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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)

**CONNECTED TRANSACTIONS
SUPPLEMENTAL FACILITY AGREEMENT**

SUPPLEMENTAL FACILITY AGREEMENT

References are made to the announcement of the Company dated 5 November 2019 and the circular of the Company dated 29 November 2019 in relation to, among others, the Facility Agreement. On 20 December 2019, Novus drew down the principal amount of US\$35 million pursuant to the Facility Agreement, which is repayable in three years from the utilisation date. On 6 December 2022 (after trading hours), Novus (as the borrower) entered into the Supplemental Facility Agreement with Yanchang Petroleum HK (as the lender), pursuant to which Yanchang Petroleum HK has conditionally agreed to renew the Loan.

IMPLICATION UNDER THE LISTING RULES

Novus is an indirect-wholly owned subsidiary of the Company in Canada. As at the date of this announcement, Yanchang Petroleum HK is the Controlling Shareholder of the Company holding 12,686,203,231 Shares, representing approximately 69.19% of the issued share capital of the Company. As such, Yanchang Petroleum HK is a connected person of the Company as defined under the Listing Rules. Hence, the transactions contemplated under the Supplemental Facility Agreement will constitute connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio in respect of the Loan exceeds 5% and the consideration exceeds HK\$10,000,000, the Supplemental Facility Agreement is subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Yanchang Petroleum HK is the Controlling Shareholder of the Company, Yanchang Petroleum HK and its associates shall abstain from voting in favour of the Supplemental Facility Agreement and the transactions and matters contemplated thereunder at the SGM. Save for Yanchang Petroleum HK and its associates, to the best knowledge, information and belief of the Directors, no other Shareholders or any of their respective associates have a material interest in the Supplemental Facility Agreement and the transactions and matters contemplated thereunder, and accordingly are required to abstain from voting at the SGM.

INTRODUCTION

References are made to the announcement of the Company dated 5 November 2019 and the circular of the Company dated 29 November 2019 in relation to, among others, the Facility Agreement. On 20 December 2019, Novus drew down the Loan pursuant to the Facility Agreement, which is repayable in three years from the utilisation date. On 6 December 2022 (after trading hours), Novus (as the borrower) entered into the Supplemental Facility Agreement with Yanchang Petroleum HK (as the lender), pursuant to which Yanchang Petroleum HK has conditionally agreed to renew the Loan.

THE SUPPLEMENTAL FACILITY AGREEMENT

The principal terms of the Supplemental Facility Agreement are summarised as follows:

Date:	6 December 2022
Parties:	(1) Novus (as borrower); and (2) Yanchang Petroleum HK, (as lender)
Principal amount:	US\$35 million
Interest rate:	4.8% per annum, which shall be payable every three months from the Renewal Request Date. If any interest payment date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next Business Day in that calendar month (if any) or the preceding Business Day
Term:	Commencing from the Renewal Request Date and expiring on the third anniversary of the Renewal Request Date

Conditions precedent: Completion of the Supplemental Facility Agreement is subject to the following principal conditions precedent:

- (1) Novus and Yanchang Petroleum HK having obtained all necessary approvals in relation to the Supplemental Facility Agreement, including but not limited to passing relevant board resolutions to approve the Supplemental Facility Agreement;
- (2) Novus and Yanchang Petroleum HK having obtained all necessary approvals from the relevant regulatory authorities (including the Stock Exchange) in relation to the Supplemental Facility Agreement; and
- (3) the Independent Shareholders having approved the Supplemental Facility Agreement at the SGM.

Repayment arrangement: The Loan shall be repayable in full at maturity.

Security: The Loan is secured by the Debenture as described under the paragraph headed “Debenture” as below in this announcement.

DEBENTURE

The Loan is secured by the Debenture with details summarised as follows:

- Parties:
- (1) Novus (as borrower); and
 - (2) Yanchang Petroleum HK, (as lender)

Principal sum: US\$70 million

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

- (2) a first priority security interest to and over all of Novus' present and after-acquired personal property, tangible and intangible, in each case, of every nature and kind and wherever situate and all proceeds thereof; and
- (3) a floating charge over all of Novus' property to the extent not otherwise described above (excluding any agreement, right, franchise, intellectual property, licence or permit).

When considering the terms of the Debenture, the Board took into account the previous debenture that Novus had given to a bank in Canada and considers that the terms of the Debenture are comparable or better.

INFORMATION ON THE PARTIES TO THE SUPPLEMENTAL FACILITY AGREEMENT

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

Yanchang Petroleum HK is a company incorporated in Hong Kong with limited liability which is directly-wholly owned by Yanchang Petroleum Group. As at the date of this announcement, Yanchang Petroleum HK is the Controlling Shareholder of the Company holding 12,686,203,231 Shares, representing approximately 69.19% of the issued share capital of the Company. Accordingly, the Yanchang Petroleum HK is a connected person of the Company.

