THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

1905

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 IN RELATION TO (1) REVISION OF THE ORIGINAL SUPPLY ANNUAL CAPS OF THE EXISTING SUPPLY AGREEMENT; (2) THE SALES AGREEMENTS; AND (3) NOTICE OF THE SGM

Financial adviser to the Company

红日资本有限公司

RED SUN CAPITAL LIMITED

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

ASTRUM

Capitalised terms used on this cover shall have the same meanings as those defined in the section headed "Definitions" in this circular, unless the context requires otherwise.

A letter from the Board is set out on pages 5 to 21 of this circular. A letter from the Independent Board Committee is set out on pages 22 to 23 of this circular. A letter from the Independent Financial Adviser is set out on pages 24 to 61 of this circular.

A notice convening the SGM of the Company to be held at Taishan Room, Level 5, Island Shangri-La, Pacific Place, Supreme Court Road, Central, Hong Kong on Thursday, 21 December 2023 at 3:30 p.m. is set out on pages 67 to 69 of this circular. A form of proxy for use by the Shareholders at the SGM is enclosed with this circular.

Whether or not you intend to attend the SGM, you are requested to complete and sign the accompanying form of proxy, in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, 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 if you so wish and, in such event, the relevant form of proxy shall be deemed to be revoked.

1 December 2023

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

"associates"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"China Petroleum Yanchang"	中油延長石油銷售股份有限公司 (China Petroleum Yanchang Petroleum Trading Stock Limited Company*)
"Company"	Yanchang Petroleum International Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange (stock code: 00346)
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Continuing Connected Transaction(s)"	(i) transaction(s) between Henan Yanchang and Yanchang Petroleum Group for the supply of refined oil and by-products (including chemical products) from Yanchang Petroleum Group to Henan Yanchang with terms and conditions in accordance with the Existing Supply Agreement and the Supplemental Supply Agreement; and (ii) transaction(s) between Henan Yanchang and the Sales Connected Parties for the sales of refined oil and by-products (including chemical products) from Henan Yanchang to the Sales Connected Parties with terms and conditions in accordance with the Sales Agreements
"Director(s)"	the director(s) of the Company
"Existing Supply Agreement"	the agreement dated 18 November 2022 entered into between Henan Yanchang and Yanchang Petroleum Group in respect of the supply of refined oil and by-products (including chemical products) from Yanchang Petroleum Group to Henan Yanchang for the three years ending 31 December 2025
"Group"	the Company and its subsidiaries from time to time

"Henan Yanchang"	河南延長石油銷售有限公司 (Henan Yanchang Petroleum Sales Co., Limited), a limited company incorporated under the PRC laws which is an indirect non wholly-owned subsidiary of the Company and 70% owned by the Group as at the Latest Practicable Date
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee of the Company, comprising all the independent non-executive Directors to be established to advise the Independent Shareholders on the Supplemental Supply Agreement and the Sales Agreements and the transactions and matters contemplated thereunder
"Independent Financial Adviser" or "Astrum Capital Management Limited"	Astrum Capital Management Limited, a corporation licensed 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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions
"Independent Shareholders"	Shareholders other than Yanchang Petroleum Group and its associates
"Latest Practicable Date"	28 November 2023, 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
"Market Price"	the price as determined where there are comparable market prices or charging rates standards determined by independent third-party customers of Henan Yanchang under normal commercial terms for the transaction, the transaction price shall be determined at such price or standard
"Original Supply Annual Cap(s)"	the original annual cap(s) applicable to the Existing Supply Agreement for the three years ending 31 December 2023, 2024 and 2025

"PRC"	the People's Republic of China, and for the purpose of this circular, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
"Proposed Sales Annual Cap(s)"	the proposed annual caps for the Continuing Connected Transactions under the Sales Agreements for the three years ending 31 December 2026
"Revised Supply Annual Cap(s)"	the revised annual cap(s) applicable to the Supplemental Supply Agreement for the three years ending on 31 December 2025
"Sales Agreement(s)"	the agreement(s) dated 27 November 2023 entered into between Henan Yanchang and the Sales Connected Parties in respect of the sales of refined oil and by-products from Henan Yanchang to the Sales Connected Parties for the three years ending 31 December 2026
"Sales Connected Parties"	China Petroleum Yanchang and Yanchang Shell Henan, the associate(s), of Yanchang Petroleum Group
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened to consider and, if thought fit, approve the Supplemental Supply Agreement and the Sales Agreements and the transactions contemplated thereunder
"Share(s)"	existing ordinary share(s) of HK$0.4 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Supply Agreement"	the supplemented agreement dated 27 November 2023 supplemented to the Existing Supply Agreement in respect of revision to the Original Supply Annual Caps
"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, being a substantial Shareholder holding 634,310,161 Shares representing approximately 57.66% 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
"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*

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:
Feng Yinguo *(Chairman)*
Zhang Jianmin
Ding Jiasheng

Non-executive Director:
Sun Jian

Independent non-executive Directors:
Ng Wing Ka
Leung Ting Yuk
Sun Liming
Mu Guodong

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

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

1 December 2023

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO
(1) REVISION OF THE ORIGINAL SUPPLY ANNUAL CAPS OF
THE EXISTING SUPPLY AGREEMENT; AND
(2) THE SALES AGREEMENTS**

INTRODUCTION

Reference is made to the announcement of the Company dated 18 November 2022 in relation to, among others, the Existing Supply Agreement entered into between Henan Yanchang and Yanchang Petroleum Group on 18 November 2022 and pursuant to which, Yanchang Petroleum Group will supply refined oil and by-products (including chemical products) to Henan Yanchang for the three years ending 31 December 2025. The Directors estimate that the total purchase of the refined oil and by-products (including chemical products) from Yanchang Petroleum Group for the three years ending 31 December 2025 will exceed the Original Supply Annual Caps and hence, the Original Supply Annual Caps will not be sufficient for the expected sales of the Group for the three years ending 31 December 2023, 2024 and 2025. Therefore, Henan Yanchang and Yanchang Petroleum Group entered into the Supplemental Supply

Agreement on 27 November 2023, pursuant to which the Original Supply Annual Caps for the three years ending 31 December 2023, 2024 and 2025 will be increased to the Revised Supply Annual Caps. Saved for the revision to the Original Supply Annual Caps, the other terms of the Existing Supply Agreement will remain unchanged and effective.

The revision of the Original Supply Annual Caps for the three years ending 31 December 2025 contemplated under the Supplemental Supply Agreement (together with the Revised Supply Annual Caps) will take effect conditional upon the Independent Shareholders' approval having been obtained at the SGM. In the event that the Supplemental Supply Agreement does not become effective, the Existing Supply Agreement will remain in full force and binding on Henan Yanchang and Yanchang Petroleum Group.

References are also made to the announcements of the Company dated 22 March 2021 and 13 May 2021, in relation to, among others, the transactions for the sales of refined oil and by-products from Henan Yanchang to Yanan Energy Chemical and Yanchang Shell Henan. On 27 November 2023 (after trading hours), Henan Yanchang entered into the Sales Agreements with the Sales Connected Parties, respectively, in respect of the sales of refined oil and by-products (including chemical products) from Henan Yanchang to the Sales Connected Parties, respectively, for the three years ending 31 December 2026.

As at the Latest Practicable Date, China Petroleum Yanchang is held by (i) Yanchang Petroleum Group being directly holding 41.0% of its interest; (ii) PetroChina Company Limited ("**PetroChina**") being directly holding 40.0% of its interest; and (iii) Xixian New Area Hezhong Energy Project Construction Ltd.* (西鹹新區和眾能源項目建設有限公司) ("**Hezhong Energy**") being directly holding 19.0% of its interest. Hezhong Energy is held by Xian Zhongli Investment Management Ltd.* (西安中立投資管理有限公司) ("**Xian Zhongli**") and Zhongli Energy Technology Co., Ltd.* (中立能源科技股份有限公司) ("**Zhongli Energy Technology**") being directly holding 55.0% and 45.0% of its interest, respectively. PetroChina is a company listed on the main board of the Stock Exchange (stock code: 857) and principally engaged in (i) the exploration, development, transmission, production and sales of crude oil and natural gas, and new energy business; (ii) the refining of crude oil and petroleum products; (iii) the production and sales of basic and derivative chemical products and other chemical products, and new materials business; (iv) the marketing and trading business of refined products and non-oil products; and (v) the transmission and sales of natural gas. Hezhong Energy is principally engaged in (i) construction of new energy projects; and (ii) research and development, promotion and application of new materials and energy-saving technologies.

As at the Latest Practicable Date, to the best of the Director's knowledge, (i) the beneficial owners of Xian Zhongli are Wang Zeonling* (王俊玲) and Sun Singlei* (孫勝利), being indirectly holding 90.0% and 10.0% interest in Xian Zhongli, respectively; and (ii) the beneficial owners of Zhongli Energy Technology are Tang Chen* (唐琛), Wei Wulong* (魏伍龍) and Tang Hui* (唐琿), being directly holding 70.0%, 20.0% and 10.0% interest in Zhongli Energy Technology, respectively. Xian Zhongli is principally engaged in (i) asset management and consulting; and (ii) research and development of new energy. Zhongli Energy Technology is principally engaged in sales of petroleum and chemical products.

As at the Latest Practicable Date, Yanchang Shell Henan is held by (i) Yanchang Petroleum Group being indirectly holding 46.0% of its interest; (ii) Shell (China) Co., Limited* (殼牌(中國)有限公司) ("**Shell (China)**") being indirectly holding 45.0% of its interest; and (iii) Shaanxi Tianli Investment Co., Limited* (陝西天力投資有限公司) ("**Shaanxi Tianli**") being indirectly holding 9.0% of its interest. Shaanxi Tianli is held by Tiancai Holdings Limited* (天財控股有限公司) ("**Tiancai**") and Sun Singlei* (孫勝利) being directly holding 90.0% and 10.0% of its interest, respectively. Shaanxi Tianli is principally engaged in the investment fund management and energy related business.

As at the Latest Practicable Date, to the best of the Director's knowledge, (i) Shell (China) is a wholly-owned subsidiary of Shell plc, the shares of which are listed on the London Stock Exchange and specializes in oil and natural gas production and distribution; and (ii) the beneficial owners of Tiancai are Wang Zeonling and Sun Singlei, being directly holding 90.0% and 10.0% interest in Tiancai, respectively. Tiancai is principally engaged in (i) landscaping; (ii) rental and maintenance of machinery and equipment; and (iii) development and sales of communication products.

As at the Latest Practicable Date, Henan Yanchang is a non-wholly owned subsidiary of the Company, while (i) China Petroleum Yanchang is held by Yanchang Petroleum Group being directly holding 41.0% of its interest; and (ii) Yanchang Shell Henan is held by Yanchang Petroleum Group being indirectly holding 46.0% of its interest, therefore, the Sales Connected Parties are the associates of Yanchang Petroleum Group and Yanchang Petroleum Group, being a substantial Shareholder beneficially holding 634,310,161 Shares representing approximately 57.66% of the existing issued share capital of the Company, is a connected person of the Company as defined under the Listing Rules and hence the transactions contemplated under the Supplemental Supply Agreement and the Sales Agreements, respectively, will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Revised Supply Annual Caps and the Proposed Sales Annual Caps exceed 5% and the consideration exceeds HK$10,000,000 on an annual basis, respectively, the Supplemental Supply Agreement, the Sales Agreements and the transactions and matters contemplated thereunder, respectively, 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 the information, among other things, (i) details of the Supplemental Supply Agreement and the transactions and matters and the Revised Supply Annual Caps contemplated thereunder; (ii) details of the Sales Agreements and the transactions and matters and the Proposed Sales Annual Caps contemplated thereunder; (iii) the letter of recommendations from the Independent Board Committee to the Independent Shareholders in respect of the Supplemental Supply Agreement, the Sales Agreements and the Continuing Connected Transactions; (iv) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Supplemental

Supply Agreement, the Sales Agreements and the Continuing Connected Transactions; and (v) the notice of the SGM.

(1) REVISION OF THE ORIGINAL SUPPLY ANNUAL CAPS OF THE EXISTING SUPPLY AGREEMENT

The Revised Supply Annual Caps

Historical amounts

The approximate purchase amounts of refined oil and by-products (including chemical products) made by Henan Yanchang from Yanchang Petroleum Group, for the three years ended 31 December 2020, 2021 and 2022 and the nine months ended 30 September 2023 are set out below:

	For the year ended 31 December			**For the nine months ended 30 September**
	2020	**2021**	**2022**	**2023**
	RMB million	*RMB million*	*RMB million*	*RMB million*
Historical transaction amounts	4,143	4,716	8,199	7,475

Original Supply Annual Caps and Revised Supply Annual Caps

The Directors estimated that the annual transaction amounts in respect of the purchase of the refined oil and by-products (including chemical products) by Henan Yanchang from Yanchang Petroleum Group for the three years ending 31 December 2025 as follows:

	For the year ending 31 December		
	2023	**2024**	**2025**
	RMB million	*RMB million*	*RMB million*
Original Supply Annual Caps	11,081	12,188	13,397
Revised Supply Annual Caps	15,148	25,857	26,316

The Revised Supply Annual Caps under the Supplemental Supply Agreement are determined after taking into account: (i) the historical amounts for the purchase of refined oil and by-products (including chemical products) by Henan Yanchang from Yanchang Petroleum Group for the nine months ended 30 September 2023; (ii) the expected transaction amounts for the year ending 31 December 2023; (iii) the estimated purchase price of refined oil and by-products (including chemical products) from Yanchang Petroleum Group; (iv) the percentage of refined oil and by-products (including chemical products) purchased from Yanchang Petroleum Group of Henan Yanchang's total purchase increased from approximately 33% for the year ended 31 December 2022 to approximately 45% for the nine months ended 30 September 2023; (v) the average monthly growth rate of approximately 34% for the recent period from July 2023 to September 2023 in respect of the purchase amounts of the refined oil and by-products (including chemical products) by Henan Yanchang from Yanchang Petroleum Group, assuming the average monthly growth rate continues to the end of 2023, the amounts for the purchase of refined oil and by-products (including chemical products) by Henan Yanchang from Yanchang Petroleum Group will reach approximately RMB15.1 billion for the year ending 31 December 2023; (vi) the existing business scale of Henan Yanchang needed to be backed by the stable and sufficient supply of refined oil and by-products (including chemical products) from Yanchang Petroleum Group; and (vii) Henan Yanchang is holding a valid licence for distribution and sales of refined oil and by-products (including chemical products) in the whole PRC and Henan Yanchang keeps on its business development in particular Southwest PRC.

