with Yanan Energy Chemical and Yanchang Shell Henan could enhance the business and operation of Henan Yanchang so as to foster its long-term development. We have enquired with and were advised by the Management that Henan Yanchang will only re-commence the supply of refined oil and by-products to Yanan Energy Chemical and Yanchang Shell Henan after obtaining the Independent Shareholders' approval at the SGM.

Having considered the facts that (i) it is the ordinary and usual course of business of the Group to sell refined oil for its trading business; (ii) the refined oil trading business represents a major revenue stream for the Group; (iii) it is expected that Henan Yanchang will continue to supply refined oil and by-products to Yanan Energy Chemical and Yanchang Shell Henan from time to time as part of its ordinary course of business; (iv) Yanan Energy Chemical and Yanchang Shell Henan provide the long-term support and strong momentum to Henan Yanchang with stable demand for refined oil and by-products; and (v) the terms of the Continuing Connected Transactions and the Sales Agreements (including the Proposed Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned (please refer to our analysis as detailed in the sections headed "*2. Terms of the Continuing Connected Transactions*", "*3. Terms of the Sales Transactions*" and "*4. The Proposed Annual Caps*" below), we concur with the Management's view that the Continuing Connected Transactions and the entering into of the Sales Agreements are in the interests of the Company and the Shareholders as a whole.

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2. Terms of the Continuing Connected Transactions

As advised by the Management, the Company did not enter into a master agreement with the Connected Parties in respect of the Sales of Refined Oil. The terms of the Continuing Connected Transactions were negotiated based regarding normal commercial terms and the selling prices of refined oil were determined after arm's length negotiation between Henan Yanchang and the Connected Parties and are no less favourable to the Company than those offered to other customers of Henan Yanchang who are independent third parties for the comparable product type at the relevant time.

In assessing the fairness and reasonableness of the terms of the Continuing Connected Transactions, we have discussed with the Management regarding the terms of the Continuing Connected Transactions (in particular, the pricing terms), and were advised that the selling price of refined oil and by-products offered by Henan Yanchang to the Connected Parties were determined with reference to the selling price quoted from the National Development and Reform Commission of the PRC (“**NDRC**”) and the prevailing market price, respectively.

Notwithstanding that the Company did not enter into a master agreement with the Connected Parties in respect of the Sales of Refined Oil, the Management advised us that the selling price of refined oil and by-products paid by the Connected Parties to Henan Yanchang were not lower than that offered by Henan Yanchang to its independent third party customers for the comparable product type at the relevant time. In this regard, we have obtained and reviewed 3 sets of sample trading records (including but not limited to meeting notes for approving the transactions, value-added tax invoice and payment record) (the “**Trading Records**”) provided by the Group in respect of the supply of refined oil and by-products by Henan Yanchang to the Connected Parties and the independent third parties for each of the five years ended 31 December 2020 and the four months ended 30 April 2021 (the “**Review Period**”). Based on our sample review on the Trading Records, we noted that the selling price offered by Henan Yanchang to the Connected Parties were not lower than those offered to independent third parties for such comparable product type at the relevant time. Therefore, we are of the view that the pricing terms of the Continuing Connected Transactions are fair and reasonable.

3. Terms of the Sales Transactions

According to the Letter from the Board, the principal terms of the Sales Agreements are as follows:

Date : 13 May 2021 (after the trading hours)

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

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- 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 with reference to actual trading price quoted by Henan Yanchang to customers and the unit price to be paid by 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
- Pricing terms : The price of refined oil and by-products to be supplied by Henan Yanchang to Yanan Energy Chemical and Yanchang Shell Henan is determined with reference to the average weekly selling price of refined oil (the “**NDRC Quoted Average Price**”) quoted from NDRC and the prevailing market prices, respectively
- 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 the 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

According to the Letter from the Board, the Sales Agreements were entered into in the usual and ordinary course of the Group’s business and the terms of which were negotiated between the parties to the Sales Agreements based on normal commercial terms.

