

## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any of the contents of this circular or as to what action to take in relation to this circular, you should consult your licensed securities dealer, 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 and the enclosed proxy form and reply slip to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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# 延長石油國際有限公司

YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00346)

## CONNECTED TRANSACTIONS SUPPLEMENTAL FACILITY AGREEMENT

Financial adviser to the Company



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



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 4 to 12 of this circular. A letter from the Independent Board Committee is set out on page 13 to 14 of this circular. A letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 28 of this circular.

A notice convening the SGM of the Company to be held at Tianshan and Lushan Rooms, Level 5, Island Shangri-La, Pacific Place, Supreme Court Road, Central, Hong Kong on Tuesday, 17 January 2023 at 3:30 p.m. is set out on pages SGM-1 to SGM-2 of this circular. A form of proxy for use at the SGM are 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.

### PRECAUTIONARY MEASURES FOR THE SPECIAL GENERAL MEETING

Please refer to page ii of this circular for precautionary measures being taken to prevent and control the spread of COVID-19 at the SGM, including:

- (1) compulsory wearing of surgical mask;
- (2) compulsory body temperature checks;
- (3) no refreshments or drinks will be served; and
- (4) no souvenirs will be distributed.

Any person who does not comply with the precautionary measures may be denied entry into the venue of the SGM. The Company also encourages the Independent Shareholders to consider appointing the chairman of the SGM as his/ her proxy to vote on the resolution at the SGM as an alternative to attending in person.

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## PRECAUTIONARY MEASURES FOR THE SGM

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In view of the ongoing COVID-19 epidemic and recent requirements, if any, for prevention and control of its spread, the Company will implement the following preventive measures at the SGM:

- (i) compulsory wearing of surgical face masks by all attendees prior to admission to the meeting venue and throughout the SGM;
- (ii) compulsory temperature check will be conducted on every attendee, any person with a body temperature of over 37.2 degrees Celsius, or has flu-like symptoms or is otherwise unwell will not be admitted to the meeting venue;
- (iii) maintenance of a safe distance between seats, and the Company may limit the number of attendees at the SGM as may be necessary to avoid over-crowding;
- (iv) no refreshments or drinks will be served; and
- (v) no souvenirs will be distributed.

To extend permitted under the laws of Hong Kong, the Company reserves the right to deny entry into the meeting venue or require any person to leave the meeting venue in order to ensure the safety of the attendees at the SGM.

Subject to the development of the COVID-19 situation, the Company may implement additional precautionary measures as and when appropriate.

In the interest of all stakeholders' health and safety and consistent with recent COVID-19 guidelines for prevention and control, the Company reminds all Shareholders that physical attendance in person at the SGM is not necessary for the purpose of exercising voting rights. As an alternative to attending the SGM in person, Shareholders are encouraged to consider appointing the chairman of the SGM as their proxy to vote on the resolutions at the SGM by submitting the form of proxy with voting instructions inserted.

If you are not a registered Shareholder (if your shares are held via banks, brokers, custodians or the Hong Kong Securities Clearing Company Limited), you should consult directly with your banks or brokers or custodians (as the case may be) to assist you in the appointment of proxy.

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:*

“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	any day (other than Saturday and any day on which a tropical cyclone warning signal no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “black” rainstorm warning signal is hoisted or remains in effect between 9:00 a.m. and 12:00 noon is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are open for general business
“CAD”	Canadian Dollars, the lawful currency of Canada
“Company”	Yanchang Petroleum International Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 00346)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder”	has the meaning ascribed thereto under the Listing Rules
“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
“Debenture”	the debenture given in favour of Yanchang Petroleum HK by Novus as security for the Loan
“Director(s)”	the director(s) of the Company
“Facility Agreement”	the agreement in relation to a loan facility entered into between Novus and Yanchang Petroleum HK on 5 November 2019
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