As mentioned above, due to (i) the rapid growth of the refined oil and by-products (including chemical products) in respect of the purchase amounts of the refined oil and by-products (including chemical products) by Henan Yanchang from Yanchang Petroleum Group in recent months and the growth is expected to continue till the end of 2023; (ii) the expected increase to approximately 57% of refined oil and by products (including chemical products) purchased from Yanchang Petroleum Group of Henan Yanchang's total purchase for the year ending 31 December 2023 under the pricing terms considered to be no less favourable than the terms offered by independent third party suppliers to the Group for the comparable product type and quantity at the relevant time and the expected amounts would be approximately RMB5,830 million; and (iii) additional buffer of approximately 10% to 15%, representing the expected amounts of approximately RMB1,862 million, is included when determining the Revised Supply Annual Cap for the year ending 31 December 2023 to avoid any undue disruption and detriment to the business operations of the Group as the Original Supply Annual Cap will no longer be further revised in 2023 (save for the proposed Revised Supply Annual Caps), the Directors are of the view that the Revised Supply Annual Cap for the year ending 31 December 2023 is reasonable.

The Directors estimate that the total purchase orders to be placed by Henan Yanchang to Yanchang Petroleum Group for the two years ending 31 December 2025 shall be in total approximately 10.1 million tonnes and the Revised Supply Annual Caps are determined as RMB25,857 million, and RMB26,316 million, for the two years ending 31 December 2025. Such amounts are determined with reference to (i) the estimated amounts for the purchase of approximately 5.0 million tonnes and 5.1 million tonnes, of refined oil and by-products (including chemical products) by Henan Yanchang from Yanchang Petroleum Group for the two years ending 31 December 2024, 2025, respectively; (ii) the estimated purchase price per tonne of refined oil and by-products (including chemical products) from Yanchang Petroleum Group with reference to prevailing market price; (iii) the forecast amounts of purchases to be made by Henan Yanchang for the two years ending 31 December 2025 expected to increase in the proportion of total projected volume of refined oil (including chemical products) purchased from Yanchang Petroleum Group for the two years ending 31

December 2025; (iv) the existing business scale of Henan Yanchang needed to be backed by the stable and sufficient supply of refined oil from Yanchang Petroleum Group; and (v) Henan Yanchang is holding a valid license for distribution and sales of refined oil in the whole PRC and Henan Yanchang keeps on its business development, in particular Southwest PRC in the coming future.

The Board is of the view that other than purchasing refined oil (including chemical products) from independent third parties, the arrangement to purchase refined oil from Yanchang Petroleum Group pursuant to the Supplemental Supply Agreement provides the flexibility for the Group so as to secure the stable supply of refined oil for the business expansion of Henan Yanchang. Such arrangement could significantly reduce Henan Yanchang's operation risks, including the risk of refined oil shortage due to economic instability, which may potentially affect its business operation. Based on the transactions under the Existing Supply Agreement that the relatively favourable price of refined oil offered from Yanchang Petroleum Group, as compared with the independent third party suppliers for the comparable product type and quantity at the relevant time, would enhance the Group's profitability of the refined oil business, therefore the Board is expected to increase in the proportion of total projected volume of refined oil and by-products (including chemical products) purchased from Yanchang Petroleum Group for the two years ending 31 December 2025. Based on the above, the Directors are of the view that the Revised Supply Annual Caps is reasonable.

Due to uncertainty of the amounts required of refined oil and by-products (including chemical products) for the purpose of the Group's business and unexpected growth, 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.

As at the Latest Practicable Date, the Board confirmed that the actual transaction amounts for the year ending 31 December 2023 under the Existing Supply Agreement has not exceeded the Original Supply Annual Caps.

In the event that accumulated annual transaction amounts under the Existing Supply Agreement for the year ending 31 December 2023 are anticipated to exceed the approved Original Supply Annual Caps, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing the Continuing Connected Transaction, if necessary, suspension of the relevant Continuing Connected Transactions and revision of the annual cap in accordance with the requirements of the Listing Rules.

As set out the details of benefits of entering into the Supplemental Supply Agreement in the section headed "Reasons for and benefits of entering into the Supplemental Supply Agreement and the Sales Agreements", the Supplemental Supply Agreement is fair and reasonable and on normal commercial terms and the entering into of the Supplemental Supply Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, therefore the Board is of the view that the relevant proposed resolutions will be approved in the SGM.

Internal Control Measures

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

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

(ii) the finance department of the Company will closely monitor the transaction amounts in relation to the transactions under the Supplemental Supply Agreement to ensure that the Revised Supply Annual Caps are not exceeded;

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

(iv) the finance department of the Company will engage the independent auditors to review the transactions under the Supplemental Supply Agreement whether or not in compliance with the annual reporting and review requirements under the Listing Rules.

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

(2) THE SALES AGREEMENTS

The principal terms of the Sales Agreements are set out as follows:

Date	:	27 November 2023 (after the trading hours)
Parties	:	(i) Henan Yanchang; (ii) China Petroleum Yanchang; and (iii) Yanchang Shell Henan
Subject	:	Henan Yanchang has agreed to sell, the Sales Connected Parties have agreed to purchase refined oil and by-products (including chemical products) on a normal commercial term basis.
Term	:	From 1 January 2024 until 31 December 2026, and is renewable for another term of three years under negotiation between both parties at least 90 days prior to the expiry date, subject to the compliance with the Listing Rules.

Pricing basis	:	(i) In respect of the sales of refined oil and by-products (including chemical products) from Henan Yanchang to China Petroleum Yanchang, the unit price of refined oil and by-products shall be no less favourable than those offered to other independent third-party customers of Henan Yanchang for the comparable product type and quantity at the relevant time; and (ii) in respect of the sales of refined oil and by-products (including chemical products) from Henan Yanchang to Yanchang Shell Henan, the unit price of refined oil and by-products shall apply the Market Price for the comparable product type and quantity at the relevant time.
Payment terms	:	The unit price of refined oil and by-products (including chemical products) shall be paid by the Sales Connected Parties upon the receipt of refined oil and by-products. The payment terms offered by Henan Yanchang to China Petroleum 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.
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.

The Proposed Sales Annual Caps

Historical amounts

The relevant historical sales of refined oil and by-products (including chemical products) from Henan Yanchang to the Sales Connected Parties, for the two years ended 31 December 2021 and 2022 and the nine months ended 30 September 2023 are set out below:

	For the year ended 31 December		For the nine months ended 30 September
	2021	**2022**	**2023**
	RMB million	*RMB million*	*RMB million*
Historical transaction amounts			
– China Petroleum Yanchang	–	–	–
– Yanchang Shell Henan	33.66	62.57	17.10
Total	33.66	62.57	17.10

Proposed Sales Annual Caps

The Company estimated that the annual transaction amounts in respect of the sale of refined oil and by-products (including chemical products) from Henan Yanchang to the Sales Connected Parties under the Sales Agreements for the three years ending 31 December 2026 as follows:

	For the year ending 31 December		
	2024	**2025**	**2026**
	RMB million	*RMB million*	*RMB million*
Proposed Sales Annual Caps under the Sales Agreements			
– China Petroleum Yanchang	43.0	43.0	43.0
– Yanchang Shell Henan	172.0	215.0	258.0
Total	215.0	258.0	301.0

The Directors estimate that the aggregate sales amount of refined oil and by-products (including chemical products) by Henan Yanchang to the Sales Connected Parties under the Sales Agreements for the three years ending 31 December 2026 will not exceed RMB215 million, RMB258 million and RMB301 million, respectively.

The Proposed Sales Annual Caps under the Sales Agreements are determined after taking into account: (i) the forecast amounts of sales of refined oil and by-products (including chemical products) from Henan Yanchang to the Sales Connected Parties for the three years ending 31 December 2026; (ii) the expected selling price of refined oil and by-products (including chemical products) for the sales to the Sales Connected Parties with reference to the selling price range recently suggested by the National Development and Reform Commission of the PRC and the prevailing market prices; (iii) the indicative sales volume proposed by China Petroleum Yanchang of approximately 4,800 tonnes, 4,800 tonnes and 4,800 tonnes for the three years ending 31 December 2026, respectively, for business development purpose of China Petroleum Yanchang; (iv) the indicative sales volume proposed by Yanchang Shell Henan of approximately 19,000 tonnes, 24,000 tonnes and 29,000 tonnes for the three years ending 31 December 2026, respectively, for business development purpose of Yanchang Shell Henan; (v) Henan Yanchang holding a valid licence for distribution and sales of refined oil and by-products (including chemical products) in the whole PRC; and (vi) 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 600 gas stations in 2020 to over 700 gas stations in 2023 and its rapid development will contribute expected increase in demand of refined oil.

Based on the above, the Directors are of the view that the Proposed Sales Annual Caps are fair and reasonable with considering the possible need of sales amounts by Henan Yanchang to the Sales Connected Parties according to the Sales Agreements.

Internal Control Measures

To ensure the selling price and payment terms of refined oil and by-products (including chemical products) offered by Henan Yanchang to the Sales Connected Parties under the Sales Agreements are in line with the prevailing market practice, on normal commercial terms, fair and reasonable and no less favourable than those offered to other independent third-party customers of Henan Yanchang, and the Proposed Sales Annual Caps are not exceeded, the Group will adopt the following internal control measures:

(i) the sales department of Henan Yanchang is required to obtain, review and compare the price lists (e.g. selling price and payment terms) to ensure that the selling price offered by Henan Yanchang to the Sales Connected Parties 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. As a general practice, the sales department of Henan Yanchang will obtain price lists for comparison with at least three customers. Following the receipt of price lists, the sales department of Henan Yanchang will compare the terms of price lists and determine the selection of customers by taking into account factors such as pricing terms, payment terms and payment ability. Henan Yanchang usually sells refined oil and by-products (including chemical products) to the customers with the highest unit price. The head of the sales department would review the price and approve the sale orders for the relevant products;

(ii) the finance department of the Company will closely monitor the transaction amounts in relation to the transactions under the Sales Agreements to ensure that the Proposed Sales Annual Caps are not exceeded;

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

(iv) the finance department of the Company will engage the independent auditors to review the transactions under the Sales Agreements whether or not in compliance with the annual reporting and review requirements under the Listing Rules.

Based on the internal procedures and the price comparison between the refined oil and by-products (including chemical products) offered by Henan Yanchang to the Sales Connected Parties and other independent third-party customers of Henan Yanchang, Henan Yanchang has sold and will sell refined oil and by-products (including chemical products) to the Sales Connected Parties which offered same and better pricing and other terms when compared to other independent third-party customers of Henan Yanchang. As such, the Directors consider that above internal control measures would ensure that the pricing and other terms for refined oil and by-products (including chemical products) under the Sales Agreements will be fair and reasonable and no less favourable than those offered to other independent third-party customers of Henan Yanchang. The Directors also consider such measures could ensure that the transactions would be conducted on normal commercial terms and not prejudicial to the interests of the Company and minority shareholders.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SUPPLEMENTAL SUPPLY AGREEMENT AND THE SALES AGREEMENTS

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

Henan Yanchang is principally engaged in the wholesale, retail, storage and transportation of refined oil (gasoline, diesel oil, paraffin fuel oil, lubricating oil, grease and asphalt) and by products (including chemical products). 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 (including chemical products) in the PRC.

Yanchang Petroleum Group is principally engaged in oil and gas exploration, exploitation and processing, pipeline transportation, sales of oil and gas and by-products (including chemical products), 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 in the PRC and has refining facilities in the PRC, and owns oil and natural gas resource assets in the PRC and abroad.

China Petroleum Yanchang and Yanchang Shell Henan are principally engaged in oil and gas processing and sales of oil, gas and by-products.

Each of the Supplemental Supply Agreement and the Sales Agreements was entered into in the usual and ordinary course of business of the Group and the terms of which were negotiated on normal commercial terms. With the revision of annual caps under the Supplemental Supply Agreement, the Group will continue to leverage its purchase of refined oil and by-products (including chemical products) from Yanchang Petroleum Group as one of major suppliers. The prices under the Sales Agreements 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 refined oil and by-products (including chemical products) of comparable product type and quantity at the relevant time.

In view of (i) Henan Yanchang's effective strategies in market expansion and customer exploration for distribution and sales of refined oil in the whole PRC, the Group would be able to expand its refined oil business as well as its sales network in the PRC; and (ii) the historical transaction amounts under the Existing Supply Agreement for the nine months ended 30 September 2023 represented approximately 67.27 % of the Original Supply Annual Caps for the year ending 31 December 2023; and (iii) the continuing support from Yanchang Petroleum Group with secured supply of refined oil, the Directors estimate that the total purchase of the refined oil and by-products (including chemical products) from Yanchang Petroleum Group for the three years ending 31 December 2025 will exceed the Original Supply Annual Caps.