In assessing the fairness and reasonableness of the terms of the Sales Agreements, we have reviewed, and discussed with the Management, the Sales Agreements (including but not limited to the pricing policy). Pursuant to the Sales Agreements, the selling price of refined oil and by-products payable by Yanan Energy Chemical and Yanchang Shell Henan to Henan Yanchang 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 Management further advised us that the selling price of refined oil is determined by Henan Yanchang with reference to the NDRC Quoted Average Price quoted from NDRC, whereas the selling price of by-products is determined by Henan Yanchang with reference to the prevailing

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market price. Generally, the actual selling price of refined oil was at a discount of approximately 10% to 30% to the NDRC Quoted Average Price.

In addition, we were given to understand by the Management that Henan Yanchang has designed a procedure manual (the “**Procedure Manual**”) in respect of sales of refined oil and by-products under the Sales Agreements. We have obtained from the Management, and reviewed, the Procedure Manual, the details of which were summarized as below:

- (i) The Group has a standard pricing policy for its sales of refined oil and by-products which is applicable to all customers. Upon receipt of purchase orders from customers, the Sales Department of Henan Yanchang is responsible for preparing quotations (including but not limited to type of product, selling price, quantity, payment term and transportation mode). The basis of determining the selling prices of the products to be supplied by Henan Yanchang will be with reference to the NDRC Quoted Average Price and the prevailing market prices of similar products. After obtaining the approval from the senior management of the Sales Department, the Sales Department will provide the quotations to the customers.
- (ii) Following the quotations confirmed by the customers, Henan Yanchang will deliver the relevant products to the customers based on the quotations.
- (iii) The customers will then settle the consideration amount payable for such refined oil and/or by-products based on the actual quantities of the relevant products received.

Having considered the facts that (i) the terms of the Sales Agreement were negotiated based on normal commercial terms; (ii) the selling price of refined oil and by-products payable by Yanan Energy Chemical and Yanchang Shell Henan to Henan Yanchang shall be no less favourable to the Company than those offered to other independent third-party customers of Henan Yanchang for the comparable product type and quantity at the relevant time, and the selling price of refined oil and by-products is determined by Henan Yanchang with reference to the NDRC Quoted Average Price and the prevailing market price, respectively, we consider that the terms of the Sales Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

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4. The Proposed Annual Caps

The table below sets forth the Proposed Annual Caps under the Sales Agreements for 6M2021, FY2022 and FY2023:

	6M2021	FY2022	FY2023
	<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
	<hr/>	<hr/>	<hr/>
Total	136	372	512
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

According to the Letter from the Board, the Proposed Annual Caps under the Sales Agreements are determined after taking into account: (i) the historical transaction amounts of Yanchang Shell Henan for the three years ended 31 December 2020 of approximately RMB1.4 million, RMB8.1 million and RMB37.1 million, representing an increase of approximately 358.0% as compared with the approximately RMB8.1 million for the year ended 31 December 2019 (“FY2019”) and a compound annual growth rate of approximately 414.8% for three years ended 31 December 2020; (ii) the unit price per tonne of refined oil suggested by NDRC increased from approximately RMB5,800 in January 2021 to approximately RMB6,900 in April 2021, representing an increase of approximately 19.0% during such period of time and approximately RMB5,700 for the year of 2020, representing an increase of approximately 21.1% compared with approximately RMB6,900 in April 2021; and (iii) Yanchang Shell Henan is wholly-owned subsidiary of 延長殼牌石油有限公司 (Yanchang Shell Petroleum Limited*) (“Yanchang Shell Petroleum”) and Yanchang Shell Petroleum was established in 2008 with the rapid development from one gas station in 2009 to over 600 gas stations in 2020 and its rapid development will contribute expected increase in demand for refined oil; (iv) the historical transaction amounts of Yanan Energy Chemical for the year ended 31 December 2020 (“FY2020”) of approximately RMB18.1 million; and (v) the prevailing market price of unit price per tonne of by-products increased from approximately RMB1,800 in 2020 to approximately RMB2,400 in 2021, representing an increase of approximately 33.3%.

