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延長石油國際有限公司

YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00346)

CONNECTED TRANSACTION LOAN AGREEMENT

LOAN AGREEMENT

On 30 June 2021 (after trading hours), the Company (as the borrower) entered into the Loan Agreement with Yanchang Petroleum HK (as the lender), pursuant to which Yanchang Petroleum HK conditionally agreed to provide the Loan of US\$22,000,000 (equivalent to approximately HK\$170,675,000) which is secured by the Share Charge granted by the Company in favour of the Lender in securing the repayment obligation under the Loan Agreement.

IMPLICATION UNDER THE LISTING RULES

As at the date of this announcement, Yanchang Petroleum HK is the Controlling Shareholder holding 12,686,203,231 Shares, representing approximately 69.19% of the existing issued share capital of the Company. As such, Yanchang Petroleum HK is a connected person of the Company as defined under the Listing Rules and hence the transactions contemplated under the Loan Agreement will constitute connected transaction of the Company under Chapter 14A of the Listing Rules. As the highest of applicable percentage ratios in respect of the amount of the Loan exceeds 5% and the Loan exceeds HK\$10,000,000, the Loan Agreement is subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

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

An Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders in relation to, among other things, the Loan Agreement and on how to vote. Astrum Capital Management Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this connection.

A circular containing, amongst other things, (i) details of the Loan Agreement; (ii) the recommendation of the Independent Board Committee; (iii) the letter from the Independent Financial Adviser; and (iv) a notice of the SGM will be despatched to the Shareholders as soon as practicable, which is expected to be on or before 11 August 2021.

INTRODUCTION

On 30 June 2021 (after trading hours), the Company (as the borrower) entered into the Loan Agreement with Yanchang Petroleum HK (as the lender), pursuant to which Yanchang Petroleum HK conditionally agreed to provide the Loan of US\$22,000,000 (equivalent to approximately HK\$170,675,000) to the Company for a term commencing from the Utilisation Date and expiring on the third anniversary of the Utilisation Date.

THE LOAN AGREEMENT

The principal terms of the Loan Agreement are summarised as follows:

Date:	30 June 2021 (after trading hours)
Parties:	(1) the Company (as Borrower); and (2) Yanchang Petroleum HK (as Lender)
Principal amount:	US\$22,000,000 (equivalent to approximately HK\$170,675,000).
Interest rate:	4.8% per annum, which shall be payable every three months from the Utilisation Date, representing US\$264,000 (equivalent to approximately HK\$2,048,000) for every three months. If any interest payment date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next Business Day in that calendar month (if any).
Term:	Commencing from the Utilisation Date and expiring on the third anniversary of the Utilisation Date.

Principal conditions precedent:

The Lender shall not be obliged to advance the Loan to the Borrower unless:

- (a) the Lender having received the executed Loan Agreement;
- (b) the Lender having received the executed Share Charge Deed and all necessary documents (if any) in relation to the Share Charge Deed;
- (c) the Borrower having complied with all applicable laws (including but not limited to Hong Kong, PRC and Bermuda) and obtained all necessary approvals in relation to the Loan Agreement and the transactions contemplated under the Listing Rules, including but not limited to, obtaining approvals for the Loan Agreement, the Share Charge Deed and other documents required from the Independent Shareholders at the SGM;
- (d) all warranties made by the Borrower to the Lender (except for warranties waived by the Lender in accordance with the Loan Agreement) is true and accurate, and not misleading, and there is no fact or situation concerning the Borrower that constitutes or is likely to constitute breach of any warranties made by the Borrower to the Lender in relation to all necessary documents regarding the Loan Agreement and the Share Charge Deed;
- (e) the Borrower having issued a duly signed certificate (by a representative authorised by the Board) confirming that the Loan and the Share Charge will not result in exceeding in limitation of any other restricted borrowing, mortgage guarantees or similar limits of the Borrower;
- (f) the Borrower having issued a duly signed certificate (by a representative authorised by the Board) certifying that all the documents provided by the Borrower are correct, complete and valid, and the Loan Agreement and Share Charge Deed have obtained or completed all the authorization, approval, registration and filing (if necessary) of the government departments or administrative agencies or the third party required; and
- (g) the Board having approved the Loan Agreement and the Share Charge Deed and authorised and confirmed that the Board having signed the Loan Agreement, the Share Charge Deed and the relevant documents.