Henan Yanchang is continuously expanding its business in the first half of 2023. In view of (i) Henan Yanchang continues to strengthen its business relationships with customers and expands the market for refined oil and by-products; (ii) Henan Yanchang is holding valid licence for distribution and sales of refined oil and by-products in the whole PRC and 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 the Sales Connected Parties 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, Henan Yanchang could enhance its business and operation so as to foster its long-term development by entering into of the Sales Agreements with the Sales Connected Parties.

According to the interim report of the Company for the six months ended 30 June 2023, Henan Yanchang is continuously expanding its business in the first half of 2023, including (i) discovering new direct sales business and expanding new distribution channels by (a) actively conducting ethanol business and Henan Yanchang have already sold ethanol products to Hebei, Shandong, Hubei and other regions, and obtained 5 downstream users; (b) actively developing its highway direct sales channels; and (c) further expanding railway distribution channels; (ii) developing inventory sales by multiple measures by further expanding the business to new customers in Henan region, Hunan region and Ningxia region; (iii) compliant operation of external sourcing in facilitating high-quality development by cooperating with major customers to ensure the stable development of its trade business; and (iv) improving quality and volume of terminal retail and enhance brand influence in the market.

According to the Existing Supply Agreement as supplemented by the Supplemental Supply Agreement, Yanchang Petroleum Group will supply refined oil and by-products (including chemical products) to Henan Yanchang for the three years ending 31 December 2025. According to the Sales Agreements, Henan Yanchang will sell refined oil and by-products (including chemical products) to the Sales Connected Parties for the three years ending 31 December 2026. The refined oil and by-products under the Supplemental Supply Agreement, as supplemented by the Supplemental Supply Agreement, and the Sales Agreements, respectively, are in the same nature.

Yanchang Petroleum Group is one of the largest oil producers in the PRC and is principally engaged in oil and gas exploration, exploitation and processing, pipeline transportation, sales of oil and gas and by-products (including chemical products), chemical engineering of oil, gas and coal, machinery manufacturing, project construction and oil and gas research and development. Yanchang Petroleum Group implements sales management through its various principal subsidiaries by acting as distributors (the "**Distributors**"). In order to maximise its operation efficiency, Yanchang Petroleum Group provides wholesales to its principal Distributors with sizeable sales volume and the Distributors primarily operate the sales for the particular districts where they are responsible to. Henan Yanchang is responsible to operate sales of refined oil and by-products (including chemical products) in Henan and Hubei. Through the handling of fragmented sales by the near district Distributors on sales district basis, Yanchang Petroleum Group is not necessary to handle the fragmented sales with small amounts from its associates, including the Sales Connected Parties from various locations by itself and the Yanchang Petroleum Group can utilise its resources including marketing, transportation and storage more efficiently on sales district basis. The Company is one of Yanchang Petroleum Group's subsidiaries who principally engages in the wholesale and retail of refined oil and by-products. Henan Yanchang is an indirect non-wholly owned subsidiary of the Company and one of the distribution channels of Yanchang Petroleum Group in respect of the downstream refined oil and related products in Henan and Hubei. Henan Yanchang is continuing to develop the downstream oil sales business in Hunan and Hubei in the PRC. Considering the need of refined oil and by-products (including chemical products) of the Sales Connected Parties for their own business development in Henan and Hubei, the Sales Connected Parties source the refined oil from the open market. Henan Yanchang, being one of the downstream refined oil and related products suppliers in Henan and Hubei, will provide quotation to the Sales Connected Parties on normal commercial terms. While the Sales Connected Parties are satisfied with the quotation provided by Henan Yanchang, Henan Yanchang will provide sales of refined oil and by-products (including chemical products) to the Sales Connected Parties. Having considered the relationship between Yanchang Petroleum Group, the Sales Connected Parties and Henan Yanchang, Henan Yanchang entered into the Sales Agreements with the Sales Connected Parties in order to comply the Listing Rules, details of which please refer to the section headed "Implication under the Listing Rules".

The Directors (including the independent non-executive Directors is of the opinion that the terms (including the Revised Supply Annual Caps and the Proposed Sales Annual Caps) of the Supplemental Supply Agreement and the Sales Agreements are fair and reasonable and on normal commercial terms and the entering into of the Supplemental Supply Agreement and the Sales Agreements 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.

IMPLICATION UNDER THE LISTING RULES

As at the Latest Practicable Date, Henan Yanchang is a non-wholly-owned subsidiary of the Company, while (i) China Petroleum Yanchang is held by Yanchang Petroleum Group being directly holding 41.0% of its interest as at the Latest Practicable Date; and (ii) Yanchang Shell Henan is held by Yanchang Petroleum Group being indirectly holding 46.0% of its interest as at the Latest Practicable Date, therefore, the Sales Connected Parties are the associates of Yanchang Petroleum Group and Yanchang Petroleum Group, being a substantial Shareholder beneficially holding 634,310,161 Shares representing approximately 57.66% of the existing issued share capital of the Company, is a connected person of the Company as defined under the Listing Rules and hence the transactions contemplated under the Supplemental Supply Agreement and the Sales Agreements, respectively, will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios in respect of the Revised Supply Annual Caps and the Proposed Sales Annual Caps exceed 5% and the consideration exceeds HK$10,000,000 on an annual basis, respectively, the Supplemental Supply Agreement, the Sales Agreements and the transactions contemplated thereunder, respectively, are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

None of the Directors have any material interest in the Continuing Connected Transactions for which they would be required to abstain from voting at the board resolutions. Yanchang Petroleum Group and its associates shall abstain from voting in favour of the Supplemental Supply Agreement, the Sales Agreements and the transactions and matters contemplated thereunder, respectively, at the SGM. Save for Yanchang Petroleum Group, to the best knowledge, information and belief of the Directors, no other Shareholders or any of their respective associates have a material interest in the Supplemental Supply Agreement, the Sales Agreements and the transactions and matters contemplated thereunder, and accordingly are required to abstain from voting at the SGM.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders on whether (i) the terms of the Supplemental Supply Agreement (including the Revised Supply Annual Caps); and (ii) the terms of the Sales Agreements (including the Proposed Sales Annual Caps), are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Astrum Capital Management Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regards.

SGM

The SGM will be convened by the Company to seek the approval from the Independent Shareholders for the Supplemental Supply Agreement, the Sales Agreements and the transactions and matters contemplated thereunder by way of poll. None of the Directors have any material interest in the Continuing Connected Transactions for which they would be required to abstain from voting at the board resolutions. 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 634,310,161 Shares, representing approximately 57.66% 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 on the relevant resolution(s) to approve the Continuing Connected Transactions. Save for Yanchang Petroleum Group and its associates, none of the Shareholders will be required to abstain from voting at the SGM in respect of the ordinary resolution(s) to approve the Continuing Connected Transactions.

The notice convening the SGM of the Company to be held at Taishan Room, Level 5, Island Shangri-La, Pacific Place, Supreme Court Road, Central, Hong Kong on Thursday, 21 December 2023 at 3:30 pm is set out on pages 67 to 69 of this circular. An ordinary resolution will be proposed at the SGM to approve the Supplemental Supply Agreement, 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 by the Shareholders 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, in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, 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 meeting 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 if you so wish and, in such event, the relevant form of proxy shall be deemed to be revoked.

RECOMMENDATIONS

Taking into consideration of the reasons set out in the paragraph headed "Reasons for and benefits of entering into the Supplemental Supply Agreement and the Sales Agreements" above, the Directors (including the all independent non-executive Directors) consider that (i) the entering into the Supplemental Supply Agreement, the Sales Agreements and the transactions and matters contemplated thereunder are in the ordinary and usual course of the Group's business, on normal commercial terms; and (ii) the Revised Supply Annual Caps and the Proposed Sales Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including all the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Continuing Connected Transactions.

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 22 to 23 of this circular containing the recommendation of the Independent Board Committee to the Independent Shareholders regarding the Supplemental Supply Agreement (including the Revised Supply Annual Caps), the Sales Agreements (including the Proposed Sales Annual Caps) and the transactions and matters contemplated thereunder; (ii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 24 to 61 of this circular; and (iii) the information set out in the appendix of this circular.

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

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

1 December 2023

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO
(1) REVISION OF THE ORIGINAL SUPPLY ANNUAL CAPS OF
THE EXISTING SUPPLY AGREEMENT; AND
(2) THE SALES AGREEMENTS

We refer to the circular of the Company dated 1 December 2023 (the "**Circular**"), of which this letter forms part. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been established to advise the Independent Shareholders on whether (i) the terms and the Revised Supply Annual Caps for the three years ending 31 December 2025 under the Supplemental Supply Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) the terms and the Proposed Sales Annual Caps for the three years ending 31 December 2026 under the Sales Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Astrum Capital Management Limited 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 24 to 61 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 Capital Management Limited and its conclusion and advice, we concur with its views and consider that the entering into the Supplemental Supply Agreement, the Sales Agreements and the transactions and matters contemplated thereunder are in the ordinary and usual course of the Group's business, on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and in the interest 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 the Continuing Connected Transactions.

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

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

1 December 2023

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO (1) REVISION OF THE ORIGINAL SUPPLY ANNUAL CAPS OF THE EXISTING SUPPLY AGREEMENT; AND (2) THE 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 continuing connected transactions contemplated under the supplemental supply agreement (the "**Supplemental Supply Agreement**") entered into between 河南延長石油銷售有限公司 (Henan Yanchang Petroleum Sales Co., Limited*, "**Henan Yanchang**") and 陝西延長石油(集團)有限責任公司 (Shaanxi Yanchang Petroleum (Group) Co., Limited*, "**Yanchang Petroleum Group**") dated 27 November 2023 with the proposed revised annual caps (the "**Revised Supply Annual Caps**"); and (ii) the continuing connected transactions contemplated under the sales agreements (the "**Sales Agreements**") entered into between Henan Yanchang, 中油延長石油銷售股份有限公司 (China Petroleum Yanchang Petroleum Trading Stock Limited Company*, "**China Petroleum Yanchang**") and 延長殼牌河南石油有限公司 (Yanchang Shell Henan Petroleum Limited, **"Yanchang Shell Henan"**) dated 27 November 2023 with the proposed annual caps (the "**Proposed Sales Annual Caps**") (collectively, the "**Continuing Connected Transactions**"). The details of the Continuing Connected Transactions are disclosed in the announcement of the Company dated 27 November 2023 (the "**Announcement**") and in the letter from the Board (the "**Letter from the Board**") set out on pages 5 to 21 of the circular of the Company dated 1 December 2023 (the "**Circular**") to its shareholders, of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 18 November 2022, Henan Yanchang and Yanchang Petroleum Group entered into the Existing Supply Agreement, pursuant to which Yanchang Petroleum Group would supply refined oil and by-products (including chemical products) to Henan Yanchang for the three years ending 31 December 2025. The Directors estimated that the total purchase amount of the refined oil and by-products (including chemical products) by Henan Yanchang from Yanchang Petroleum Group for the three years ending 31 December 2025 will exceed the Original Supply Annual Caps and hence, the Original Supply Annual Caps will not be sufficient for the expected sales of the Group for the three years ending 31 December 2025. Therefore, Henan Yanchang and Yanchang Petroleum Group entered into the Supplemental Supply Agreement on 27 November 2023, pursuant to which the Original Supply Annual Caps for the three years ending 31 December 2025 would be increased to the Revised Supply Annual Caps. Save for the revision of the Original Supply Annual Caps, the other terms of the Existing Supply Agreement shall remain unchanged and effective.

The revision of the Original Supply Annual Caps for the three years ending 31 December 2025 contemplated under the Supplemental Supply Agreement (together with the Revised Supply Annual Caps) will take effect conditional upon the Independent Shareholders' approval having been obtained at the SGM. In the event that the Supplemental Supply Agreement does not become effective, the Existing Supply Agreement will remain in full force and binding on Henan Yanchang and Yanchang Petroleum Group.

On 13 May 2021 (after trading hours), Henan Yanchang entered into sales agreements (the "**Existing Sales Agreements**") with Yanan Energy Chemical and Yanchang Shell Henan (the "**Existing Sales Connected Parties**"), 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 (including chemical products) for the three years ending 31 December 2023. On 27 November 2023 (after trading hours), Henan Yanchang entered into the Sales Agreements with the Sales Connected Parties (i.e. China Petroleum Yanchang and Yanchang Shell Henan), in respect of the sales of refined oil and by-products (including chemical products) from Henan Yanchang to the Sales Connected Parties.

As at the Latest Practicable Date, China Petroleum Yanchang is held by (i) Yanchang Petroleum Group being directly holding 41.0% of its interest; (ii) PetroChina Company Limited ("**PetroChina**") being directly holding 40.0% of its interest; and (iii) Xixian New Area Hezhong Energy Project Construction Ltd.* (西鹹新區和眾能源項目建設有限公司) ("**Hezhong Energy**") being directly holding 19.0% of its interest. Hezhong Energy is held by Xian Zhongli Investment Management Ltd.* (西安中立投資管理有限公司) ("**Xian Zhongli**") and Zhongli Energy Technology Co., Ltd.* (中立能源科技股份有限公司) ("**Zhongli Energy Technology**") being directly holding 55.0% and 45.0% of its interest, respectively. PetroChina is a company listed on the main board of the Stock Exchange (stock code: 857) and principally engaged in (i) the exploration, development, transmission, production and sales of crude oil and natural gas and new energy business; (ii) the refining of crude oil and petroleum products; (iii) the production and sales of basic and derivative chemical products and other chemical products and new materials business; (iv) the marketing and trading business of refined products and non-oil products; and (v) the transmission and sales of natural gas. Hezhong Energy is principally engaged in (i) construction of new energy projects; and (ii) research and development, promotion and application of new materials and energy-saving technologies.