Yanan Energy Chemical

Since 2019, Henan Yanchang has commenced to supply methanol to Yanan Energy Chemical and acts as one of Yanan Energy Chemical’s major suppliers of methanol. As advised by the Management, save for methanol, Henan Yanchang did not supply any other types of refined oil or by-products to Yanan Energy Chemical, and it is expected that Henan Yanchang will mainly supply methanol to Yanan Energy Chemical for the three years ending 31 December 2023. In order to assess the fairness and reasonableness of the annual caps for the transactions contemplated under the Sales Agreement entered into between Henan Yanchang and Yanan Energy Chemical for 6M2021, FY2022 and FY2023 (the “YEC

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Annual Caps”), we have discussed with the Management in relation to the determination of the YEC Annual Caps and were given to understand that the YEC Annual Cap for each of 6M2021, FY2022 and FY2023 was estimated based on the following formulas:

$$\text{YEC Annual Cap} = A \times B$$

where

A = the estimated total volume of methanol to be supplied by Henan Yanchang to Yanan Energy Chemical for 6M2021, FY2022 and FY2023 (the “**Estimated Methanol Volume**”)

B = the estimated selling price of methanol per tonne (the “**Estimated Methanol Selling Price**”) (i.e. RMB2,200 per tonne)

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

(i) the Estimated Methanol Volume

Upon our review on the calculation of the YEC Annual Caps, we noted that the Estimated Methanol Volume for 6M2021, FY2022 and FY2023 are 7,300 tonnes, 14,500 tonnes and 19,100 tonnes (the “**6M2021 Methanol Volume**”, the “**FY2022 Methanol Volume**” and the “**FY2023 Methanol Volume**”, respectively). We were given to understand that in determining the 6M2021 Methanol Volume, the Management first projected the total volume of methanol to be supplied by Henan Yanchang for 6M2021 based on the actual total volume of methanol supplied by Henan Yanchang to Yanan Energy Chemical for the year ended 31 December 2020 of approximately 12,300 tonnes (i.e. approximately 12,300 tonnes/12*6 = approximately 6,150 tonnes, the “**Pro-rata Methanol Volume**”). The Management then applied a buffer of 18% to the Pro-rata Methanol Volume to come up with the 6M2021 Methanol Volume of approximately 7,300 tonnes (i.e. approximately 6,150 tonnes*(1+18%)). In respect of the Estimated Methanol Volume for FY2022 and FY2023, the Management expected that the FY2022 Methanol Volume of approximately 14,500 tonnes will be at a level similar to the annualized volume of the 6M2021 Methanol Volume (i.e. approximately 7,300 tonnes/6*12), while the Management applied a buffer of 31% to the FY2022 Methanol Volume to come up with the FY2023 Methanol Volume of approximately 19,100 tonnes (i.e. approximately 14,500 tonnes*(1+31%)).

We have discussed with the Management regarding the basis of determination for the Estimated Methanol Volume, and were given to understand that the Estimated Methanol Volume was determined by the Management after the discussion with Yanan Energy Chemical. Yanan Energy Chemical advised the Management that the profit

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margin of sales of methanol is, to a certain extent, correlated to the retail market price of methanol. The higher the retail market price of methanol is, the higher the profit margin Yanan Energy Chemical can gain. Accordingly, following the decrease in the average retail market price of methanol from approximately RMB2,146 per tonne for FY2019 to approximately RMB1,772 per tonne for FY2020, Yanan Energy Chemical has reduced the total purchase volume of methanol from Henan Yanchang from approximately 70,900 tonnes for FY2019 to approximately 12,300 tonnes for FY2020. According to the statistics published by the National Bureau of Statistics of China, the retail market price of methanol was RMB2,434 per tonne in late April 2021, representing an increase of approximately 37.4% as compared to the average retail market price of methanol of approximately RMB1,772 per tonne in FY2020. In view of the increasing trend of the retail market price of methanol, Yanan Energy Chemical expressed that it intends to increase their purchase volume of methanol from Henan Yanchang in the coming years.