- Repayment arrangement: The principal of the Loan shall be repaid in full by the maturity.
- Early repayment: The Borrower can repay all of the Loan that have been drawn but not yet repaid at any time before the planned repayment dates set out in the repayment schedule, provided that the Borrower shall provide a notice of no less than 7 Business Days in advance to the Lender and obtain the written consent of the Lender.
- Default: If the Borrower fails to repay the principal and accrued interests of the Loan or commits any of the default events as specified under the Loan Agreement, the Lender shall have the right to declare the Loan, the interests due, and any amounts to be paid under the Loan Agreement to be immediately payable or exercise all or any of the rights or compensation under the Loan Agreement.
- Security: 350 ordinary shares of Sino Union Energy held by the Borrower in Sino Union Energy (representing 35% of the issued share capital of Sino Union Energy) under the Share Charge Deed pursuant to which the Borrower agreed to provide a guarantee in favour of the Lender that the Borrower shall procure on the best effort basis the carrying valuation of Henan Yanchang will be not less than US\$104,800,000. In case of breach the such carrying valuation guaranteed, the Borrower and the Lender can negotiate to take remedies within 30 days and the Borrower shall not be deemed to have breached the Share Charge Deed after taking up the remedies.

The Lender has the right to make reasonable requests, which the Lender considers appropriate, in relation to the manner and conditions precedent, except for the condition precedent (c) above, to waive all or part of the conditions precedent above, or to extend the time to fulfil the conditions precedent, or to satisfy the conditions precedent in other manners, and if the exemption or extension is made on conditions precedent and any clauses are attached to the conditions precedent, any violation or non-compliance of these clauses will constitute an event of default.

INFORMATION ON THE PARTIES TO THE LOAN AGREEMENT

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

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

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.

Sino Union Energy is a company incorporated with limited liability in the British Virgin Islands which is wholly owned by the Company. Sino Union Energy is principally engaged in investment holding and being indirectly holding 70% in interest of shares of Henan Yanchang.

REASONS FOR AND BENEFITS OF THE LOAN

As set out in the annual report of the Company for the year ended 31 December 2020 (“**2020 Annual Report**”), the global pandemic of COVID-19 continued its rampage and most of the world’s major economies had experienced negative growth. Novus is engaged in the business of exploration, exploitation and production of oil and natural gas in Western Canada.

Since the beginning of the current year, the effects of global epidemic prevention and control have gradually emerged. As a result of effective control over the COVID-19 pandemic by the current progress of vaccine development and vaccination rollout, the economic operations have maintained restorative growth, especially in the PRC and the United States. In order to seize the favourable opportunity of rising international crude oil prices and of significantly improving market demand for petroleum in North American market, consisting of the United States and Canada, the Company is making effort to optimize production and operation arrangements, as well as increase in the production capacity and sales of crude oil. The Loan Agreement will enable the Company to obtain adequate funds to meet Novus’ financial needs for expanding its production capacity. It is expected that the additional production capacity will generate higher income level when the expansion is completed, which is in the interest of the Company as a whole, and is in line with its business strategy and overall interest.

According to the unaudited management accounts of Novus for the five months ended 31 May 2021, the cash and net asset value of Novus were amounted to approximately CAD5,552,000 (equivalent to approximately HK\$35,095,000) and CAD51,374,000 (equivalent to approximately HK\$324,741,000) as at 31 May 2021, respectively. Although the Group has approached several individual facility providers and/or banks, such facility providers and/or banks refuse to provide the relevant financing proposal up to the date of this announcement.

According to the 2020 Annual Report, the cash and bank balances of the Group were amounted to approximately HK\$436,084,000 as at 31 December 2020, of which approximately HK\$394,436,000 was maintained in the subsidiaries of the Company in the PRC, which is used for maintaining the daily operation of the subsidiaries of the Company in the PRC, and can only be transferred to countries and regions outside the PRC through burdensome and time-consuming administrative procedures, therefore, it is not expected that the Company would have sufficient internal resources transfer to Novus for its needs of expansion funds.

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

Taking into account (i) the financial situation of Novus and expansion plan for its production capacity as discussed above; (ii) the cash level to be maintained for the daily operation of the subsidiaries of the Company in the PRC; and (iii) the alternative funding tried and considered by Novus and the Company, respectively, as discussed above; the Directors (excluding the independent non-executive Directors who will express their view after considering the advice from the Independent Financial Adviser) are of the view that the transactions contemplated under the Loan Agreement, although are not in the ordinary and usual course of business, are entered into on normal commercial terms, fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

IMPLICATION UNDER THE LISTING RULES

As at the date of this announcement, Yanchang Petroleum HK is the Controlling Shareholder holding 12,686,203,231 Shares, representing approximately 69.19% of the existing issued share capital of the Company. Yanchang Petroleum HK is directly and wholly owned by Yanchang Petroleum Group. As such, Yanchang Petroleum HK is a connected person of the Company as defined under the Listing Rules and hence the transactions contemplated under the Loan Agreement will constitute connected transaction of the Company under Chapter 14A of the Listing Rules. As the highest of applicable percentage ratios in respect of the amount of the Loan exceeds 5% and the Loan exceeds HK\$10,000,000, the Loan Agreement is subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