As at the Latest Practicable Date, to the best of the Director's knowledge, (i) the beneficial owners of Xian Zhongli are Wang Zeonling* (王俊玲) and Sun Singlei* (孫勝利), being indirectly holding 90.0% and 10.0% interest in Xian Zhongli, respectively; and (ii) the beneficial owners of Zhongli Energy Technology are Tang Chen* (唐琛), Wei Wulong* (魏伍龍) and Tang Hui* (唐琿), being directly holding 70.0%, 20.0% and 10.0% interest in Zhongli Energy Technology, respectively. Xian Zhongli is principally engaged in (i) asset management and consulting; and (ii) research and development of new energy. Zhongli Energy Technology is principally engaged in sales of petroleum and chemical products.

As at the Latest Practicable Date, Yanchang Shell Henan is held by (i) Yanchang Petroleum Group being indirectly holding 46.0% of its interest; (ii) Shell (China) Co., Limited* (殼牌(中國)有限公司) ("**Shell (China)**") being indirectly holding 45.0% of its interest; and (iii) Shaanxi Tianli Investment Co., Limited* (陝西天力投資有限公司) ("**Shaanxi Tianli**") being indirectly holding 9.0% of its interest. Shaanxi Tianli is held by Tiancai Holdings Limited* (天財控股有限公司) ("**Tiancai**") and Sun Singlei* (孫勝利) being directly holding 90.0% and 10.0% of its interest, respectively. Shaanxi Tianli is principally engaged in the investment fund management and energy related business.

As at the Latest Practicable Date, to the best of the Director's knowledge, (i) Shell (China) is a wholly-owned subsidiary of Shell plc, the shares of which are listed on the London Stock Exchange and specializes in oil and natural gas production and distribution; and (ii) the beneficial owners of Tiancai are Wang Zeonling and Sun Singlei, being directly holding 90.0% and 10.0% interest in Tiancai, respectively. Tiancai is principally engaged in (i) landscaping; (ii) rental and maintenance of machinery and equipment; and (iii) development and sales of communication products.

As at the Latest Practicable Date, Henan Yanchang is a non-wholly-owned subsidiary of the Company, while (i) China Petroleum Yanchang is held by Yanchang Petroleum Group being directly holding 41.0% of its interest; and (ii) Yanchang Shell Henan is held by Yanchang Petroleum Group being indirectly holding 46.0% of its interest, therefore, the Sales Connected Parties are the associates of Yanchang Petroleum Group and Yanchang Petroleum Group, being a controlling Shareholder beneficially holding 634,310,161 Shares, representing approximately 57.66% of the existing issued share capital of the Company, is a connected person of the Company as defined under the Listing Rules and hence the transactions contemplated under the Supplemental Supply Agreement and the Sales Agreements, respectively, will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios in respect of the Revised Supply Annual Caps and the Proposed Sales Annual Caps exceed 5% and the consideration exceeds HK$10,000,000 on an annual basis, respectively, the Supplemental Supply Agreement, the Sales Agreements and the transactions contemplated thereunder, respectively, are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

None of the Directors have any material interest in the Continuing Connected Transactions for which they would be required to abstain from voting at the board resolution. Yanchang Petroleum Group and its associates shall abstain from voting in favour of the Supplemental Supply Agreement, the Sales Agreements and the transactions and matters contemplated thereunder, respectively, at the SGM. Save for Yanchang Petroleum Group, to the best knowledge, information and belief of the Directors, no other Shareholders or any of their respective associates have a material interest in the Supplemental Supply Agreement, 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 in respect of (i) the Supplemental Supply Agreement and the transactions contemplated thereunder (including the Revised Supply Annual Caps); and (ii) the Sales Agreements and the transactions contemplated thereunder (including the Proposed Sales Annual Caps) and as to voting at the SGM. We, Astrum Capital Management Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

INDEPENDENCE DECLARATION

As at the Latest Practicable Date, we were not aware of any relationships or interests between Astrum Capital Management Limited, the Company, Henan Yanchang, Yanchang Petroleum Group, China Petroleum Yanchang, 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 the continuing connected transactions contemplated under the Existing Supply Agreement (details of which were set out in the circular of the Company dated 6 December 2022), there was no other engagement between the Group and Astrum Capital Management Limited. Apart from the normal advisory fees payable to us for the relevant engagement in relation to the Continuing Connected Transactions, no other arrangement exists whereby we will receive any fees and/or benefits from the Group. Accordingly, Astrum Capital Management Limited is independent as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Continuing Connected Transactions.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have reviewed, *inter alia*, the Announcement, the Circular, the Existing Supply Agreement, the Supplemental Supply Agreement, the Sales Agreements, the annual report of the Company for the financial year ended 31 December 2022 (the "**2022 Annual Report**") and the interim report of the Company for the six months ended 30 June 2023 (the "**2023 Interim Report**"). We have also reviewed certain information provided by the management of the Company (the "**Management**") relating to the operations, financial conditions and prospects of the Group. We have also (i) considered such other information, analyses and market data which we deemed relevant; and (ii) conducted discussions with the Management regarding the Continuing Connected Transactions, the businesses and future outlook of the Group. We have assumed that such information and statements, and any representation made to us, are true, accurate and complete in all material respects as of the date hereof and we have relied upon them in formulating our opinion.

All Directors collectively and individually accept full responsibility for the purpose of giving information with regard to the Company in the 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 Continuing Connected 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 entering into of the Sales Agreements and the Supplemental Supply Agreement 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.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of (i) the Supplemental Supply Agreement (including the Revised Supply Annual Caps); and (ii) the Sales Agreements (including the Proposed Sales Annual Cap) 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:

I. Information of the Group

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 (including chemical products).

The following table sets out (i) the audited financial information of the Group for the two financial years ended 31 December 2021 and 31 December 2022 ("**FY2021**" and "**FY2022**", respectively) as extracted from the 2022 Annual Report; and (ii) the unaudited financial information of the Group for the six months ended 30 June 2022 and 30 June 2023 ("**1H2022**" and "**1H2023**", respectively) as extracted from the 2023 Interim Report:

Table 1: Financial information of the Group

	FY2021	**FY2022**	**1H2022**	**1H2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	19,776,474	29,936,206	9,336,236	11,467,941
– Exploration, exploitation and operation	*199,774*	*443,881*	*205,222*	*231,445*
– Supply and procurement	*19,576,700*	*29,492,325*	*9,131,014*	*11,236,496*
Gross profit *(Note)*	376,463	322,543	189,619	179,832
Profit/(loss) before taxation	377,556	(608,271)	(25,770)	17,572
Profit/(loss) for the year/period attributable to owners of the Company	**353,601**	**(199,510)**	**6,435**	**15,209**

	As at 31 December 2021 HK$'000 (audited)	As at 31 December 2022 HK$'000 (audited)	As at 30 June 2023 HK$'000 (unaudited)
Total assets	**4,508,705**	**4,518,209**	**4,121,479**
Non-current assets	1,653,596	2,050,401	2,137,456
Current assets	2,855,109	2,467,808	1,984,023
Total (liabilities)	**(3,341,261)**	**(4,048,783)**	**(3,311,402)**
Non-current (liabilities)	(434,640)	(448,237)	(720,318)
Current (liabilities)	(2,906,621)	(3,600,546)	(2,591,084)
Total equity attributable to the owners of the Company	**1,036,367**	**772,956**	**1,102,607**

Sources: the 2022 Annual Report and the 2023 Interim Report

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

(i) For the year ended 31 December 2022 (i.e. FY2022)

In FY2022, the Group recorded revenue of approximately HK$29,936.2 million, representing an increase of approximately 51.4% as compared to approximately HK$19,776.5 million in FY2021. Such increase was mainly attributable to the increase in revenue generated from supply and procurement business from approximately HK$19,576.7 million in FY2021 to approximately HK$29,492.3 million in FY2022 due to the increase in selling price of refined oil and by-products (including chemical products) in FY2022.

Notwithstanding the increase in revenue, the Group changed from profit making position to loss making position. In FY2022, the Group recorded loss attributable to owners of the Company of approximately HK$199.5 million, as compared to profit of approximately HK$353.6 million in FY2021. Such change was mainly attributable to (i) the provision for litigation of approximately HK$448.3 million in FY2022 due to the claims and legal proceedings against Yanchang Petroleum (Zhejiang FTZ) Limited (an indirectly 51% owned subsidiary of the Company, "**Yanchang Zhejiang**") (FY2021: nil); (ii) the provision for expected credit loss of approximately HK$115.0 million (FY2021: nil); (iii) the increase in the depreciation and depletion of property, plant and equipment of approximately HK$82.8 million; (iv) the increase in the selling and distribution expenses of approximately HK$70.2 million; and (v) the decrease in gross profit of approximately HK$53.9 million, which was partially offset by the decrease in the net reversal of impairment loss of property, plant and equipment of approximately HK$163.4 million.

As at 31 December 2022, the Group's total assets and total liabilities amounted to approximately HK$4,518.2 million (31 December 2021: approximately HK$4,508.7 million) and approximately HK$4,048.8 million (31 December 2021: approximately HK$3,341.3 million), respectively. Equity attributable to owners of the Company decreased from approximately HK$1,036.4 million as at 31 December 2021 to approximately HK$773.0 million as at 31 December 2022. Such decrease was primarily due to (i) loss attributable to owners of the Company of approximately HK$199.5 million; and (ii) exchange differences on translation of financial statements of subsidiaries of the Group outside Hong Kong of approximately HK$63.8 million.

(ii) For the six months ended 30 June 2023 (i.e. 1H2023)

In 1H2023, the Group recorded revenue of approximately HK$11,467.9 million, representing an increase of approximately 22.8% as compared to approximately HK$9,336.2 million in 1H2022. Such increase was mainly attributable to the increase in revenue generated from supply and procurement business from approximately HK$9,131.0 million in 1H2022 to approximately HK$11,236.5 million in 1H2023.

Notwithstanding the increase in revenue, the Group's gross profit slightly decreased from approximately HK$189.6 million in 1H2022 to approximately HK$179.8 million in 1H2023. Profit attributable to owners of the Company increased by 136.3% from approximately HK$6.4 million in 1H2022 to approximately HK$15.2 million in 1H2023. Such increase was mainly attributable to the decrease in selling and distribution expenses of approximately HK$75.3 million due to the business suspension of Yanchang Zhejiang, which was partially offset by the increase in the depreciation, depletion and amortisation of approximately HK$52.8 million.

As at 30 June 2023, the Group's total assets and total liabilities amounted to approximately HK$4,121.5 million (31 December 2022: approximately HK$4,518.2 million) and approximately HK$3,311.4 million (31 December 2022: approximately HK$4,048.8 million), respectively. Equity attributable to the owners of the Company increased from approximately HK$773.0 million as at 31 December 2022 to approximately HK$1,102.6 million as at 30 June 2023. Such increase was due to the (i) issue of the Shares of approximately HK$280.9 million in 1H2023; (ii) exchange differences on translation of financial statements of subsidiaries of the Group outside Hong Kong of approximately HK$33.5 million; and (iii) profit attributable to owners of the Company of approximately HK$15.2 million.

II. The Supplemental Supply Agreement

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

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

Henan Yanchang is an indirect 70% owned subsidiary of the Company and acts as the core operating arm of the Group's trading business of refined oil and by-products (including chemical products) in the PRC. It is principally engaged in the wholesale, retail, storage and transportation of refined oil (including gasoline, diesel oil, paraffin fuel oil, lubricating oil, grease and asphalt) and by-products (including chemical products). Henan Yanchang was granted a valid licence for the distribution and sale of refined oil and by-products (including chemical products) in the PRC (without expiry date) on 21 December 2006. According to the financial reports of the Company, Henan Yanchang's sales of refined oil and by-products (including chemical products) achieved approximately 4.1 million tonnes, approximately 3.3 million tonnes and approximately 1.4 million tonnes for FY2021, FY2022 and 1H2023, respectively. The Group's trading business of refined oil and by-products (including chemical products), being mainly operated by Henan Yanchang, remained as the core revenue driver of the Group for the past few years. Revenue derived from the Group's trading business of refined oil and by-products (including chemical products) amounted to approximately HK$19,576.7 million, approximately HK$29,492.3 million and approximately HK$11,236.5 million for FY2021, FY2022 and 1H2023, respectively, representing approximately 99.0%, approximately 98.5% and approximately 98.0% of the Group's total revenue for the respective years or period.

In its ordinary course of business, Henan Yanchang has been from time to time purchasing refined oil and by-products (including chemical products) from different suppliers (including but not limited to Yanchang Petroleum Group). Indeed, Henan Yanchang has been carrying on transactions pursuant to the Existing Supply Agreement entered into between Henan Yanchang and Yanchang Petroleum Group on 18 November 2022 in relation to the supply of refined oil from Yanchang Petroleum Group to Henan Yanchang, which constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The Existing Supply Agreement and the transactions contemplated thereunder (including the Original Supply Annual Caps) were duly approved by the then Independent Shareholders at the special general meeting of the Company held on 30 December 2022. Please refer to the circular of the Company dated 6 December 2022 for further details of the Existing Supply Agreement. According to the Letter from the Board, the historical transaction amounts for the purchase of refined oil by Henan Yanchang from Yanchang Petroleum Group under the Existing Supply Agreement amounted to approximately RMB7,475 million for the nine months ended 30 September 2023 ("**9M2023**"), representing approximately 67.5% of the Original Supply Annual Cap for the year ending 31 December 2023. The Directors estimated that the total purchase amount of the refined oil and by-products (including chemical products) by Henan Yanchang from Yanchang Petroleum Group for the three years ending 31 December 2025 will exceed the Original Supply Annual Caps and hence, the Original Supply Annual Caps will not be sufficient for the expected sales of the Group for the three years ending 31 December 2025. In this connection and in order to make extra room for the increase in purchase amount of refined oil by Henan Yanchang from Yanchang Petroleum Group under the rule that the terms offered by Yanchang Petroleum Group are no less favourable to the Group than those offered by independent third party suppliers to the Group for such product with comparable type and quantity at the relevant time, Henan Yanchang and Yanchang Petroleum Group entered into the Supplemental Supply Agreement on 27 November 2023 to revise the Original Supply Annual Caps.