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## DEFINITIONS

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“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors to be established to advise the Independent Shareholders on the Supplemental Facility Agreement and the transactions contemplated thereunder
“Independent Financial Adviser”	VBG Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Facility Agreement and the transactions and matters
“Independent Shareholders”	Shareholders other than Yanchang Petroleum HK and its associates
“Interim Period”	from 20 December 2022 until the Renewal Request Date
“Latest Practicable Date”	20 December 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange and as amended from time to time
“Loan”	the loan granted to Novus by Yanchang Petroleum HK in the principal amount of US\$35 million drawn down by Novus pursuant to the Facility Agreement
“Novus”	Novus Energy Inc., a company incorporated in Canada with limited liability and is indirect-wholly owned by the Company
“PRC”	the People’s Republic of China, which shall, for the purpose of the Supplemental Facility Agreement, exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Renewal Request Date”	the date on which the Loan is to be renewed
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, approve the Supplemental Facility Agreement and the transactions and matters contemplated thereunder

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## DEFINITIONS

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

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

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## LETTER FROM THE BOARD

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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)**

*Executive Directors:*

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

*Registered Office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Independent non-executive Directors:*

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

*Head Office and principal place of  
business in Hong Kong:*

Room 3403, 34th Floor  
Lee Garden One  
33 Hysan Avenue  
Causeway Bay  
Hong Kong

23 December 2022

*To the Shareholders:*

Dear Sir or Madam,

## CONNECTED TRANSACTIONS SUPPLEMENTAL FACILITY AGREEMENT

### INTRODUCTION

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

As it is expected the Independent Shareholders' approval to renew the Loan could not be obtained on 19 December 2022, Yanchang Petroleum HK and Novus entered into a deed of undertaking on 12 December 2022, pursuant to which, Yanchang Petroleum HK agreed to waive the right to exercise its right under the Debenture during the Interim Period, and any

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## LETTER FROM THE BOARD

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non-payment of the principal by Novus during the Interim Period will not be deemed as an event of default under the Facility Agreement provided that Novus shall continue to pay the interest of 4.8% per annum during the Interim Period.

The purpose of this circular is to provide you with the information, among other things, (i) details of the Supplemental Facility Agreement and the transactions and matters contemplated thereunder; (ii) the letter of recommendations from the Independent Board Committee to the Independent Shareholders in respect of the Supplemental Facility Agreement and the transactions and matters contemplated thereunder; (iii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Facility Agreement and the transactions and matters contemplated thereunder; and (iv) the notice of the SGM.

### SUPPLEMENTAL FACILITY AGREEMENT

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

Date:	6 December 2022
Parties:	(1) Novus (as borrower); and (2) Yanchang Petroleum HK, (as lender)
Principal amount:	US\$35 million (equivalent to approximately HK\$273 million)
Interest rate:	4.8% per annum, which shall be payable every three months from the Renewal Request Date. If any interest payment date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next Business Day in that calendar month (if any) or the preceding Business Day
Term:	Commencing from the Renewal Request Date and expiring on the third anniversary of the Renewal Request Date



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## LETTER FROM THE BOARD

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- Conditions precedent: Completion of the Supplemental Facility Agreement is subject to the following principal conditions precedent:
- (1) Novus and Yanchang Petroleum HK having obtained all necessary approvals in relation to the transactions contemplated under the Supplemental Facility Agreement, including but not limited to passing relevant board resolutions to approve the transactions contemplated under the Supplemental Facility Agreement;
  - (2) Novus and Yanchang Petroleum HK having obtained all necessary approvals from the relevant regulatory authorities (including the Stock Exchange) in relation to the transactions contemplated under the Supplemental Facility Agreement; and
  - (3) the Independent Shareholders having approved the Supplemental Facility Agreement at the SGM.