Given that (i) the actual total volume of methanol supplied by Henan Yanchang to Yanan Energy Chemical reached approximately 70,900 tonnes for FY2019, representing approximately 4.9 times as compared to the annualized volume of the 6M2021 Methanol Volume of approximately 14,500 tonnes; and (ii) Yanan Energy Chemical intends to increase their purchase volume of methanol from Henan Yanchang in the coming year in view of the increase in the retail market price of methanol, coupled with the recovery of the PRC's economic activities from the outbreak of COVID-19 recently, the Management anticipated that the sales of refined oil and by-products of Henan Yanchang will further improve in the coming months, and we concur with the Management's view that it is necessary to provide sufficient buffer to cater for the possible increase in the supply of methanol to Yanan Energy Chemical by applying the potential growth rate of 18% and 31% to come up with 6M2021 Methanol Volume and the FY2023 Methanol Volume.

(ii) the Estimated Methanol Selling Price

The Management expects that the Estimated Methanol Selling Price will be RMB2,200 per tonne. To assess the fairness and reasonableness of the Estimated Methanol Selling Price, we have discussed with the Management and were advised that the selling price of methanol to be supplied by Henan Yanchang to Yanan Energy Chemical under the Sales Agreement will be determined with reference to the prevailing market price of methanol. In this regard, we have reviewed the relevant documents in respect of the retail market price of methanol (calculated based on the wholesale and retail price quoted by around 2,000 major enterprises in 31 provinces (including autonomous regions and municipalities) in the PRC issued by the National Bureau of Statistics of China (the "**Methanol Market Price**"). It is noted that the selling price of methanol supplied by Henan Yanchang to Yanan Energy Chemical of approximately RMB1,962 per tonne for FY2019, approximately RMB1,472 per tonne for FY2020 and approximately RMB1,967 per tonne for the four months ended 30 April 2021 represent a discount of approximately 8.6%, approximately 16.9% and

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approximately 13.7% (the “**Methanol Discount Rate**”), respectively, to the Methanol Market Price of approximately RMB2,146 per tonne, approximately RMB1,772 per tonne and approximately RMB2,280 per tonne for the relevant periods. As advised by the Management, the Estimated Methanol Selling Price was determined by the Management with reference to (i) the Methanol Market Price in late April 2021; and (ii) the Methanol Discount Rate. Based on the information published by National Bureau of Statistics of China, the Methanol Market Price in late April 2021 was approximately RMB2,433 per tonne, and that the Estimated Methanol Selling Price represents a discount of approximately 10% to the Methanol Market Price in late April 2021, which is similar to the Methanol Discount Rate. As such, we consider that the Estimated Methanol Selling Price is justifiable.

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

Yanchang Shell Henan

Since 2017, Henan Yanchang has commenced to supply refined oil to Yanchang Shell Henan and acts as one of Yanchang Shell Henan’s major suppliers of refined oil. In order to assess the fairness and reasonableness of the annual caps for the transactions contemplated under the Sales Agreement entered into between Henan Yanchang and Yanchang Shell Henan for 6M2021, FY2022 and FY2023 (the “**YSH Annual Caps**”), we have discussed with the Management in relation to the determination of the YSH Annual Caps and were given to understand that the YSH Annual Cap for each of 6M2021, FY2022 and FY2023 was estimated based on the following formula:

$$\text{YSH Annual Cap} = A \times B$$

where

A = the estimated total volume of refined oil to be supplied by Henan Yanchang to Yanchang Shell Henan for 6M2021, FY2022 and FY2023 (the “**Estimated Refined Oil Volume**”)

B = the estimated selling price of refined oil per tonne (the “**Estimated Refined Oil Selling Price**”) (i.e. RMB5,500 per tonne)