According to the Letter from the Board, Yanchang Petroleum Group is principally engaged in (i) oil and gas exploration, exploitation, processing, pipeline transportation and sales of oil and gas and by-products (including chemical products); (ii) chemical engineering of oil, gas and coal, machinery manufacturing, project construction; and (iii) oil and gas research and development. Yanchang Petroleum Group owns the right for exploration, exploitation and operation of oil and natural gas resources in the PRC and has refining facilities in the PRC, and owns oil and natural gas resource assets in the PRC and abroad. Yanchang Petroleum Group is one of the largest oil and gas state-owned enterprises in the PRC qualified to explore and develop oil and gas in the PRC with an extensive sales network, including Yunnan, Guizhou and Sichuan. According to the official website of Yanchang Petroleum Group (http://www.sxycpc.com/), Yanchang Petroleum Group currently has 23 oil production plants, 3 exploration units, 4 auxiliary production units and 12 logistics support units for oil exploration. It also possesses 17 oil fields with oil reserves ranging from 200,000 tonnes to over 1,000,000 tonnes each. The crude oil production capacity of Yanchang Petroleum Group reaches 12 million tonnes per year. As advised by the Management, Yanchang Petroleum Group is one of Henan Yanchang's major suppliers of refined oil and by-products (including chemical products) and has commenced to supply refined oil and by-products (including chemical products) to Henan Yanchang since 2011. For FY2021, FY2022 and 9M2023, Yanchang Petroleum Group supplied approximately 807,000 tonnes, approximately 1.1 million tonnes and approximately 1.0 million tonnes of refined oil and by-products (including chemical products), respectively, to Henan Yanchang under the Existing Supply Agreement, representing approximately 19.7%, approximately 34.5% and approximately 45.4% of the total volume of refined oil and by-products (including chemical products) purchased by Henan Yanchang for the respective years/period. Having considered the facts that (i) Yanchang Petroleum Group is one of the largest oil and gas state-owned enterprises qualified to explore and develop oil and gas in the PRC with an extensive sales network; (ii) Yanchang Petroleum Group is one of the Group's major suppliers of refined oil and by-products (including chemical products) and has commenced to supply refined oil and by-products (including chemical products) to Henan Yanchang since 2011; and (iii) Yanchang Petroleum Group supplied approximately 19.7%, approximately 34.5% and approximately 45.4% of the total volume of refined oil and by-products (including chemical products) purchased by Henan Yanchang for FY2021, FY2022 and 9M2023, respectively, we concur with the Management's view that Yanchang Petroleum Group is a reliable and stable source of refined oil and by-products (including chemical products) to Henan Yanchang, and that it is crucial for the Group to secure the source of refined oil and by-products (including chemical products) from Yanchang Petroleum Group so as to maintain and develop its trading business of refined oil and by-products (including chemical products).

Having considered the facts that (i) it is the ordinary and usual course of business of the Group to purchase refined oil and by-products (including chemical products) for its trading business; (ii) the trading business of refined oil and by-products (including chemical products) represents a major revenue stream for the Group; (iii) it is expected that the total purchase amount of the refined oil and by-products (including chemical products) by Henan Yanchang from Yanchang Petroleum Group for the three years ending 31 December 2025 will exceed the Original Supply Annual Caps; (iv) Yanchang Petroleum Group is considered as a reliable and stable source of refined oil and by-products (including chemical products) to Henan Yanchang; and (v) the terms of the Supplemental Supply Agreement (including the Revised Supply Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned (please refer to our analysis as detailed in the paragraphs headed "*2. Principal terms of the Supplemental Supply Agreement" and "3. The Revised Supply Annual Caps*" below), we concur with the Management's view that the entering into of the Supplemental Supply Agreement could enhance the flexibility of Henan Yanchang for the procurement of quality refined oil and by-products (including chemical products), and is in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Supplemental Supply Agreement

The principal terms of the Existing Supply Agreement (as supplemented by the Supplemental Supply Agreement) are set out as follows:

Date:	18 November 2022 (after trading hours) (as supplemented by the Supplemental Supply Agreement dated 27 November 2023)
Parties:	(i) Henan Yanchang; and (ii) Yanchang Petroleum Group

Subject:	Yanchang Petroleum Group has agreed to sell and Henan Yanchang has agreed to purchase refined oil and by-products (including chemical products) on normal commercial terms.
Term:	The Existing Supply Agreement (as supplemented by the Supplemental Supply Agreement) shall subsist for three years commencing from 1 January 2023 until 31 December 2025, and is renewable for another term of three years under negotiation between both parties at least 90 days prior to the expiry date, subject to the compliance with the Listing Rules.
Pricing basis:	The purchase price of refined oil and by-products (including chemical products) shall be the actual trading price quoted by Yanchang Petroleum Group to customers and the purchase price paid by Henan Yanchang shall not be higher than that offered by Yanchang Petroleum Group to its independent third-party customers for the comparable product type and quantity at the relevant time.
Payment terms:	The purchase price of refined oil and by-products (including chemical products) shall be paid in advance by Henan Yanchang before delivery of the refined oil and by-products (including chemical products). The payment terms offered by Yanchang Petroleum Group to Henan Yanchang should not be less favourable than those offered by Yanchang Petroleum Group to its independent third-party customers for the comparable product type and quantity at the relevant time.

As mentioned in the Letter from the Board, the terms of the Supplemental Supply Agreement were negotiated based on normal commercial terms and the pricing terms were determined after arm's length negotiation between Henan Yanchang and Yanchang Petroleum Group and on terms which the Directors consider to be no less favourable to the Group than the terms offered by independent third-party suppliers to the Group for refined oil and by-products (including chemical products) of comparable product type, quality and quantity at the relevant time.

In assessing the fairness and reasonableness of the terms of the Supplemental Supply Agreement, we have reviewed the terms of the Existing Supply Agreement and the Supplemental Supply Agreement, and noted that the entering into of the Supplemental Supply Agreement is solely for the purpose of revising the Original Supply Annual Caps to the Revised Supply Annual Caps so as to cater for the possible increase in purchase volume of refined oil and by-products (including chemical products) by Henan Yanchang from Yanchang Petroleum Group. Save and except for the above, all other terms of the Existing Supply Agreement remain unchanged and effective. In addition, we have discussed with the Management on the terms of the

Existing Supply Agreement (as supplemented by the Supplemental Supply Agreement) (in particular, the pricing terms), and were advised that the price of refined oil and by-products (including chemical products) to be supplied by Yanchang Petroleum Group to Henan Yanchang will be determined with reference to the availability of supply of refined oil and by-products (including chemical products) and the prevailing market prices of relevant products. Pursuant to the Existing Supply Agreement (as supplemented by the Supplemental Supply Agreement), the purchase price of refined oil and by-products (including chemical products) shall be the actual trading price quoted by Yanchang Petroleum Group to customers and the purchase price paid by Henan Yanchang shall not be higher than that offered by Yanchang Petroleum Group to its independent third-party customers. We were also given to understand by the Management that notwithstanding the entering into of the Existing Supply Agreement (as supplemented by the Supplemental Supply Agreement), Henan Yanchang is entitled to purchase refined oil and by-products (including chemical products) from other suppliers (not limited to Yanchang Petroleum Group). In this regard, Henan Yanchang has designed and implemented a procedure manual (the "**Supply Procedure Manual**") in respect of the purchase of refined oil and by-products (including chemical products) as required by Henan Yanchang's internal control procedures in relation to the continuing connected transactions. We have obtained from the Management, and reviewed, the Supply Procedure Manual, the details of which were summarized as below:

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

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

(iii) The head of the procurement department of Henan Yanchang would review the price and approve the purchase orders for the refined oil and by-products (including chemical products).

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

Furthermore, we have obtained and reviewed 18 sample walk-through documents (including, among other things, price quotations from Yanchang Petroleum Group and independent third-party suppliers, the ultimate supplier of refined oil and by-products selected by Henan Yanchang with specified reasons, and the relevant delivery and payment records, the "**Supply Walk-through Documents**") provided by the Group in respect of the purchase of refined oil and by-products by Henan Yanchang during the period commencing from 1 January 2021 to 30 September 2023 (the "**Review Period**").

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

Having considered the facts that (i) the terms of the Supplemental Supply Agreement were negotiated based on normal commercial terms and the prices were determined after arm's length negotiation between Henan Yanchang and Yanchang Petroleum Group and on terms which the Directors consider to be no less favourable to the Group than the terms offered by independent third-party suppliers to the Group for refined oil and by-products (including chemical products) of comparable product type and quantity at the relevant time; (ii) the purchase price of refined oil and by-products (including chemical products) shall be the actual trading price quoted by Yanchang Petroleum Group to customers and the purchase price paid by Henan Yanchang shall not be higher than that offered by Yanchang Petroleum Group to its independent third-party customers; and (iii) the implementation of the Supply Procedure Manual can ensure that Henan Yanchang would purchase refined oil and by-products (including chemical products) with the most favorable terms available to it under a systematic procedure, and thus safeguard the interests of the Company and the Shareholders as a whole, we consider that the entering into of the Supplemental Supply Agreement is in the ordinary and usual course of business of the Group while the terms of the Supplemental Supply Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

3. *The Revised Supply Annual Caps*

The table below sets forth (i) the Original Supply Annual Caps for the Continuing Connected Transactions contemplated under the Existing Supply Agreement for the three years ending 31 December 2023, 2024 and 2025 ("**FY2023**", "**FY2024**" and "**FY2025**", respectively), the actual transaction amounts under the Existing Supply Agreement for 9M2023, and the utilization rate of the Original Supply Annual caps; and (ii) the Revised Supply Annual Caps under the Supplemental Supply Agreement for FY2023, FY2024 and FY2025:

Table 2: Original Supply Annual caps and Revised Supply Annual Caps

	FY2023 *RMB million*	**FY2024** *RMB million*	**FY2025** *RMB million*
Original Supply Annual Caps	11,081	12,188	13,397
Historical transaction amounts	7,475 *(up to 30 September 2023)*	N/A	N/A
Utilization rate of the Original Supply Annual Caps	67.5%	N/A	N/A
Revised Supply Annual Caps	15,148	25,857	26,316

According to the Letter from the Board, the Revised Supply Annual Caps for FY2023 under the Supplemental Supply Agreement are determined after taking into account: (i) the historical transaction amounts for the purchase of refined oil and by-products (including chemical products) by Henan Yanchang from Yanchang Petroleum Group for 9M2023; (ii) the expected transaction amounts for FY2023; (iii) the estimated purchase price of refined oil and by-products (including chemical products) from Yanchang Petroleum Group; (iv) the percentage of refined oil and by-products (including chemical products) purchased from Yanchang Petroleum Group of Henan Yanchang's total purchase increased from approximately 33% for FY2022 to approximately 45% for 9M2023; (v) the average monthly growth rate of approximately 34% for the recent period from July 2023 to September 2023 in respect of the purchase amounts of the refined oil and by-products (including chemical products) by Henan Yanchang from Yanchang Petroleum Group, assuming the average monthly growth rate continues to the end of 2023, the amount for the purchase of refined oil and by-products (including chemical products) by Henan Yanchang from Yanchang Petroleum Group will reach approximately RMB15.1 billion for FY2023; (vi) the existing business scale of Henan Yanchang is needed to be backed by the stable and sufficient supply of refined oil and by-products (including chemical products) from Yanchang Petroleum Group; and (vii) Henan Yanchang was granted a valid licence for distribution and sales of refined oil and by-products (including chemical products) in the whole PRC and Henan Yanchang keeps on its business development, in particular Southwest PRC. Due to uncertainty of the amounts required of refined oil and by-products (including chemical products) for the purpose of the Group's business and unexpected growth, 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.

As advised by the Management, the Revised Supply Annual Caps for FY2024 and FY2025 are determined with reference to (i) the estimated purchase volume of approximately 5.0 million tonnes and 5.1 million tonnes of refined oil and by-products (including chemical products) by Henan Yanchang from Yanchang Petroleum Group for FY2024 and FY2025, respectively, which were determined based on the expected purchase volume for FY2023 and estimated growth rate of 35% and 2% for FY2024 and FY2025 (the "**Estimated Growth Rate**"); (ii) the estimated purchase price per tonne of refined oil and by products (including chemical products) from Yanchang Petroleum Group with reference to prevailing market price; (iii) the estimated proportion of the total purchase volume of refined oil and by-products (including chemical products) to be purchased by Henan Yanchang from Yanchang Petroleum Group for FY2024 and FY2025; (iv) the existing business scale of Henan Yanchang needed to be backed by the stable and sufficient supply of refined oil from Yanchang Petroleum Group; and (v) Henan Yanchang was granted a valid licence for distribution and sales of refined oil and by-products (including chemical products) in the whole PRC and Henan Yanchang keeps on its business development, in particular Southwest PRC.