The principal activities of Yanchang Petroleum HK are investment holding and trading of crude oil. The principal activities of Yanchang Petroleum Group include oil and gas exploration, engineering construction, technical research and development, equipment manufacturing, oil and gas development, petrochemical engineering, oil refining, comprehensive chemical engineering of oil, gas, coal, and salt, and pipeline transport.

REASONS FOR AND BENEFITS OF ENTERING INTO SUPPLEMENTAL FACILITY AGREEMENT

As disclosed in the interim report of the Company for the six months ended 30 June 2022 (“**2022 Interim Report**”), in the first half of 2022, international crude oil prices continued to surge and reached their new heights since 2014, which was mainly due to, among others, the geopolitical concerns over the supply risks in the international crude oil market. At the same time, the demand for oil continued to increase as the global economy accelerated its recovery pace in the post-pandemic era.

Novus is engaged in the business of exploration, exploitation and production of oil and natural gas in Western Canada. The operation of Novus in the first half of 2022 was adversely affected by higher costs, tight service resources and other adverse factors. Despite the above, its overall operation remained stable as it overcame various market uncertainties and actively implemented its 2022 production ramp-up programme. Novus reported a cumulative after-tax revenue of approximately CAD28.90 million with expenses of approximately CAD17.58 million in the first half of 2022, and net operating income of approximately CAD11.32 million. Net income of Novus in the first half of 2022 was approximately CAD8.13 million, representing an increase of approximately CAD8.06 million as compared with the corresponding period in 2021. Novus' net revenue per barrel in the first half year was approximately CAD25.2 per barrel, the highest ever and was approximately 96% higher than the second highest year in 2014.

As at the date of this announcement, the outstanding principal amount drawn down under the Facility Agreement is US\$35 million (equivalent to approximately HK\$273.0 million), and Novus is required to repay all outstanding amount on or prior to 19 December 2022. In addition, on 3 September 2021, the Company drew down a secured term loan of US\$22 million ("**2021 Loan**"), pursuant to a loan agreement entered between the Company and Yanchang Petroleum HK on 30 June 2021. The 2021 Loan bears interest rate at 4.8% per annum and repayable in three years from the utilisation date (i.e. 3 September 2024). According to the unaudited condensed financial statement of Novus for the six months ended 30 June 2022, the cash and net asset value of Novus were amounted to approximately CAD 7.98 million (equivalent to approximately HK\$45.88 million) and CAD122.12 million (equivalent to approximately HK\$702.19 million) as at 30 June 2022, respectively. Although the management of Novus has approached several banks in Canada for re-financing of the Loan, such banks refuse to provide the relevant proposal upon the date of this announcement.

According to the 2022 Interim Report, the cash and bank balances of the Group were amounted to approximately HK\$477.0 million as at 30 June 2022, of which approximately HK\$420.0 million was maintained in the subsidiaries of the Group in the PRC, which would be used for maintaining their daily operation in the PRC, and can only be transferred to countries and regions outside the PRC through burdensome and time-consuming administrative procedures, therefore, it is not expected that the Company would have sufficient internal resources to inject into Novus to repay the outstanding principal amount of US\$35.0 million drawn down under the Facility Agreement upon maturity.

Having approached by the Company to several banks in Hong Kong, which banks declined to provide loan financing to the Company in view of the Group's financial position, high leverage and lacking available local assets charges. The Company has also considered equity financing such as convertible bonds, placing, rights issue or open offer. The Company will need to undergo a relatively lengthy process in order to (i) identify suitable investor(s), underwriter(s) and negotiate terms agreeable to the Company; (ii) prepare the requisite compliance and legal documentation, including but not limited to subscription agreement(s), underwriting agreement(s), announcement(s), circular(s) and prospectus(es). In addition, the Directors consider that such fund raising exercises would incur more transaction costs including but not limited to placing/underwriting commission; such corporate exercises would be more time-consuming given the lengthy process of identifying potential placee(s) and/or underwriter(s); and that the current market situation is unfavourable for equity fund raising.

The renewal of the Loan demonstrates the continuous financial support provided by the Controlling Shareholder of the Company to the Group. The terms of the Supplemental Facility Agreement, including the applicable interest rate, are entered into after arm's length negotiations between the parties and taking into account, among others, the prevailing market interest rates and practices.