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

(i) the Estimated Refined Oil Volume

Upon our review on the calculation of the YSH Annual Caps, we noted that the Estimated Refined Oil Volume for 6M2021, FY2022 and FY2023 are 21,800 tonnes, 61,800 tonnes and 85,500 tonnes (the “**6M2021 Refined Oil Volume**”, the “**FY2022 Refined Oil Volume**” and the “**FY2023 Refined Oil Volume**”, respectively). We were given to understand that in determining the 6M2021 Refined Oil Volume, the Management first projected the total volume of refined oil to be supplied by Henan Yanchang for 6M2021 based on the actual total volume of refined oil supplied by Henan Yanchang to Yanchang Shell Henan for FY2020 of approximately 7,900 tonnes (i.e. approximately $7,900 \text{ tonnes}/12 \times 6 =$ approximately 3,950 tonnes, the “**Pro-rata Refined Oil Volume**”). The Management then applied the estimated growth rate of approximately 452% to the Pro-rata Refined Oil Volume to come up with the 6M2021 Refined Oil Volume of approximately 21,800 tonnes (i.e. approximately $3,950 \text{ tonnes} \times (1 + 452\%)$). In respect of the Estimated Refined Oil Volume for FY2022 and FY2023, the Management applied the estimated growth rates of approximately 42% and approximately 38% to the annualized volume of the 6M2021 Refined Oil Volume (i.e. approximately $21,800 \text{ tonnes}/6 \times 12$) and the FY2022 Refined Oil Volume, respectively, to come up with the FY2022 Refined Oil Volume and the FY2023 Refined Oil Volume.

We have enquired with the Management regarding the reasons for using the Pro-rata Refined Oil Volume as a basis of the 6M2021 Refined Oil Volume instead of the total volume of refined oil supplied by Henan Yanchang to Yanchang Shell Henan of approximately 2,200 tonnes during the period from 1 January 2021 to the Latest Practicable Date, and were advised that after identifying the non-compliance of the Listing Rules requirements due to an inadvertent oversight, Henan Yanchang did not enter into any new sales agreement with Yanchang Shell Henan in respect of the supply of the refined oil and by-products since the date of the Announcement. Save for those transactions contemplated under the existing sales agreements which have been entered into prior to the date of the Announcement, no other sales of refined oil to Yanchang Shell Henan has been conducted from the date of the Supplemental Announcement. Accordingly, the Management considers that the trading volume of refined oil for the period from 1 January 2021 to the Latest Practicable Date did not represent the actual demand for refined oil from Yanchang Shell Henan for the said period. Furthermore, in determining the Estimated Refined Oil Volume, the Directors have also considered the seasonal effect of the trading of refined oil. In general, the sales volume of refined oil of Henan Yanchang in the first quarter is lower than those in the remaining quarters due to the effect of the Spring Festival travel season in the

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PRC. Therefore, we have reviewed the total sale volume of refined oil of Henan Yanchang for the three years ended 31 December 2020. The following table sets out the total volume of refined oil sold by Henan Yanchang to its customers (including but not limited to Yanchang Shell Henan) for the three years ended 31 December 2020:

Table 2: Sale volume of refined oil of Henan Yanchang

	FY2018		FY2019		FY2020	
	'000 tonnes	%	'000 tonnes	%	'000 tonnes	%
First quarter	601.4	18.8	855.6	23.5	656.8	13.1
Second quarter	757.5	23.7	842.8	23.1	1,463.5	29.1
Third quarter	935.3	29.3	899.1	24.7	1,338.5	26.6
Fourth quarter	897.6	28.1	1,046.0	28.7	1,573.7	31.3
Total	3,191.9	100.0	3,643.4	100.0	5,032.5	100.0

As shown in Table 2 above, the average proportion of sale volume of refined oil of Henan Yanchang for the first quarter of the past three years was approximately 18.5%, which was relatively lower than that for the remaining quarters. In view of the cease of sales of refined oil since the date of the Announcement (save for those transactions contemplated under the existing sales agreements which have been entered into prior to the date of the Announcement) and the impact of the seasonal effect as demonstrated above, we concur with the Management's view that it is reasonable to use the Pro-rata Refined Oil Volume, instead of the total volume of refined oil supplied by Henan Yanchang to Yanchang Shell Henan during the period from 1 January 2021 to the Latest Practicable Date, as a basis of the 6M2021 Refined Oil Volume.