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

the Revised Supply Annual Caps = A x B x C

where

A = the estimated total purchase volume of refined oil and by-products (including chemical products) to be purchased by Henan Yanchang for FY2023, FY2024 and FY2025 (the "**Estimated Purchase Volume**")

B = the estimated proportion of the total purchase volume of refined oil and by-products (including chemical products) to be purchased by Henan Yanchang from Yanchang Petroleum Group for FY2023, FY2024 and FY2025 (the "**Estimated Purchase Proportion**")

C = the estimated purchase price per tonne of the refined oil (the "**Estimated Purchase Price**")

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

(i) the Estimated Purchase Volume

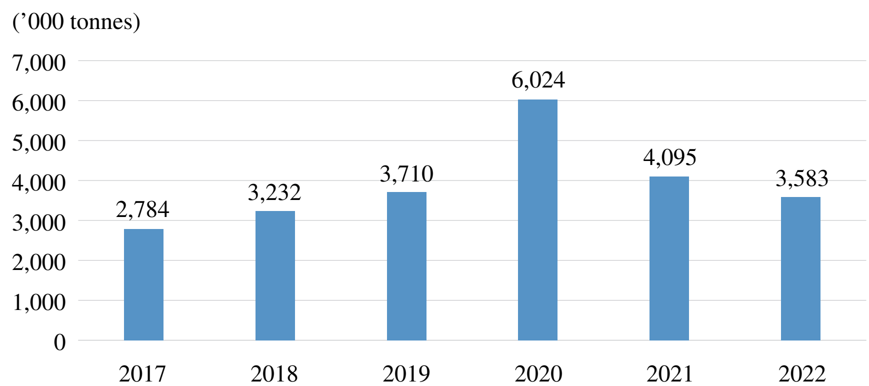
Upon our review on the calculation of the Revised Supply Annual Caps, we noted that the Estimated Purchase Volume for FY2023, FY2024 and FY2025 are approximately 3.5 million tonnes (the "**FY2023 Purchase Volume**"), approximately 5.0 million tonnes and approximately 5.1 million tonnes.

We were given to understand that in determining the FY2023 Purchase Volume, the Management first projected the total volume of refined oil and by-products (including chemical products) to be purchased by Henan Yanchang for the fourth quarter of 2023 ("**4Q2023**") based on the historical purchase volume, the existing purchase orders and the potential demand for the refined oil and by-products. As advised by the Management, the Directors have also considered the seasonal effect of the trading of refined oil. In general, the purchase volume of refined oil and by-products (including chemical products) 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 PRC, while the purchase volume of refined oil and by-products (including chemical products) of Henan Yanchang in October 2023 may also be lower than those in the remaining months due to the effect of the six days long National Day Holiday (the "**National Day Holiday**"). Based on the purchase orders placed or to be placed by Henan Yanchang to Yanchang Petroleum Group and independent third party suppliers, the Management estimated that the Estimated Purchase Volume for 4Q2023 would be approximately 380,000 tonnes per month. The Management then applied a buffer of 10% to the Estimated Purchase Volume for 4Q2023 to come up with the FY2023 Purchase Volume. Therefore, the FY2023 Purchase Volume of approximately 3.5 million tonnes is calculated as the sum of the actual purchase volume for 9M2023 of approximately 2.3 million tonnes, the Estimated Purchase Volume for 4Q2023 of approximately 1.1 million tonnes and the buffer of 10% to the Estimated Purchase Volume for 4Q2023.

We have discussed with the Management regarding the basis of estimation for the Estimated Purchase Volume for 4Q2023 would be approximately 380,000 tonnes per month, and the Management advised us that the total volume of refined oil and by-products (including chemical products) purchased by Henan Yanchang was approximately 324,000 tonnes in October 2023, in particular, approximately 79.0% of refined oil and by-products (including chemical products) was purchased by Henan Yanchang from Yanchang Petroleum Group. In view of the above, we have obtained and reviewed the daily transaction summary of Henan Yanchang for the period from 1 October 2023 to 15 November 2023 and noted that the average daily purchase volume of refined oil and by-products (including chemical products) of Henan Yanchang during the National Day Holiday (i.e. from 1 October 2023 to 6 October 2023) was approximately 3,700 tonnes, which was significantly lower than that of approximately 12,800 tonnes in the remaining days in October 2023. In addition, the purchase volume of refined oil and by-products (including chemical products) of Henan Yanchang in the first half of November 2023 has already reached 196,000 tonnes, representing approximately 51.6% of the monthly Estimated Purchase Volume for 4Q2023. On the other hand, we have also obtained and reviewed the ledger of refined oil and by-products purchased by Henan Yanchang for the ten months ended 31 October 2023 and noted that Henan Yanchang had conducted around 280 purchase transactions in October 2023, which was much higher than the average number of purchase transactions for 9M2023 of around 180 transactions. In view of the significant increase in the purchase volume of refined oil and by-products in October 2023, we concur with the Management's view that it is reasonable to use the recent operating data as a basis of the estimation of the Estimated Purchase Volume for 4Q2023 to come up with the FY2023 Purchase Volume.

To assess the fairness and reasonableness of the Estimated Growth Rate (i.e. 35% for FY2024 and 2% for FY2025), we have reviewed the actual sale and purchase volume of refined oil and by-products (including chemical products) of Henan Yanchang for the six years ended 31 December 2022, figures of which are depicted in the following chart:

Chart 1: Total purchase volume of refined oil and by-products (including chemical products) of Henan Yanchang for the six years ended 31 December 2022



Source: the financial reports of the Company

As shown in Chart 1 above, we noted that the total volume of refined oil and by-products (including chemical products) purchased by Henan Yanchang exhibited an increasing trend during the year of 2017 to 2020. The growth rates were approximately 15% in 2018 and 2019 and surged to approximately 62% in 2020. In this regard, we have enquired with the Management regarding the reason for the significant increase in the total purchase volume of refined oil and by-products (including chemical products) of Henan Yanchang in 2020, and were advised that Henan Yanchang has put extra effort in market expansion and customer exploration, as well as building up oil depot network in the first half of 2020 under the shadow of the spread of COVID-19 and the plunge in international oil price. Particularly, Henan Yanchang expanded its business to regions beyond Henan Province by further expanding geographical coverage of its sales network with a focus on the expansion towards south-west and north-west of the PRC, and nearly 200 new customers have been procured in the first half of 2020.

In 2021, Henan Yanchang has enhanced the effectiveness of oil distribution and expanded its business in Ningxia Province, Hubei Province and Henan Province, the PRC by acquiring 19 new customers and dealing with 35 new suppliers. Besides, Henan Yanchang completed the upgrade and transformation of three gas stations in Henan Province, the PRC and the intraday retail sales volume of Henan Yanchang exceeded 22.5 tonnes. However, due to the impact of the COVID-19 (particularly, the operation of gas stations in the PRC were adversely affected by the static-pandemic control promulgated by the PRC government), the total sales volume, and thus the total purchase volume, of refined oil and by-products (including chemical products) of Henan Yanchang showed a decrease in 2021 and 2022.

According to the Letter from the Board, Henan Yanchang has been continuously expanding its business since the first half of 2023, including (i) discovering new direct sales business and expanding new distribution channels by (a) actively conducting ethanol business which has already expanded to Hebei Province, Shandong Province and Hubei Province, the PRC; (b) actively developing its highway direct sales channels; and (c) further expanding railway distribution channels; (ii) developing inventory sales by further expanding the business to new customers in Henan Province, Hunan Province and Ningxia Province, the PRC; (iii) facilitating high-quality development by compliant operation of external sourcing; and (iv) improving quality and volume of terminal retail and enhancing brand influence in the PRC.

Notwithstanding the decrease in the purchase volume of refined oil and by-products (including chemical products) by Henan Yanchang in 2021 and 2022, in view of (i) the remarkable increasing trend of the purchase volume of refined oil and by-products (including chemical products) of Henan Yanchang before 2021; (ii) the business expansion of the Group conducted in the past few years as discussed above; and (iii) the gradual recovery of the PRC's economy from the impact of the COVID-19, the Management anticipated that the total sale and purchase volume of refined oil and by-products (including chemical products) of Henan Yanchang will improve in the coming years and gradually resume back to the pre-pandemic level. Therefore, we concur with the Management's view that it is necessary to revise the Original Supply Annual Caps to cater for the expected increase in the purchase volume in the coming years by applying the Estimated Growth Rate to come up with the Estimated Purchase Volume.

(ii) the Estimated Purchase Proportion

The historical and estimated purchase proportion of Henan Yanchang's total purchase volume from Yanchang Petroleum Group and independent third-party suppliers for FY2021, FY2022 and 9M2023 and 4Q2023, FY2024 and FY2025 are set out as follow:

Table 3: Proportion of Henan Yanchang's total purchase volume from Yanchang Petroleum Group and independent third-party suppliers

	FY2021	FY2022	9M2023	4Q2023	FY2024	FY2025
		(Historical)			*(Estimated)*	
		Approximate %			*Approximate %*	
Yanchang Petroleum Group	19.7	34.5	45.4	79.2	57.7	57.7
Independent third-party suppliers	80.3	65.5	54.6	20.8	42.3	42.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

As set out in the above table, it is estimated by the Management that the Estimated Purchase Proportion for 4Q2023, FY2024 and FY2025 are approximately 79.2%, 57.7% and 57.7%. We noted that the Estimated Purchase Proportion for 4Q2023 of approximately 79.2% is made with reference to the purchase orders placed by Henan Yanchang to Yanchang Petroleum Group and the independent third-party suppliers in October 2023, while the Estimated Purchase Proportion for FY2024 and FY2025 of approximately 57.7% is similar to the proportion of the total volume of refined oil and by-products (including chemical products) purchased/to be purchased by Henan Yanchang from Yanchang Petroleum Group for FY2023. We were advised by the Management that it is the Group's development strategy to increase the proportion of purchase volume of refined oil and by-products (including chemical products) from Yanchang Petroleum Group after considering the facts that (i) Yanchang Petroleum Group would usually offer a relatively favourable pricing terms to Henan Yanchang as compared to independent third-party suppliers; (ii) Yanchang Petroleum Group would usually deliver refined oil and by-products (including chemical products) by railway which is a more reliable method for orders with large volume and long distance, whereas the independent third-party suppliers would mainly deliver the orders by road transport. Accordingly, Yanchang Petroleum Group could provide stable and reliable supply of refined oil and by-products (including chemical products) to Henan Yanchang; and (iii) Yanchang Petroleum Group possesses extensive sales network covering various provinces and cities in the PRC (including most of the new sales spots of Henan

Yanchang). Indeed, the proportion of purchase volume of refined oil and by-products (including chemical products) by Henan Yanchang from Yanchang Petroleum Group has increased gradually from approximately 19.7% in FY2021 to approximately 34.5% in FY2022 and approximately 45.4% in 9M2023, and further to approximately 79.0% in October 2023.

As to the factor of historical average purchase price, we have obtained from the Management the historical average purchase price of refined oil and by-products (including chemical products) purchased from Yanchang Petroleum Group and the independent third-party suppliers. It is noted that the average purchase price of refined oil and by-products (including chemical products) purchased by Henan Yanchang from Yanchang Petroleum Group for FY2021, FY2022 and 9M2023 amounted to approximately RMB5,850 per tonne, approximately RMB7,300 per tonne and approximately RMB7,300 per tonne respectively, which were lower than the average purchase price of refined oil and by-products (including chemical products) purchased from the independent third-party suppliers of approximately RMB6,400 per tonne, approximately RMB7,850 per tonne and approximately RMB7,350 per tonne. The Management considers that the competitive pricing terms offered by Yanchang Petroleum Group to Henan Yanchang could reduce the Group's purchase cost and, in turn, enhance the profitability of the Group's refined oil and by-products (including chemical products) trading business. Furthermore, as mentioned in the paragraph headed "*1. Background of, reasons for, and benefits of the entering into of the Supplemental Supply Agreement*" above, Yanchang Petroleum Group is one of the largest oil and gas state-owned enterprises qualified to explore and develop oil and gas in the PRC with an extensive sales network and is considered as a reliable and stable source of refined oil and by-products (including chemical products) to Henan Yanchang. In view of the above, we consider that the Estimated Purchase Proportion was determined by the Management with reasonable ground.

(iii) the Estimated Purchase Price

The Management expects that the Estimated Purchase Price will be approximately RMB8,400 per tonne for 4Q2023 and approximately RMB8,900 per tonne for FY2024 and FY2025. To assess the fairness and reasonableness of the Estimated Purchase Price, we have reviewed, and discussed with the Management, the basis of determination for the Estimated Purchase Price. The Estimated Purchase Price was determined by the Management based on (i) the NDRC Quoted Price (as defined below); and (ii) the expected increase in the purchase price of approximately 6% after consideration of (i) the increasing trend of refined oil price quoted from the National Development and Reform Commission of the PRC ("**NDRC**") during the period from January 2023 to September 2023; and (ii) the potential adverse impact from the prevailing market condition and geopolitical risks.