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

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

### DEBENTURE

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

- Parties:
- (1) Novus (as borrower); and
  - (2) Yanchang Petroleum HK, (as lender)
- Principal sum: US\$70 million (equivalent to approximately HK\$546 million)
- Charge:
- (1) first and fixed charge over all of Novus’ right, title and interest, whether freehold, leasehold or other, under or in respect of the lands, in relation to the properties held by Novus from time to time;

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## LETTER FROM THE BOARD

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

According to the management report of Novus for the six months ended 30 June 2022, as at 30 June 2022, Novus had total assets of approximately CAD233.36 million (equivalent to approximately HK\$1,341.82 million), which mainly consisted of the developed and producing oil and natural gas assets of CAD217.25 million (equivalent to approximately HK\$1,249.19 million) in Alberta and Saskatchewan of Canada.

The Board took into account (i) the previous debenture that Novus had given to a bank in Canada with a loan to security ratio of 0.24 times; and (ii) the range of the loan to security ratios of comparable transactions of 0.35 to 0.75 times, details of which are set out in the letter from the Independent Financial Adviser, and considered that the terms of the Debenture are comparable or better.

### INFORMATION OF THE PARTIES

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

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

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

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## LETTER FROM THE BOARD

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### REASONS FOR AND BENEFITS OF ENTERING INTO THE SUPPLEMENTAL FACILITY AGREEMENT

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

Novus is engaged in the business of exploration, exploitation and production of oil and natural gas in Western Canada. The operation of Novus in the first half of 2022 was adversely affected by higher costs, tight service resources and other adverse factors. Despite the above, its overall operation remained stable as it overcame various market uncertainties and actively implemented its 2022 production ramp-up programme. Novus reported a cumulative after-tax revenue of approximately CAD28.90 million (equivalent to approximately HK\$166.18 million) with expenses of approximately CAD17.58 million (equivalent to approximately HK\$101.09 million) in the first half of 2022, and net operating income of approximately CAD11.32 million (equivalent to approximately HK\$65.09 million). Net income of Novus in the first half of 2022 was approximately CAD8.13 million (equivalent to approximately HK\$46.75 million), representing an increase of approximately CAD8.06 million as compared with the corresponding period in 2021. Novus’ net revenue per barrel in the first half year was approximately CAD25.2 per barrel, the highest ever and was approximately 96% higher than the second highest year in 2014.

As at the Latest Practicable Date, the outstanding amount drawn down under the Facility Agreement is US\$35 million (equivalent to approximately HK\$273 million), and Novus is required to repay all outstanding amount on or prior to 19 December 2022. In addition, on 3 September 2021, the Company drew down a secured term loan of US\$22 million (“**2021 Loan**”), pursuant to a loan agreement entered between the Company and Yanchang Petroleum HK on 30 June 2021. The 2021 Loan denominated in US dollars bears interest rate at 4.8% per annum and repayable in three years from the utilisation date (i.e. 3 September 2024). According to the unaudited condensed financial statement of Novus for the six months ended 30 June 2022, the cash and net asset value of Novus were amounted to approximately CAD7.98 million (equivalent to approximately HK\$45.88 million) and CAD122.12 million (equivalent to approximately HK\$702.19 million) as at 30 June 2022, respectively. Although the management of Novus has approached several banks in Canada for re-financing of the Loan, such banks refuse to provide the relevant proposal upon the Latest Practicable Date.

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## LETTER FROM THE BOARD

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According to the 2022 Interim Report, the cash and bank balances of the Group were amounted to approximately HK\$477 million as at 30 June 2022, of which approximately HK\$420 million was maintained in the subsidiaries of the Group 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. In addition, the bank balances of approximately HK\$340 million as at 30 June 2022 were frozen by relevant court orders in respect of certain pending litigations against the Company's 51% owned PRC subsidiary. Therefore, it is not expected that the Company would have sufficient internal resources to inject into Novus to repay the outstanding amount of US\$35 million drawn down under the Facility Agreement upon maturity.