We have discussed with the Management regarding the basis of determination for the Estimated Refined Oil Volume, and the Management advised us that they have taken into consideration the expected increase in sales volume of refined oil by Henan Yanchang to Yanchang Shell Henan after the discussion with Yanchang Shell Henan and with reference to (i) the historical growth rate of sales volume of refined oil of approximately 477% for FY2020 as compared to that of FY2019; and (ii) the potential increase in demand for refined oil from Yanchang Shell Henan. Yanchang Shell Henan advised the Management that it intends to (i) expand its network of terminal gas stations in Henan Province, the PRC; and (ii) increase the proportion of purchase volume of refined oil from Henan Yanchang after considering the long-term relationship with Henan Yanchang and the extensive sales network of Henan Yanchang in Henan Province, the PRC.

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To assess the fairness and reasonableness of the estimated growth rate of the Estimated Refined Oil Volume, we have studied the background of Yanchang Shell Henan, and noted that Royal Shell (being the holding company of Shell (China), which is, in turn, holding 45% equity interest of Yanchang Shell Henan) is one of the leading energy and petrochemical companies in the world and operates its energy retail business in the PRC under the well-known brand named “Shell” through over 10 joint ventures established with local enterprises in the PRC. As at the Latest Practicable Date, there were over 1,500 Shell gas stations across 21 provinces, municipalities and special administration regions in the PRC, among which over 600 gas stations are operated by Yanchang Shell Petroleum, the immediate holding company of Yanchang Shell Henan. We were advised by the Management that Yanchang Shell Petroleum was established in 2008 with the rapid development from one gas station in 2009 to over 600 gas stations in 2020. In 2017, Yanchang Shell Henan was established to commence and focus on the development of the energy retail business by providing high-quality fuel and convenience products in Henan Province, the PRC. As at the Latest Practicable Date, Yanchang Shell Henan operated 15 Shell gas stations in Henan Province, the PRC. Based on the Management’s understanding, it is the intention of Yanchang Shell Henan to further expand its network of terminal gas stations in Henan Province, the PRC by establishing three to five new gas stations annually. On the other hand, we were further advised by the Management that Yanchang Shell Henan aims to substantially raise its proportion of purchase volume of refined oil from Henan Yanchang from approximately 30% for the year ended 31 December 2020 to approximately 60% annually after considering its long-term relationship with Henan Yanchang and the gradually expanding sales network of Henan Yanchang in Henan Province, the PRC. It is expected that the demand of Yanchang Shell Henan for refined oil from Henan Yanchang would significantly increase following the gradual expansion of its network of terminal gas stations in Henan Province, the PRC and the increase in proportion of purchase volume of refined oil from Henan Yanchang. According to the Letter from the Board, Yanchang Shell Henan has confirmed that it intends to purchase not less than 15,000 tonnes of refined oil from Henan Yanchang for 6M2021.

In addition, we have studied the consumption volume of refined oil in the PRC. According to the statistics released by NDRC, the consumption volume of refined oil in the PRC amounted to approximately 101.1 million tonnes for the four months ended 30 April 2021, representing an increase of approximately 9.8% as compared to the corresponding period of the previous year. In particular, the consumption volume of gasoline in the PRC increased by approximately 14.4% for the same period.