We understood from the Management that NDRC issues a list of the maximum retail prices (the "**NDRC Quoted Price**") of refined oil (including gasoline and diesel) of each province, municipality and autonomous region bi-weekly with reference to the change in international oil price. It is noted that the average purchase price of refined oil purchased by Henan Yanchang from Yanchang Petroleum Group of approximately RMB7,300 per tonne for 9M2023 represent a discount of approximately 24.8% (the "**Purchase Discount Rate**") to the NDRC Quoted Average Price of gasoline in Henan Province, the PRC (which is the principal place of business of Henan Yanchang is located) of approximately RMB9,700 per tonne for the same period. As advised by the Management, the Estimated Purchase Price was determined by the Management with reference to (i) the NDRC Quoted Average Price in late September 2023; and (ii) the Purchase Discount Rate. Based on the information published by NDRC, the NDRC Quoted Average Price of gasoline in Henan Province, the PRC in late September 2023 was approximately RMB10,485 per tonne, and that the Estimated Purchase Price for 4Q2023 represents a discount of approximately 20% to the NDRC Quoted Average Price of gasoline in Henan Province, the PRC in late September 2023, which is similar to the Purchase Discount Rate. As such, we consider that the Estimated Purchase Price for 4Q2023 is justifiable.

To assess the fairness and reasonableness of the Estimated Purchase Price of approximately RMB8,900 per tonne for FY2024 and FY2025, we have reviewed the relevant documents in respect of the maximum retail prices of refined oil issued by NDRC and noted that the NDRC Quoted Average Price of gasoline and diesel in Henan Province, the PRC increased from RMB9,680 and RMB8,645 per tonne on 3 January 2023 to RMB10,485 and RMB9,420 per tonne on 22 September 2023, representing an growth rate of approximately 8.3% and 9.0%, respectively. Having considered the above, as well as the prevailing market condition and geopolitical risks (in particular, the ongoing Russia-Ukraine conflict and the outbreak of Israel-Hamas conflict in October 2023), the Management anticipated that the gasoline and diesel retail price may further increase in the coming months. Therefore, we concur with the Management's view that it is necessary to provide sufficient buffer to cater for the possible increase in the purchase price of refined oil and by-products (including chemical products). As such, we consider that the Estimated Purchase Price is justifiable.

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

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

III. The Sales Agreements

1. Background of, reasons for, and benefits of the entering into of the Sales Agreements

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

As mentioned in the paragraph headed "*1. Background of, reasons for, and benefits of the entering into of the Supplemental Supply Agreement*" under the section headed "*II. The Supplemental Supply Agreement*" above, Henan Yanchang is an indirect 70% owned subsidiary of the Company and acts as the core operating arm of the Group's trading business of refined oil and by-products (including chemical products) in the PRC. The Group's trading business of refined oil and by-products (including chemical products), being mainly operated by Henan Yanchang, remained as the core revenue driver of the Group for the past few years. Revenue derived from the Group's trading business of refined oil and by-products (including chemical products) contributed approximately 99.0%, approximately 98.5% and approximately 98.0% of the Group's total revenue for FY2021, FY2022 and IH2023.

In its ordinary course of business, Henan Yanchang has been from time to time selling refined oil and by-products (including chemical products) to different customers. Indeed, Henan Yanchang has been carrying on transactions pursuant to the Existing Sales Agreements entered into between Henan Yanchang and the Existing Sales Connected Parties (i.e. Yanan Energy Chemical and Yanchang Shell Henan) on 13 May 2021 in relation to the sales of refined oil and by-products (including chemical products) from Henan Yanchang to the Existing Sales Connected Parties, which constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The Existing Sales Agreements and the transactions contemplated thereunder (including the annual caps) were duly approved by the then Independent Shareholders at the special general meeting of the Company held on 28 June 2021. Please refer to the circular of the Company dated 7 June 2021 for further details of the Existing Sales Agreements. The following table sets out the trading volume and transaction amount of sales of refined oil and by-products (including chemical products) by Henan Yanchang to the Existing Sales Connected Parties and independent customers for FY2021, FY2022 and 9M2023:

Table 4: the historical sales volume of refined oil and by-products (including chemical products)

Sales volume	**FY2021** *tonnes*	**FY2022** *tonnes*	**9M2023** *tonnes*
Existing Sales Connected Parties	11,400	10,100	2,300
Independent customers	4,083,600	3,241,500	2,259,900
Total	**4,095,000**	**3,251,600**	**2,262,200**

As shown in the table above, the aggregate sales volume of refined oil and by-products (including chemical products) by Henan Yanchang to the Existing Sales Connected Parties amounted to approximately 11,400 tonnes, approximately 10,100 tonnes and approximately 2,300 tonnes for FY2021, FY2022 and 9M2023, representing approximately 0.3%, approximately 0.3% and approximately 0.1% of the aggregate sales volume of refined oil and by-products (including chemical products) by Henan Yanchang for the respective years/period.

As mentioned in the paragraph headed "*(i) the Estimated Purchase Volume*" under the section headed "*II. The Supplemental Supply Agreement*" above, Henan Yanchang has been continuously expanding its business since the first half of 2023, including (i) discovering new direct sales business and expanding new distribution channels by (a) actively conducting ethanol business which has already expanded to Hebei Province, Shandong Province and Hubei Province, the PRC; (b) actively developing its highway direct sales channels; and (c) further expanding railway distribution channels; (ii) developing inventory sales by further expanding the business to new customers in Henan Province, Hunan Province and Ningxia Province, the PRC; (iii) facilitating high-quality development by compliant operation of external sourcing; and (iv) improving quality and volume of terminal retail and enhancing brand influence in the PRC. As advised by the Management, the Sales Connected Parties are principally engaged in oil and gas processing and sales of oil, gas and by-products, in particular, Yanchang Shell Henan has commenced to purchase refined oil and by-products (including chemical products) from Henan Yanchang since 2017. The Directors considered that the entering into of the Sales Agreements with the Sales Connected Parties could further expand the sales coverage and network of the Group so as to enhance the business and operation performance of Henan Yanchang and foster its long-term development which is in line with the Group's business strategy as mentioned above.

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 supply refined oil and by-products (including chemical products) to the Sales Connected Parties from time to time as part of its ordinary course of business; (iv) the Sales Connected Parties could provide the long-term support and strong momentum to Henan Yanchang with stable demand for refined oil and by-products (including chemical products); (v) the entering into of the Sales Agreements with the Sales Connected Parties could further expand the sales coverage and network of the Group so as to enhance the business and operation performance of Henan Yanchang and foster its long-term development which is in line with the Group's business strategy; and (vi) the terms of the Continuing Connected Transactions and the Sales Agreements (including the Proposed Sales Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned (please refer to our analysis as detailed in the paragraphs headed "*2. Principal terms of the Sales Agreements" and "3. The Proposed Sales 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.

2. Principal terms of the Sales Agreements

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

Date: 27 November 2023 (after the trading hours)

Parties:
(i) Henan Yanchang;

(ii) China Petroleum Yanchang; and

(iii) Yanchang Shell Henan

Subject matter: Henan Yanchang has agreed to sell, the Sales Connected Parties have agreed to purchase refined oil and by-products (including chemical products) on a normal commercial term basis.

Term: The Sales Agreements shall subsist for three years commencing from 1 January 2024 until 31 December 2026, and is renewable for another term of three years under negotiation between both parties at least 90 days prior to the expiry date, subject to the compliance with the Listing Rules.

Pricing basis:
(i) in respect of the sales of refined oil and by-products (including chemical products) from Henan Yanchang to China Petroleum Yanchang, the unit price of refined oil and by-products (including chemical products) shall be no less favourable than those offered to other independent third-party customers of Henan Yanchang for the comparable product type and quantity at the relevant time; and

(ii) in respect of the sales of refined oil and by-products (including chemical products) from Henan Yanchang to Yanchang Shell Henan, the unit price of refined oil and by-products shall apply the Market Price for the comparable product type and quantity at the relevant time

Payment terms: The unit price of refined oil and by-products (including chemical products) shall be paid by the Sales Connected Parties upon the receipt of refined oil and by-products (including chemical products). The payment terms offered by Henan Yanchang to the Sales Connected Parties 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 (including chemical products) payable by China Petroleum Yanchang 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 Price quoted from NDRC and the prevailing market price.

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

(i) The Group has a standard pricing policy for its sales 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 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 the refined oil and by-products (including chemical products) based on the actual quantities of the relevant products received.

Upon review of the Sales Procedure Manual and our discussion with the Management, we are of the view that the implementation of the Sales Procedure Manual can ensure that the selling price of refined oil and by-products (including chemical products) payable by the Sales Connected Parties 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, and thus safeguard the interests of the Company and the Shareholders as a whole.

Furthermore, we have obtained and reviewed 18 sample walk-through documents (including, among other things, price quotations to Yanchang Shell Henan and independent third-party customers, and the relevant delivery and payment records) (the "**Sales Walk-through Documents**") provided by the Group in respect of the sale of refined oil and by-products by Henan Yanchang during the period commencing from the Review Period.

Based on our sample review on the Sales Walk-through Documents, we noted that (i) the transactions under the Existing Sales Agreements were carried out in accordance with the Sales Procedure Manual; and (ii) the selling price of refined oil and by-products paid by Yanchang Shell Henan to Henan Yanchang shall be no less favourable to the Group 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 was determined by Henan Yanchang with reference to the NDRC Quoted Price and the prevailing market price, respectively. We are of the view that the pricing policy and mechanism in respect of the sales of refined oil and by-products have been well in place, and the interests of the Company and the Shareholders are properly safeguarded.

Having considered the facts that (i) the terms of the Sales Agreements were negotiated based on normal commercial terms and the prices were determined after arm's length negotiation between Henan Yanchang and the Sales Connected Parties and on terms which the Directors consider to be no less favourable to the Group than the terms offered by independent third-party customers to the Group for refined oil and by-products (including chemical products) of comparable product type and quantity at the relevant time; (ii) the selling price of refined oil and by-products (including chemical products) shall not be lower than that offered by Henan Yanchang to its independent third-party customers; and (iii) the implementation of the Sales Procedure Manual can ensure that the selling price of refined oil and by-products (including chemical products) payable by Sales Connected Parties 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, and thus safeguard the interests of the Company and the Shareholders as a whole, 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.

3. The Proposed Sales Annual Caps

The table below sets forth (i) the historical transaction amounts of refined oil and by-products (including chemical products) from Henan Yanchang to the Sales Connected Parties for FY2021, FY2022, 9M2023; and (ii) the Proposed Sales Annual Caps under the Sales Agreements for FY2024, FY2025 and the year ending 31 December 2026 ("**FY2026**"):

	FY2021	**FY2022**	**9M2023**
	RMB million	*RMB million*	*RMB million*
Historical transaction amounts			
– China Petroleum Yanchang	–	–	–
– Yanchang Shell Henan	33.66	62.57	17.10
Total	**33.66**	**62.57**	**17.10**

	FY2024	**FY2025**	**FY2026**
	RMB million	*RMB million*	*RMB million*
Proposed Sales Annual Caps			
– China Petroleum Yanchang	43	43	43
– Yanchang Shell Henan	172	215	258
Total	**215**	**258**	**301**

According to the Letter from the Board, the Proposed Sales Annual Caps under the Sales Agreements are determined after taking into account: (i) the forecast amounts of sales of refined oil and by-products (including chemical products) from Henan Yanchang to the Sales Connected Parties for FY2024, FY2025 and FY2026; (ii) the expected selling price of refined oil and by-products (including chemical products) for the sales to the Sales Connected Parties with reference to the selling price range recently suggested by the NDRC and the prevailing market prices; (iii) the indicative sales volume proposed by China Petroleum Yanchang of approximately 4,800 tonnes for each of FY2024, FY2025 and FY2026, respectively, for business development purpose of China Petroleum Yanchang; (iv) the indicative sales volume proposed by Yanchang Shell Henan of approximately 19,000 tonnes, 23,800 tonnes and 28,500 tonnes for FY2024, FY2025 and FY2026, respectively, for business development purpose of Yanchang Shell Henan; (v) Henan Yanchang was granted a valid licence for distribution and sales of refined oil and by-products (including chemical products) in the PRC (without expiry date) on 21 December 2006; and (vi) Yanchang Shell Henan is a 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.

Henan Yanchang has commenced to supply refined oil to Yanchang Shell Henan since 2017 and China Petroleum Yanchang during the period from 2016 to 2021 and acts as one of their suppliers of refined oil. In order to assess the fairness and reasonableness of the Proposed Sales Annual Caps for FY2024, FY2025 and FY2026, we have discussed with the Management in relation to the determination of the Proposed Sales Annual Caps and were given to understand that the Proposed Sales Annual Cap for each of FY2024, FY2025 and FY2026 was estimated based on the following formula:

Proposed Sales Annual Caps = A x B

where

A = the estimated total volume of refined oil to be supplied by Henan Yanchang to China Petroleum Yanchang (the "**Estimated CPY Sales Volume**") and Yanchang Shell Henan (the "**Estimated YSH Sales Volume**", together with the Estimated CPY Sales Volume, the "**Estimated Sales Volume**") for FY2024, FY2025 and FY2026

B = the estimated selling price of refined oil per tonne (the "**Estimated Selling Price**")

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

(i) the Estimated Sales Volume

(a) Estimated CPY Sales Volume

Upon our review on the calculation of the Proposed Sales Annual Caps, we noted that the Estimated CPY Sales Volume is approximately 4,800 tonnes for each of FY2024, FY2025 and FY2026. We were given to understand that the Estimated CPY Sales Volume was not determined with reference to historical transactions as no historical transactions had been conducted between Henan Yanchang and China Petroleum Yanchang since 2021. In this regard, we have discussed with the Management and was advised that the Estimated CPY Sales Volume was determined with reference to (i) the estimated sales volume of the Group for FY2024 of approximately 4.9 million tonnes; (ii) the expected demand for the refined oil and by-products from China Petroleum Yanchang; and (iii) the transaction volume between Henan Yanchang and independent third party customers with similar scale of business.

