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延長石油國際有限公司

YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00346)

CONTINUING CONNECTED TRANSACTIONS

THE SUPPLY AGREEMENT

On 20 April 2022, Henan Yanchang and Xinghua New Energy entered into the Supply Agreement, pursuant to which Xinghua New Energy will supply the chemical products to Henan Yanchang for the year ending 31 December 2022.

The Board considers that the entering into of the Supply Agreement is in the interest of the Company and its Shareholders as a whole, as Henan Yanchang can have secured chemical products from Xinghua New Energy for the Group's major operation in the PRC on the basis that no less favourable price of chemical products offered by Xinghua New Energy to the Group as compared with the independent third party suppliers to the Group for the comparable product type and quantity at the relevant time and therefore can maintain the market competitiveness of the Group.

Henan Yanchang is a non-wholly-owned subsidiary of the Company, while Xinghua New Energy is a wholly-owned subsidiary of Yanchang Petroleum Group, being a substantial Shareholder beneficially holding 12,686,203,231 Shares as at the date of this announcement representing approximately 69.19% of the existing issued share capital of the Company. As such, Xinghua New Energy is a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Supply Agreement will constitute Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules.

As all of the applicable percentage ratios (other than profits ratio) in respect of the annual cap of the Supply Agreement are less than 5%, the transactions contemplated under the Supply Agreement are subject to reporting, annual review and announcement requirements but are exempted from circular (including independent financial advice) and shareholders' approval requirements under Rule 14A.76(2) of the Listing Rules.

THE SUPPLY AGREEMENT

On 20 April 2022, Henan Yanchang and Xinghua New Energy entered into the Supply Agreement, pursuant to which Xinghua New Energy will supply the chemical products to Henan Yanchang for the year ending 31 December 2022.

The principal terms of the Supply Agreement are set out as follows:

Date: 20 April 2022

Parties: (i) Xinghua New Energy; and
(ii) Henan Yanchang

Subject matter: Henan Yanchang agreed to purchase, and Xinghua New Energy agreed to sell, the chemical products on a normal commercial term basis.

Term: From 20 April 2022 until 31 December 2022, 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 chemical products shall be the actual trading price determined through an online auction system of Shaanxi Energy Chemical Industry Exchange Co. Ltd. and the purchase price paid by Henan Yanchang shall not be higher than that offered by Xinghua New Energy to its independent third party customers for the comparable product type and quantity at the relevant time.

Payment terms: The purchase price of chemical products shall be paid by Henan Yanchang upon delivery of the chemical products. The payment terms offered by Xinghua New Energy to Henan Yanchang should not be less favourable than those offered by Xinghua New Energy to its independent third party customers for the comparable product type and quantity at the relevant time.

Annual cap: The annual cap in respect of the supply of chemical products by Xinghua New Energy to the Henan Yanchang under the Supply Agreement for the year ending 31 December 2022 is RMB40.0 million (equivalent to approximately HK\$49.2 million). The above annual cap was determined after taking into account the following factors:

- (i) the current market price of chemical products; and
- (ii) the expected volume of chemical products required by the Henan Yanchang for its operation during the term of the Supply Agreement.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SUPPLY AGREEMENT

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 and 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 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 chemical products in the PRC.

Xinghua New Energy is principally engaged in processing and sales of chemical products.

Yanchang Petroleum Group is principally engaged in oil and gas exploration, exploitation, processing, pipeline transportation and sales of oil and gas; chemical engineering of oil, gas and coal, chemical products, machinery manufacturing, project construction and oil and gas research and development. Yanchang Petroleum Group owns the right for exploration, exploitation and operation of oil and natural gas resources and has refining facilities in the PRC, and owns oil and natural gas resource assets in the PRC and abroad.

As the 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 chemical products, Henan Yanchang requires a stable and reliable supply of high quality chemical products which will allow Henan Yanchang to achieve profit maximisation and increase its market share of chemical products in Henan Province in the PRC.

The Supply Agreement was entered into in the usual and ordinary course of the Group's business and the terms of which were negotiated based on normal commercial terms and the prices were determined after arm's length negotiation and on the basis that no less favourable prices of chemical products offered by Xinghua New Energy to the Group as compared with those offered by the independent third party suppliers to the Group for the comparable product type and quantity at the relevant time.