Given that (i) the historical growth rate of sales volume of refined oil of approximately 477% for FY2020 as compared to that of FY2019; (ii) the potential increase in purchase volume of refined oil from Henan Yanchang by Yanchang Shell Henan having taken into account (a) the business expansion of Yanchang Shell Henan; (b) the intended increase in the proportion of purchase volume of refined oil of Yanchang Shell Henan from Henan Yanchang; and (c) the increase in consumption

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volume of refined oil in the PRC; and (iii) Yanchang Shell Henan has confirmed that it intends to purchase not less than 15,000 tonnes of refined oil from Henan Yanchang for 6M2021, coupled with the recovery of the PRC's economic activities from the outbreak of COVID-19 recently, the Management anticipated that the sales of refined oil by Henan Yanchang to Yanchang Shell Henan will significantly increase in the coming years, and we concur with the Management's view that it is necessary to provide flexibility to the Group to cater for the possible increase in the supply of refined oil to Yanchang Shell Henan by applying the potential growth rate of 42% and 38% to come up with FY2022 Refined Oil Volume and the FY2023 Refined Oil Volume.

(ii) the Estimated Refined Oil Selling Price

The Management expects that the Estimated Refined Oil Selling Price will be RMB5,500 per tonne. To assess the fairness and reasonableness of the Estimated Refined Oil Selling Price, we have discussed with the Management and were advised that the price of refined oil to be supplied by Henan Yanchang to Yanchang Shell Henan under the Sales Agreement will be determined with reference to the NDRC Quoted Average Price. In this regard, we have reviewed the relevant documents of the NDRC Quoted Average Price 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) issued by NDRC. It is noted that the selling price of refined oil supplied by Henan Yanchang to Yanchang Shell Henan of approximately RMB5,887 per tonne for FY2019, approximately RMB4,698 per tonne for FY2020 and approximately RMB4,694 per tonne for the four months ended 30 April 2021 represent a discount of approximately 14.1%, approximately 17.1% and approximately 26.7% (the "**Refined Oil Discount Rate**"), respectively, to the NDRC Quoted Average Price of approximately RMB6,852 per tonne, approximately RMB5,669 per tonne and approximately RMB6,403 per tonne for the relevant periods. As advised by the Management, the Estimated Refined Oil Selling Price was determined by the Management with reference to (i) the NDRC Quoted Average Price in late April 2021; and (ii) the Refined Oil Discount Rate. Based on the information published by NDRC, the NDRC Quoted Average Price in late April 2021 was approximately RMB6,860 per tonne, and that the Estimated Refined Oil Selling Price represents a discount of approximately 20% to the NDRC Quoted Average Price in late April 2021, which is similar to the Refined Oil Discount Rate. As such, we consider that the Estimated Refined Oil Selling Price is justifiable.

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

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

5. Internal Control

As stated in the Letter from the Board, the current internal control measure adopted by the Company to ascertain whether a transaction is a connected transaction involves maintaining a list of connected persons and circulating such list together with copies of the relevant extracts of the Listing Rules to the personnel/senior management of each member of the Group. The personnel/senior management of the relevant subsidiary should update from time to time the connected persons list and report any potential connected transaction to the personnel/senior management of the Company in advance in order to ascertain whether there will be any implications under the Listing Rules. The Company will take further remedial measures to tighten its internal control procedure with a view to ensuring timely compliance with the Listing Rules and to prevent recurrence of similar events. These measures include (1) relevant internal training session will be arranged for all the personnel/senior management involving in all business departments (especially sales and purchases) of the Company's subsidiaries to reinforce and re-explain the relevant requirements under Chapter 14A of the Listing Rules; and (2) for any potential transaction(s) which may constitute new connected transaction(s) of the Group, the Company will consult legal advisers and the Stock Exchange (where necessary) in a timely manner prior to entering into of such transaction(s).

Having discussed with the Management and considered the internal control procedures as set out above, we are of the view that the aforementioned enhanced internal control procedures adopted by the Company are adequate.