Taking into account (i) the repayment of the Loan on or prior to 19 December 2022, (ii) the financial situation of Novus as discussed above, (iii) the cash level to be maintained for the daily operation of the Company's subsidiaries in the PRC, and (iv) the alternative funding methods tried but unsuccessfully by Novus and the Company, respectively, the Directors (excluding the independent non-executive Directors who will express their view after considering the advice from the Independent Financial Adviser) are of the opinion that though the Supplemental Facility Agreement is not entered in the ordinary and usual course of business, the terms of the Supplemental Facility Agreement are on normal commercial terms, fair, reasonable and in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

Novus is an indirect-wholly owned subsidiary of the Company in Canada. As at the date of this announcement, Yanchang Petroleum HK is the Controlling Shareholder holding 12,686,203,231 Shares, representing approximately 69.19% of the issued share capital of the Company. As such, Yanchang Petroleum HK is a connected person of the Company as defined under the Listing Rules. Hence, the transactions contemplated under the Supplemental Facility Agreement will constitute connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio in respect of the Loan exceeds 5% and the consideration exceeds HK\$10,000,000, the Supplemental Facility Agreement is subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Yanchang Petroleum HK is the Controlling Shareholder of the Company, Yanchang Petroleum HK and its associates shall abstain from voting in favour of the Supplemental Facility Agreement and the transactions and matters contemplated thereunder at the SGM. Save for Yanchang Petroleum HK, to the best knowledge, information and belief of the Directors, no other Shareholders or any of their respective associates have a material interest in the Supplemental Facility Agreement and the transactions and matters contemplated thereunder, and accordingly are required to abstain from voting at the SGM.

Independent Board Committee

An Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders in relation to, among other things, the Supplemental Facility Agreement and the transactions and matters contemplated thereunder and on how to vote. VBG Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in these regards.

SGM

The SGM will be convened by the Company to seek approval from the Independent Shareholders for the Supplemental Facility Agreement and the transactions and matters contemplated thereunder by way of poll. As at the date of this announcement, Yanchang Petroleum HK, being a substantial Shareholder 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 and hence Yanchang Petroleum HK, together with its associates, will abstain from voting at the SGM.

General

A circular containing, amongst other things, (i) details of the Supplemental Facility Agreement; (ii) the recommendation of the Independent Board Committee; (iii) the letter from the Independent Financial Adviser; and (iv) a notice of the SGM will be despatched to the Shareholders as soon as practicable, which is expected to be on or before 29 December 2022.

DEFINITION USED IN THIS ANNOUNCEMENT

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

“associate(s)”	has the meaning ascribed thereto 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
“CAD”	Canadian Dollars, the lawful currency of Canada
“Company”	Yanchang Petroleum International Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 00346)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder”	has the meaning ascribed thereto under the Listing Rules
“Debenture”	the debenture given in favour of Yanchang Petroleum HK by Novus as security for the Loan
“Director(s)”	the director(s) of the Company
“Facility Agreement”	the agreement in relation to a loan facility entered into between Novus and Yanchang Petroleum HK on 5 November 2019
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors to be established to advise the Independent Shareholders on the Supplemental Facility Agreement and the transactions and matters contemplated thereunder
“Independent Financial Adviser”	VBG Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Facility Agreement and the transactions and matters contemplated thereunder
“Independent Shareholders”	Shareholders other than Yanchang Petroleum HK and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange and as amended from time to time
“Loan”	the loan granted to Novus by Yanchang Petroleum HK in the principal amount of US\$35 million drawn down by Novus pursuant to the Facility Agreement
“Novus”	Novus Energy Inc., a company incorporated in Canada with limited liability and is indirect-wholly owned by the Company
“PRC”	the People’s Republic of China, which shall, for the purpose of the Supplemental Facility Agreement, exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Renewal Request Date”	the date on which the Loan is to be renewed
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, approve the Supplemental Facility Agreement and the transactions and matters contemplated thereunder
“Shareholder(s)”	holder(s) of the Shares

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Facility Agreement”	the agreement in relation to the renewal of the Loan entered into between Novus and Yanchang Petroleum HK on 6 December 2022
“Yanchang Petroleum Group”	陝西延長石油（集團）有限責任公司 (Shaanxi Yanchang Petroleum (Group) Co., Limited), a state-owned corporation registered in the PRC with limited liability, being 100% directly interested in Yanchang Petroleum HK
“Yanchang Petroleum HK”	Yanchang Petroleum Group (Hong Kong) Co., Limited (延長石油集團（香港）有限公司), a company incorporated in Hong Kong with limited liability, being a substantial Shareholder holding 12,686,203,231 Shares representing approximately 69.19% of the existing issued share capital of the Company as at the date of this announcement
“US\$”	United States dollar, the lawful currency of the United States of America
“%”	per cent.

For the purpose of this announcement, the exchange rate of HK\$7.80 = US\$1.00 and HK\$5.75 = CAD1.00 has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amount have been, could have been or may be exchanged, at this or any other rates.

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

Hong Kong, 6 December 2022

Executive Directors:

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

Independent Non-executive Directors:

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