In view of the aforesaid, the Directors (including the independent non-executive Directors) are of the view that the terms of the Supply Agreement (including the annual cap thereunder) are fair and reasonable and the transactions contemplated thereunder are on normal commercial terms or better, in the ordinary and usual course of business of the Group, and are in the interests of the Company and its shareholders as a whole.

INTERNAL CONTROL MEASURES

To ensure the purchase prices and payment terms of the chemical products offered by Xinghua New Energy under the Supply Agreement are in line with the prevailing market practice and on normal commercial terms and fair and reasonable and no less favourable than available from the independent third parties, and the proposed annual cap is not exceeded, the Group will adopt the following internal control measures:

- (i) the Group would obtain and compare quotations from independent third parties for the chemical products of comparable product type and quantity at the relevant time to determine if the prices offered by the Xinghua New Energy is not less favourable than the prices offered by the Group's independent third party suppliers in the purchase of the chemical products from Xinghua New Energy.
- (ii) the Company will closely monitor the transaction amounts in relation to the Continuing Connected Transactions to ensure that the proposed annual cap is not exceeded;
- (iii) the independent non-executive Directors will review and confirm whether the Continuing Connected Transactions contemplated are entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better and are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and
- (iv) the Company will engage the independent auditors to review the Continuing Connected Transactions in compliance with the annual reporting and review requirements under the Listing Rules.

Based on the internal procurement policies and the price comparison between the chemical products offered by Xinghua New Energy and other independent third parties. As such, the Directors (including all the independent non-executive Directors) consider that above internal control measures would ensure that the pricing and other terms for the chemical products under the Supply Agreement will be fair and reasonable and no less favourable than that offered by independent third parties. The Directors (including all the independent non-executive Directors) also consider such measures could ensure that the Continuing Connected Transactions would be conducted on normal commercial terms and not prejudicial to the interests of the Company and minority shareholders.

LISTING RULES IMPLICATIONS

Henan Yanchang is a non-wholly-owned subsidiary of the Company, while Xinghua New Energy is a wholly-owned subsidiary of Yanchang Petroleum Group, being a substantial Shareholder beneficially holding 12,686,203,231 Shares as at the date of this announcement representing approximately 69.19% of the existing issued share capital of the Company, is a connected person of the Company as defined under the Listing Rules. Accordingly, the transactions contemplated under the Supply Agreement will constitute Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules.

As all of the applicable percentage ratios (other than profits ratio) in respect of the annual cap of the Supply Agreement are less than 5%, the transactions contemplated under the Supply Agreement are subject to reporting, annual review and announcement requirements but are exempted from circular (including independent financial advice) and shareholders' approval requirements under Rule 14A.76(2) of the Listing Rules.

DEFINITIONS USED IN THIS ANNOUNCEMENT

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

“Board”	the board of Directors
“Company”	Yanchang Petroleum International Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the main board of the Stock Exchange (stock code: 00346)
“connected person”	has the meaning ascribed thereto under the Listing Rules
“Continuing Connected Transaction(s)”	transaction(s) between Xinghua New Energy and Henan Yanchang for the supply of chemical products from Xinghua New Energy to Henan Yanchang with terms and conditions in accordance with the Supply Agreement
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“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

“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and as amended from time to time
“PRC”	the People’s Republic of China
“RMB”	the lawful currency of the PRC
“Share(s)”	existing ordinary share(s) of HK\$0.02 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Supply Agreement”	the Supply Agreement dated April 2022 entered into between the Henan Yanchang and Xinghua New Energy in respect of the supply of chemical products from Xinghua New Energy to Henan Yanchang for the year ending 31 December 2022
“Xinghua New Energy”	陝西延長石油興化新能源有限公司 (Shaanxi Yanchang Petroleum Xinghua New Energy Co., Limited*), a limited company incorporated under the PRC laws which is a wholly owned subsidiary of Yanchang Petroleum Group as at the date of this announcement
“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 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
“%”	per cent

For illustration purposes only, RMB has been translated at RMB\$1 to HK\$1.23.

English translations of company names in Chinese which are marked with “” are for identification purposes only.*

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

Hong Kong, 20 April 2022

Executive Directors:

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

Independent Non-Executive Directors:

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