6. Reporting requirements and conditions of the Sales Transactions

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

- (a) Each year, the independent non-executive Directors must review the Sales Transactions and confirm in the annual report and accounts of the Company that the Sales 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 Sales Agreements governing them on terms that are fair and reasonable and in the interests of the Group and the Shareholders as a whole;

LETTER FROM INDEPENDENT FINANCIAL ADVISER

- (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 Sales 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 Sales Agreements governing the Sales Transactions; and
 - (iv) have exceeded the Proposed Annual Caps;
- (c) the Company must allow, and ensure that the relevant counterparties to the Sales Transactions allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Sales 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 Sales Transactions under the Sales Agreements. Taking into account the aforementioned reporting requirements attached to the Sales Transactions, in particular, (i) the restriction of the value of the Sales Transactions by way of the Proposed Annual Caps; and (ii) the on-going review by the independent non-executive Directors and auditors of the Company of the Sales Transactions, we are of the view that there exist appropriate measures to monitor the conduct of the Sales Transactions so as to ensure that the Sales Transactions contemplated under the Sales Agreements 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.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

OPINION

Having taken into account the above principal factors and reasons, we consider that (i) the terms of the Continuing Connected Transactions are on normal commercial terms, and fair and reasonable, and that the Continuing Connected Transactions are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Sales Agreements are on normal commercial terms, and fair and reasonable, and that the Sales Transactions are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favor of the relevant resolution(s) at the SGM to approve the Ratification, the Sales Agreements, and the transactions and matters contemplated thereunder.

Yours faithfully,

For and on behalf of

Astrum Capital Management Limited

Hidulf Kwan

Rebecca Mak

Managing Director

Director

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

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

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.

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 2020, being the date to which the latest published audited financial statements of the Group were made up.

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

5. SERVICE CONTRACTS

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

6. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration or claims which would materially and adversely affect the operations of the Company and no litigation, arbitration or claims which would materially and adversely affect the operations of the Company is known to the Directors to be pending or threatened by or against any members of the Group.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2020 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 Ratification and the Sales Agreements and the transactions and matters contemplated thereunder

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 2020 (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 Sales Agreements;
- (b) the letter from the Independent Board Committee, the text of which is set out on pages 20 to 21 of this circular;
- (c) the letter from Astrum Capital Management Limited to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 22 to 43 of this circular;
- (d) the memorandum of association and the bye-laws of the Company;
- (e) the written consent referred to in the paragraph headed "Expert's qualification and consent" in this appendix; and
- (f) this circular.

NOTICE OF THE SGM



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 THE 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 Room Tianshan and Lushan, Level 5, Island Shangri-La, Pacific Place, Supreme Court Road, Central, Hong Kong on Monday, 28 June 2021 at 3:30 p.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

“THAT:

- (1) (a) the Ratification and the transactions and matters contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the 2016–2020 Annual Cap for the continuing connected transactions of sales of refined oil and by-products from Henan Yanchang to the Connected Parties for the five years ended 31 December 2020, being approximately RMB111.4 million, RMB48.5 million, RMB141.0 million, RMB348.6 million and RMB272.6 million, respectively be and are hereby approved;
- (c) 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 Ratification and the transactions and matters contemplated thereunder; and
- (2) (a) the Sales Agreements and the transactions and matters contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the proposed annual caps for the continuing connected transactions of sales of refined oil and by-products from Henan Yanchang to Yanan Energy Chemical for the three years ending 31 December 2023, being approximately RMB16 million, RMB32 million and RMB42 million, respectively be and are hereby approved;

NOTICE OF THE SGM

- (c) the proposed annual caps for the continuing connected transactions of sales of refined oil and by-products from Henan Yanchang to Yanchang Shell Henan for the three years ending 31 December 2023, being approximately RMB120 million, RMB340 million and RMB470 million, respectively be and are hereby approved; and
- (d) 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 Sales Agreements and the transactions and matters contemplated thereunder.”

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

Hong Kong, 7 June 2021

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 Tuesday, 22 June 2021. 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 Tuesday, 22 June 2021.

PRECAUTIONARY MEASURES FOR THE SGM

In view of the ongoing 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 resolutions 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.