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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  
IN RELATION TO  
THE NEW SUPPLY AGREEMENT**

**THE NEW SUPPLY AGREEMENT**

References are made to the announcements of the Company dated 12 November 2019 and 30 September 2020 in relation to, among others, the Existing Supply Agreement entered into between Henan Yanchang and Yanchang Petroleum Group. As the Existing Supply Agreement is due to expire, Henan Yanchang and Yanchang Petroleum Group entered into the New Supply Agreement on 18 November 2022, 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.

**LISTING RULES IMPLICATIONS**

Henan Yanchang is a non-wholly owned subsidiary of the Company, while Yanchang Petroleum Group, being a substantial Shareholder beneficially holding 12,686,203,231 Shares as at the date of this announcement representing approximately 69.19% of the existing issued share capital of the Company, is a connected person of the Company as defined under the Listing Rules and hence the transactions contemplated under the New Supply Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the Proposed Annual Caps exceed 5% and the consideration exceeds HK\$10,000,000 on an annual basis, the New Supply Agreement and the transactions contemplated thereunder are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **GENERAL**

The SGM will be convened by the Company to seek approval from the Independent Shareholders for the New Supply Agreement and the transactions and matters contemplated thereunder by way of poll. As Yanchang Petroleum Group being a substantial Shareholder is a connected person of the Company and hence Yanchang Petroleum Group, together with its associates, will abstain from voting at the SGM. A circular containing, amongst other things, (i) details of the New Supply Agreement and the Proposed Annual Caps; (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 6 December 2022.

## **BACKGROUND**

References are made to the announcement of the Company dated 12 November 2019 and 30 September 2020 in relation to, among others, the Existing Supply Agreement and transactions contemplated thereunder. Henan Yanchang and Yanchang Petroleum Group entered into the Existing Supply Agreement on 12 November 2019, pursuant to which Yanchang Petroleum Group has agreed to sell and Henan Yanchang has agreed to purchase the refined oil and by-products (including chemical products) for the three years ending 31 December 2022.

As the Existing Supply Agreement will expire on 31 December 2022, Henan Yanchang and Yanchang Petroleum Group entered into the New Supply Agreement on 18 November 2022 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 principal terms of the New Supply Agreement are set out as follows:

## **THE NEW SUPPLY AGREEMENT**

Date	:	18 November 2022 (after the trading hours)
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	:	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 relevant 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.
- 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 New Supply Agreement and the transactions and matters contemplated thereunder.

## THE PROPOSED ANNUAL CAPS

### Historical amounts

The approximate transaction amounts for the purchase of refined oil by Henan Yanchang from Yanchang Petroleum Group, for each of the two years ended 31 December 2020 and 2021 and the nine months ended 30 September 2022 are set out below:

	<b>For the year ended</b>		<b>For the nine</b>
	<b>31 December</b>		<b>months ended</b>
	<b>2020</b>	<b>2021</b>	<b>30 September</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Historical transaction amounts	4,143	4,716	6,128

## Proposed Annual caps

The Directors estimated that the annual transaction amounts for the purchase of the refined oil and by-products (including chemical products) by Henan Yanchang from Yanchang Petroleum Group under the New Supply Agreement for the years ending 2025 will be as follows:

	For the year ending 31 December		
	2023	2024	2025
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Proposed annual cap	11,081	12,188	13,397

Henan Yanchang enters into supply agreements with both independent third parties and connected persons of the Company from time to time, taking into account various factors including but not limited to the availability of supply of refined oil and by-products (including chemical products) and the prevailing market prices of relevant products. The Company considers that such arrangement will provide the flexibility for the Group so as to secure the steady supply of refined oil and by-products (including chemical products) for the business development of Henan Yanchang. The Proposed Annual Caps under the New Supply Agreement are determined after taking into account: (i) the historical amounts for the purchase of refined oil by Henan Yanchang from Yanchang Petroleum Group for the two years ended 31 December 2021 and nine months ended 30 September 2022; (ii) based on the annualised transaction amounts for the nine months ended 30 September 2022, the expected growth in the purchase volume to be made by Henan Yanchang from Yanchang Petroleum Group of approximately 15%, 10% and 10% for the years ending 2023, 2024 and 2025, respectively, believing that demand for refined oil and by-products (including chemical products) be soon resumed to the pre-pandemic level and continued to increase as the PRC economy recovering in the post-pandemic era; (iii) based on the average purchase price per tonne of refined oil from Yanchang Petroleum Group during the period from July 2022 to September 2022, the expected increase in the purchase price of approximately 12% in 2023 after consideration of the high volatility in refined oil price quoted from the National Development and Reform Commission of the PRC during the period from October 2021 to October 2022; (iv) 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 (v) 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.

## REASONS FOR AND BENEFITS OF ENTERING INTO THE NEW 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 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.

The New 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 terms which the Directors considers to be no less favourable to the Group than 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. Henan Yanchang is not committed to purchase any refined oil and by-products (including chemical products) or is not agreed to make any exclusive purchase from Yanchang Petroleum Group.