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

The renewal of the Loan owed by Novus demonstrates the continuous financial support provided by the Controlling Shareholder of the Company to the Group. The terms of the Supplemental Facility Agreement, including the interest rate of 4.8% per annum and the principal sum of the Debenture of US\$70 million, are entered into after arm's length negotiations between the parties and taking into account, among others, (i) the existing interest rate and principal sum of the debenture under the Facility Agreement; (ii) the interest rate of the 2021 Loan; (iii) the global interest rate hikes in 2022; and (iv) the prevailing market interest rates and the loan to security ratios of comparable transactions, details of which are set out in the letter from the Independent Financial Adviser.

Taking into account (i) the repayment of the Loan on or prior to 19 December 2022, (ii) the financial situation of Novus as discussed above, (iii) the cash level to be maintained for the daily operation of the Company's subsidiaries in the PRC, (iv) the bank balances frozen by relevant court orders in respect of certain pending litigations against the Company's 51% owned PRC subsidiary, and (v) the alternative funding methods tried but unsuccessful by Novus and the Company, respectively, the Directors (including all the independent non-executive Directors) are of the view that although the Supplemental Facility Agreement is not entered in the ordinary and usual course of business, the terms of the Supplemental Facility Agreement are on normal commercial terms, fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### IMPLICATIONS UNDER LISTING RULES

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

At the date of Board meeting, Mr. Zhang Jianmin is (i) the deputy chief accountant, deputy supervisor of the finance center, member of the Party Committee of Yanchang Petroleum Group; (ii) the director and general manager of Yanchang Petroleum HK. Accordingly, he was considered to have a material interest in the Supplemental Facility Agreement and the transactions and matters contemplated thereunder, and therefore had abstained from voting on the relevant resolutions at the Board meeting. Save for the above, none of the other Directors had any material interest in the Supplemental Facility Agreement and the transactions and matters contemplated thereunder, and therefore should abstain from voting on the relevant resolutions at the Board meeting.

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

### INDEPENDENT BOARD COMMITTEE

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

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## LETTER FROM THE BOARD

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### SGM

The SGM will be convened by the Company to seek the approval from the Independent Shareholders for the Supplemental Facility Agreement and the transactions contemplated thereunder by way of poll. As at the Latest Practicable Date, 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 HK, together with its associates, will abstain from voting at the SGM.

The notice convening the SGM to be held at Tianshan and Lushan Rooms, Level 5, Island Shangri-La, Pacific Place, Supreme Court Road, Central, Hong Kong on Tuesday, 17 January 2023 at 3:30 p.m. is set out on pages SGM-1 to SGM-2 of this circular. An ordinary resolution will be proposed at the SGM to approve the Supplemental Facility Agreement and the transactions contemplated thereunder. The resolution 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 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 and return it 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, in accordance with the instructions printed thereon 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 at any adjournment meeting thereof if you so wish and, in such event, the form of proxy shall be deemed to be revoked.

### RECOMMENDATIONS

Taking into account the reasons as set out in the paragraph headed "Reasons for and benefits of entering into the Supplemental Facility Agreement" above, the Directors (including the independent non-executive Directors) consider that although the Supplemental Facility Agreement is not entered in the ordinary and usual course of business, the terms of the Supplemental Facility Agreement are on normal commercial terms, fair and reasonable, and in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the ordinary resolution be proposed at the SGM to approve the Supplemental Facility Agreement.

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 13 to 14 of this circular containing the recommendation of the Independent Board Committee to the Independent Shareholders regarding the Supplemental Facility Agreement; (ii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 15 to 28 of this circular; and (iii) the information set out in the appendix of this circular.

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## LETTER FROM THE BOARD

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The Shareholders and potential investors should be aware that the Supplemental Facility Agreement and the transactions contemplated thereunder are subject to the fulfilment of the conditions precedent as contemplated under the Supplemental Facility Agreement. Accordingly, the renewal of the Loan may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

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

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of the letter of recommendation, prepared for the purpose of incorporation in the circular, from the Independent Board Committee to the Independent Shareholders in relation to the Supplemental Facility Agreement and the transactions contemplated thereunder.*



# 延長石油國際有限公司

**YANCHANG PETROLEUM INTERNATIONAL LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 00346)**

23 December 2022

*To the Independent Shareholders*

Dear Sir or Madam,

### **CONNECTED TRANSACTIONS SUPPLEMENTAL FACILITY AGREEMENT**

We refer to the circular (the “**Circular**”) dated 23 December 2022 issued by the Company of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless specified otherwise.