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

INDEPENDENT BOARD COMMITTEE

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

SGM

The SGM will be convened by the Company to seek the approval from the Independent Shareholders for the Loan Agreement and the transactions and matters contemplated thereunder by way of poll. As at the date of this announcement, Yanchang Petroleum HK, being a Controlling Shareholder holding 12,686,203,231 Shares representing approximately 69.19% of the existing issued share capital of the Company, is a connected person and hence Yanchang Petroleum Group, together with its associates, will abstain from voting at the SGM.

GENERAL

A circular containing, amongst other things, (i) details of the Loan Agreement and the transactions and matters contemplated thereunder; (ii) the recommendation of the Independent Board Committee; (iii) the letter from the Independent Financial Adviser; and (iv) a notice of the SGM will be despatched to the Shareholders as soon as practicable, which is expected to be on or before 11 August 2021.

DEFINITIONS USED IN THIS ANNOUNCEMENT

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

“associates”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Borrower”	the Company
“Business Day(s)”	any day (other than Saturday and any day on which a tropical cyclone warning signal no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “black” rainstorm warning signal is hoisted or remains in effect between 9:00 a.m. and 12:00 noon is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are open for general business

“Company”	Yanchang Petroleum International Limited, a company incorporated in Bermuda with limited liability 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 thereto in the Listing Rules
“Controlling Shareholder”	has the meaning ascribed to it under the Listing Rules
“COVID-19”	an infectious disease caused by a newly discovered coronavirus since December 2019, namely, severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) which has spread globally and resulted in a pandemic
“Director(s)”	the director(s) of the Company
“Group”	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 date of this announcement
“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 Loan Agreement and the transactions and matters contemplated thereunder
“Independent Financial Adviser”	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 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 Loan Agreement and the transactions and matters contemplated thereunder
“Independent Shareholders”	Shareholders other than Yanchang Petroleum Group and its associates

“Lender”	Yanchang Petroleum HK
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	the loan granted to the Company by Yanchang Petroleum HK in a principal amount of US\$22,000,000 (equivalent to approximately HK\$170,675,000) under the Loan Agreement
“Loan Agreement”	the agreement in relation to the Loan entered into between the Company and Yanchang Petroleum HK on 30 June 2021
“Novus”	Novus Energy Inc., a company incorporated in Canada with limited liability and is wholly owned by the Company
“PRC”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, approve the Loan Agreement and the transactions and matters contemplated thereunder
“Share(s)”	existing ordinary share(s) of HK\$0.02 each in the share capital of the Company
“Share Charge”	the share charge to be granted by the Company in favour of Yanchang Petroleum HK over 350 shares held by the Company in Sino Union Energy (representing 35% of the issued share capital of Sino Union Energy) as security for the loan facilities under the Loan Agreement
“Share Charge Deed”	the deed dated 30 June 2021 entered into by the Company as chargor in favour of Yanchang Petroleum HK as chargee in relation to the Share Charge
“Shareholder(s)”	holder(s) of the Shares
“Sino Union Energy”	Sino Union Energy International Limited, a company incorporated with limited liability in the British Virgin Islands and is wholly owned by the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Utilisation”	the utilisation of the Loan
“Utilisation Date”	date of the utilisation of the Loan, being the date on which the Loan is to be drawn down
“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 Controlling Shareholder, through Yanchang Petroleum HK, beneficially holding 12,686,203,231 Shares representing approximately 69.19% of the existing issued share capital of the Company as at the date of this announcement
“Yanchang Petroleum HK”	Yanchang Petroleum Group (Hong Kong) Co., Limited, a company incorporated in Hong Kong with limited liability and is wholly owned by Yanchang Petroleum Group
“CAD”	Canadian Dollars, the lawful currency of Canada
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

For the purpose of this announcement, the exchange rate of US\$0.1289=HK\$1.00 and CAD0.1582=HK\$1.00 have been used, where applicable, for the purpose of illustration only and do not constitute a representation that any amount have been, could have been or may be exchanged, at this or any other rates.

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

* *For identification purposes only*

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

Hong Kong, 30 June 2021

Executive Directors:

Mr. Feng Yinguo (*Chairman*)

Mr. Zhang Jianmin

Mr. Ding Jiasheng

Independent non-executive Directors:

Mr. Ng Wing Ka

Mr. Leung Ting Yuk

Mr. Sun Liming

Dr. Mu Guodong