In 2021, Henan Yanchang (i) actively developed regional markets such as Ningxia, Sichuan, Gansu and Qinghai with developed seven new customers; (ii) completed the upgrading and transformation of 3 gas stations in Xiangcheng which have been put into operation; and (iii) successfully signed contracts with two direct supply gas stations in Ningxia region. In the first half of 2022, Henan Yanchang completed developed one franchised gas station. In order to continue to achieve profit maximisation by fully utilising storage capacity of Henan Yanchang, the Company noted that the relatively favourable price of refined oil and by-products (including chemical products) offered from Yanchang Petroleum Group enhanced our Group's profitability of the refined oil and by-products (including chemical products) business and would like to increase the purchase of refined oil and by-products (including chemical products) from Yanchang Petroleum Group for the three years ending 31 December 2025 on the basis that no less favourable price of refined oil and by-products (including chemical products) offered by Yanchang Petroleum Group as compared with the independent third party suppliers to Henan Yanchang.

Besides, the global oil prices escalated in the first half of 2022 and have been volatile at a high level afterwards due to a number of factors including inflation, regional conflicts, supplies and demands. According to the National Development and Reform Commission of the PRC during the period from October 2021 to October 2022, there was rapid increase in market price of refined oil of approximately 12%. In view of (i) the continuing support from Yanchang Petroleum Group with secured supply of refined oil and by-products (including chemical products); (ii) Henan Yanchang holding a valid licence for distribution and sales of refined oil and by-products (including chemical products) in the whole PRC, the Group would be able to

expand its refined oil and by-products (including chemical products) business as well as its sales network in the PRC; and (iii) the no less favourable price of refined oil offered and by-products (including chemical products) by Yanchang Petroleum Group as compared with the independent third party suppliers, the Group would be able to expand its refined oil and by-products (including chemical products) business in the PRC. Given that Yanchang Petroleum Group is one of the four largest oil and gas state-owned enterprises in the PRC qualified to explore and develop oil and gas and by-products (including chemical products) in the PRC with an extensive sales network, the entering into the New Supply Agreement with Yanchang Petroleum Group shall provide an alternative stable source of refined oil and by-products (including chemical products) to Henan Yanchang, continuously enhance the flexibility for the procurement of quality refined oil and by-products (including chemical products) and better accommodate with the Henan Yanchang's business plan. Leveraging on the bulk volume and stable supply of refined oil and by-products (including chemical products) from Yanchang Petroleum Group, Henan Yanchang could continuously enhance its business and operation so as to foster its long term development.

The Board (excluding the independent non-executive Directors whose view will be rendered upon receiving the advice of the Independent Financial Adviser) is of the opinion that the terms (including the Proposed Annual Caps) of the New Supply Agreement are fair and reasonable so far as the Independent Shareholders are concerned and the entering into the New Supply Agreement is in the interests of the Company and the Shareholders as a whole.

#### **IMPLICATION UNDER THE LISTING RULES**

Henan Yanchang is a non-wholly owned subsidiary of the Company, while Yanchang Petroleum Group, being a substantial Shareholder beneficially holding 12,686,203,231 Shares as at the date of this announcement representing approximately 69.19% of the existing issued share capital of the Company, is a connected person of the Company as defined under the Listing Rules and hence the transactions contemplated under the New Supply Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the Proposed Annual Caps exceed 5% and the consideration exceeds HK\$10,000,000 on an annual basis, the New Supply Agreement and the transactions contemplated thereunder are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Yanchang Petroleum Group and its associates shall abstain from voting in favour of the New Supply 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 New Supply 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 on whether the terms and the Proposed Annual Caps for the three years ending 31 December 2025 under the New Supply Agreement 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 approval from the Independent Shareholders for the New Supply Agreement and the transactions contemplated thereunder by way of poll. As at the date of this announcement, Yanchang Petroleum Group, being a substantial Shareholder beneficially holding 12,686,203,231 Shares representing approximately 69.19% of the existing issued share capital of the Company, is a connected person of the Company 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 New Supply Agreement and the Proposed Annual Caps; (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 6 December 2022.

## **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
“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
“Continuing Connected Transaction(s)”	transaction(s) between Yanchang Petroleum Group and Henan Yanchang 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 New Supply Agreement
“Director(s)”	the director(s) of the Company
“Existing Supply Agreement”	the agreement dated 12 November 2019 entered into between Henan Yanchang and Yanchang Petroleum Group in respect of the supply of refined oil from Yanchang Petroleum Group to Henan Yanchang for the three years ending 31 December 2022
“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 established to advise the Independent Shareholders on the New Supply Agreement and the transactions and matters contemplated thereunder
“Independent Financial Adviser”	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
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Supply Agreement”	the new 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
“Proposed Annual Caps”	the proposed annual caps for the Continuing Connected Transactions under the New Supply Agreement for each of the three years ending 31 December 2025
“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 New Supply Agreement and the transactions contemplated thereunder
“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
“Stock Exchange”	The Stock Exchange of Hong Kong 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 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, which for the purpose of this announcement means Yanchang Petroleum Group and its subsidiaries and associates
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“RMB” Renminbi, the lawful currency of the PRC

“%” per cent.

\* *For identification purposes only*

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

Hong Kong, 18 November 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