As mentioned in the paragraph headed "*1. Background of, reasons for, and benefits of the entering into of the Sales Agreements*" above, Henan Yanchang has been continuously expanding its business since the first half of 2023. In addition, in view of (i) the remarkable increasing trend of the sale and purchase volume of refined oil and by-products (including chemical products) of Henan Yanchang before 2021; (ii) the business expansion of the Group conducted in the past few years as discussed above; and (iii) the gradual recovery of the PRC's economy from the impact of the COVID-19, we concur with the Management view that the total sale and purchase volume of refined oil and by-products (including chemical products) of Henan Yanchang would improve in the coming years and gradually resume back to the pre-pandemic level.

According to the Letter from the Board, China Petroleum Yanchang is principally engaged in oil and gas processing and sales of oil, gas and by-products. As at the Latest Practicable Date, China Petroleum Yanchang was owned as to 41%, 40% and 19% by Yanchang Petroleum Group, PetroChina (one of the largest oil and gas state-owned enterprises in the PRC) and Hezhong Energy. According to the official website of China Petroleum Yanchang (http://www.zyycpc.cn/), the total transaction volume and sales of refined oil and by-products of China Petroleum Yanchang in FY2022 amounted to approximately 3.5 million tonnes and approximately RMB25.5 billion. The Estimated CPY Sales Volume of approximately 4,800 tonnes merely represents approximately 0.14% of the total transaction volume of China Petroleum Yanchang in FY2022.

In view of the above, we are of the view that the Estimated CPY Sales Volume is justifiable.

(b) Estimated YSH Sales Volume

Upon our review on the calculation of the Proposed Sales Annual Caps, we noted that the Estimated YSH Volume is approximately 19,000 tonnes, 23,800 tonnes and 28,500 tonnes for FY2024, FY2025 and FY2026, respectively. We have discussed with the Management regarding the basis of determination for the Estimated YSH Sales 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 46% for FY2022 as compared to that of FY2021; and (ii) the potential increase in demand for refined oil from Yanchang Shell Henan. Yanchang Shell Henan advised the Management that it intends to (a) expand its network of terminal gas stations in Henan Province, the PRC; and (b) 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.

In this regard, we have enquired with the Management regarding the reason for the low level of transaction volume of refined oil and by-products (including chemical products) sold by Henan Yanchang to Yanchang Shell Henan in 9M2023, and were advised that Yanchang Shell Henan launched its sale of "super" 98 RON unleaded petrol (namely "V-Power") in January 2023 in Henan Province, the PRC and has actively promoted V-Power to the public. However, as Henan Yanchang does not offer this type of petrol, and therefore, the sale volume between Henan Yanchang and Yanchang Shell Henan significantly decreased in 9M2023. As advised by the Management, they anticipated that the demand for the 92 RON and 95 RON unleaded petrol (the products of which Henan Yanchang mainly offers to Yanchang Shell Henan) will resume in the coming years.

To assess the fairness and reasonableness of the Estimated YSH Sales 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" in the PRC. As at the Latest Practicable Date, there were over 1,700 Shell gas stations in the PRC, among which over 700 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 700 gas stations in 2023. 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 16 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. It is expected that the demand for refined oil from Yanchang Shell Henan 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.

In addition, we have studied the consumption volume of refined oil in the PRC. According to the latest statistics released by the NDRC, the consumption volume of refined oil in the PRC amounted to approximately 84.6 million tonnes for the three months ended 31 March 2023, representing an increase of approximately 6.5% as compared to that for the corresponding period of the previous year. According to the statistics published by the Henan Province Bureau of Statistics, as at 31 December 2022, the total number of civil vehicles were approximately 20.0 million in Henan Province, the PRC, representing an annual growth rate of 5.6% as compared to that as at 31 December 2021.

Given that (i) the historical growth rate of sales volume of refined oil of approximately 46% for FY2022 as compared to that of FY2021; (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; and (b) the increase in consumption volume of refined oil in the PRC, coupled with the gradual recovery of the PRC's economic activities from the outbreak of COVID-19 in 2023, 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 25% and 20% to come up with the Estimated YSH Sales Volume for FY2025 and FY2026 Refined.

(ii) the Estimated Selling Price

The Management expects that the Estimated Selling Price will be approximately RMB9,000 per tonne. To assess the fairness and reasonableness of the Estimated Selling Price, we have discussed with the Management and were advised that the selling price of refined oil to be supplied by Henan Yanchang Group to China Petroleum Yanchang and Yanchang Shell Henan under the Sales Agreements will be determined with reference to (i) the NDRC Quoted Price; and (ii) the expected increase in the selling price of approximately 6% after consideration of (i) the increasing trend of the NDRC Quoted Price during the period from January 2023 to September 2023; and (ii) the potential adverse impact from the prevailing market condition and geopolitical risks.

As mentioned in the paragraph headed "*(iii) the Estimated Purchase Price*" under the section headed "*II. The Supplemental Supply Agreement*" above, the NDRC Quoted Average Price of gasoline and diesel in Henan Province, the PRC in late September 2023 was approximately RMB10,485 per tonne and RMB9,420 per tonne while the gasoline and diesel retail price in Henan Province, the PRC recorded an growth rate of approximately 8.3% and 9.0% from January 2023 to September 2023, respectively. The Management expects that the Estimated Purchase Price will be approximately RMB8,900 per tonne for FY2024 and FY2025.

As advised by the Management, the actual selling price of the refined oil and by-product is based on estimated costs plus a mark-up margin with reference to the prevailing market price and the NDRC Quoted Price, and hence, is slightly higher than the actual purchase price of the refined oil and by-product. Therefore, in determining the Estimated Selling Price, the Management firstly estimated the Estimated Purchase Price (please refer to the paragraph headed "*(iii) the Estimated Purchase Price*" under the section headed "*II. The Supplemental Supply Agreement*" above for the further analysis), then applied a mark-up margin of approximately 1% (the "**Estimated Margin**") to the Estimated Purchase Price (i.e. RMB8,900 per tonne for FY2024) to come up with the Estimated Selling Price. In this regard, we have reviewed the financial reports of the Company and noted that the average gross profit margin of the Group's trading business of refined oil and by-products (including chemical products) for the five years ended 31 December 2022 was approximately 0.8%, which is similar to the Estimated Margin. As such, we consider that the Estimated Selling Price is justifiable.

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

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

IV. Reporting requirements and conditions of the Continuing Connected Transactions

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

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

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

   (ii) on normal commercial terms or better; and

   (iii) in accordance with the Existing Supply Agreement (as supplemented by the Supplemental Supply Agreement) or the Sales Agreements governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole;

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

   (i) have not been approved by the Board;

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

   (iii) were not entered into, in all material respects, in accordance with the Existing Supply Agreement (as supplemented by the Supplemental Supply Agreement) or the Sales Agreements; and

   (iv) have exceeded the Revised Supply Annual Caps or the Proposed Sales Annual Caps;

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

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

The Company confirms that they will strictly comply with the aforementioned annual review requirements under Rules 14A.55 to 14A.59 of the Listing Rules in respect of the Continuing Connected Transactions under the Existing Supply Agreement (as supplemented by the Supplemental Supply Agreement) or the Sales Agreements. Taking into account the aforementioned reporting requirements attached to the Continuing Connected Transactions, in particular, (i) the restriction of the value of the Continuing Connected Transactions by way of the Revised Supply Annual Caps or the Proposed Sales Annual Caps; and (ii) the on-going review by the independent non-executive Directors and auditors of the Company of the Continuing Connected Transactions, we are of the view that there exist appropriate measures to monitor the conduct of the Continuing Connected Transactions so as to ensure that the Continuing Connected Transactions contemplated under the Existing Supply Agreement (as supplemented by the Supplemental Supply Agreement) and 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.

OPINION

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

Yours faithfully,
For and on behalf of
Astrum Capital Management Limited
Hidulf Kwan — **Joseph Chu**
Managing Director — *Director*

Note: Mr. Hidulf Kwan is a responsible officer to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and he has over 25 years of experience in the corporate finance industry.

Mr. Joseph Chu is a responsible officer to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and he has over 9 years of experience in the corporate finance industry.

* *for illustration purpose only*

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	30,000	0.003%
Dr. Mu Guodong ("**Dr. Mu**")	Personal interest and interest of spouse *(Note)*	Long position	15,000	0.001%

Note: Out of these 15,000 Shares, Dr. Mu personally held 11,500 Shares and his spouse held 3,500 Shares. Dr. Mu is deemed to be interested in these 3,500 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	Capacity	Long position/ Short position	Number of ordinary shares of the Company held	Approximate percentage of the total issued ordinary share capital of the Company
Yanchang Petroleum Group *(Note 1)*	Interest of controlled corporation	Long position	634,310,161	57.66%
Yanchang Petroleum HK *(Note 1)*	Directly owned	Long position	634,310,161	57.66%
Chang An Huitong Co., Limited ("**Chang An Huitong**") *(Note 2)*	Interest of controlled corporation	Long position	183,350,467	16.67%
ChangAn Huitong HK *(Note 2)*	Directly owned	Long position	183,350,467	16.67%

Notes:

1. Yanchang Petroleum Group beneficially held these 634,310,161 shares through its direct wholly-owned subsidiary, Yanchang petroleum HK.

2. Chang An Huitong beneficially held these 183,350,467 shares through its directly wholly-owned subsidiary, ChangAn Huitong 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.

As at the Latest Practicable Date, (i) Mr. Feng Yinguo, an executive Director, is the chairman of the Board and an authorized representative of the Company, the executive director and the deputy secretary of the Party Committee of Shaanxi Yanchang Petroleum International Energy& Chemical Co., Limited under Yanchang Petroleum Group; and (ii) Mr. Zhang Jianmin, an executive Director, is the deputy chief accountant, deputy supervisor of the finance center and a member of the Party Committee of Yanchang Petroleum Group, the director and general manager of Yanchang Petroleum Group (Hong Kong) Co., Limited.

3. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and his 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 has any interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to acquired or disposed of by or leased to any members of the Group since 31 December 2022, 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 was 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 has any existing or proposed service agreement with any member of the Group (excluding contracts expiring or determinable by the Company within one year within payment of compensation (other than statutory compensation)).

6. LITIGATION

As at the Latest Practicable Date, Yanchang Petroleum (Zhejiang FTZ) Limited* (延長石油(浙江自貿區)有限公司), the Company's 51% indirectly owned PRC subsidiary, has been involved in a number pending of litigations. Please refer to the announcements of the Company dated 2 June 2022, 9 June 2022, 8 July 2022, 22 July 2022, 3 August 2022, 12 August 2022, 19 August 2022, 14 September 2022, 15 September 2022, 28 October 2022, 7 November 2022, 14 November 2022, 21 December 2022, 19 April 2023, 17 March 2023 and 25 July 2023. Apart from the aforesaid, 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 2022 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 qualification of the expert who has given opinion or advice, which are contained or referred to in this circular:

Name	**Qualification**
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 Continuing Connected Transactions and the transactions contemplated thereunder

Astrum Capital Management Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and reference to its name in the form and context in which it appears.

As at the Latest Practicable Date, Astrum Capital Management Limited 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 2022 (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 located 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 located at Room 3404, 34 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

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

10. DOCUMENTS ON DISPLAY

A copy of the Supplemental Supply Agreement and the Sales Agreements will be available for display on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (http://www.yanchanginternational.com) during the period of 14 days from the date of this circular (both days inclusive).

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 SGM

NOTICE IS HEREBY GIVEN that a special general meeting (the "**SGM**") of Yanchang Petroleum International Limited (the "**Company**") will be held at Taishan Room, Level 5, Island Shangri-La, Pacific Place, Supreme Court Road, Central, Hong Kong on Thursday, 21 December 2023 at 3:30 pm for the purpose of considering and, if thought fit, passing the following resolutions, with or without amendments, as the ordinary resolutions of the Company. Capitalized terms used herein shall have the same meanings as defined in the circular of the Company dated 1 December 2023, unless the context otherwise requires:

ORDINARY RESOLUTIONS

"**THAT:**

(1) (a) the Supplemental Supply Agreement and the transactions and matters contemplated thereunder be and are hereby approved, confirmed and ratified;

(b) the Revised Supply Annual Caps for the Continuing Connected Transactions contemplated under the Supplemental Supply Agreement for the three years ending 31 December 2025, being approximately RMB15,148 million, RMB25,857 million and RMB26,316 million, respectively be and are hereby approved, confirmed and ratified;

(c) any one director or the company secretary of the Company be and is hereby authorised for and on behalf of the Company to do all such acts and things and execute all such documents which he considers necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Supplemental Supply Agreement 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 contemplated under the Sales Agreement in respect of the sale of refined oil and by-products (including chemical products) from Henan Yanchang to China Petroleum Yanchang for the three years ending 31 December 2026, being approximately RMB43.0 million, RMB43.0 million and RMB43.0 million, respectively be and are hereby approved, confirmed and ratified;

(c) the proposed annual caps for the Continuing Connected Transactions contemplated under the Sales Agreement in respect of the sales of refined oil and by-products (including chemical products) from Henan Yanchang to Yanchang Shell Henan for the three years ending 31 December 2026, being approximately RMB172.0 million, RMB215.0 million and RMB258.0 million, respectively be and are hereby approved, confirmed and ratified; and

(d) any one director or the company secretary 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, 1 December 2023

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head office and Principal place of business in Hong Kong:
Room 3403, 34 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 17/F, Far East Finance Centre, 16 Harcourt Road, 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. A form of proxy for use at the meeting is enclosed herewith.

6. The votes at the above-mentioned meeting will be taken by a poll.

7. For determining the entitlement to attend and vote at the SGM or any adjournment thereof, the record date is fixed on Friday, 15 December 2023. 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than 4:30 p.m. on Friday, 15 December 2023.