We have been formed to advise the Independent Shareholders in relation to the terms of Supplemental Facility Agreement and the transactions contemplated thereunder. VBG Capital 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 15 to 28 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 the Independent Financial Adviser and its conclusion and advice, we concur with its views and consider that although the Supplemental Facility Agreement is not entered in the ordinary and usual course of business, the terms of the Supplemental Facility Agreement are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.



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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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Accordingly, we recommend that the Independent Shareholders should vote in favor of the resolution to be proposed at the SGM to approve the Supplemental Facility Agreement and the transactions contemplated thereunder.

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*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Set out below is the text of a letter received from VBG Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Facility Agreement for the purpose of inclusion in this circular.*



建泉融資有限公司  
VBG Capital Limited

21/F., Low Block  
Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

23 December 2022

*To: The independent board committee and the independent shareholders  
of Yanchang Petroleum International Limited*

Dear Sirs,

### CONNECTED TRANSACTION SUPPLEMENTAL FACILITY AGREEMENT

#### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Facility Agreement, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 23 December 2022 issued by the Company to the Shareholders (the “**Circular**”), of which this letter of advice forms part. Capitalised terms used in this letter of advice shall have the same meanings as ascribed to them under the section headed “Definitions” in the Circular unless the context requires otherwise.

References are made to the announcement of the Company dated 5 November 2019 and its circular dated 29 November 2019 in relation to the entering into of the Facility Agreement dated 5 November 2019, pursuant to which Yanchang Petroleum HK conditionally agreed to provide Novus (a wholly-owned subsidiary of the Company) with the Loan of US\$35 million at the interest rate of 4.8% per annum for a term of three years commencing from the utilisation date. The independent Shareholders approved the Facility Agreement at the special general meeting of the Company held on 19 December 2019. Subsequently, the Loan was drawn down by Novus on 20 December 2019.

On 6 December 2022, Yanchang Petroleum HK (as lender) and Novus (as borrower) entered into the Supplemental Facility Agreement, pursuant to which the parties agreed on the renewal of the Loan.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As extracted from the Letter from the Board, Yanchang Petroleum HK is connected person of the Company. Accordingly, the entering into of the Supplemental Facility Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements thereunder.

The Independent Board Committee comprising Mr. Ng Wing Ka, Mr. Leung Ting Yuk, Mr. Sun Liming and Dr. Mu Guodong (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Supplemental Facility Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the renewal of the Loan is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Supplemental Facility Agreement at the SGM. We, VBG Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

### **OUR INDEPENDENCE**

As at the Latest Practicable Date, we did not have any business relationship with the Company within the past two years. Save for the normal fees payable to us in connection with this appointment, no arrangement exists whereby we shall receive any fees or benefits from the Company and its subsidiaries or the Directors, chief executive or substantial shareholders (as defined in the Listing Rules) of the Company or any of their associates. We consider ourselves independent to form our opinion in respect of the Supplemental Facility Agreement.

### **BASIS OF OUR OPINION**

In formulating our opinion with regard to the Supplemental Facility Agreement, we have relied on the information and facts supplied, opinions expressed and representations made to us by the management of the Group (including but not limited to those contained or referred to in the Circular). We have assumed that the information and facts supplied, opinions expressed and representations made to us by the management of the Group were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the date of the SGM. We have also assumed that all statements of belief, opinions, expectation and intention made by the management of the Group in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Group, its management and/or advisers, which have been provided to us.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the 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 in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business and affairs or future prospects of the Group, Novus, Yanchang Petroleum Group, Yanchang Petroleum HK or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Supplemental Facility Agreement. Our opinion is necessarily based on the market, financial, economic and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Where information in this letter of advice has been extracted from published or otherwise publicly available sources, we have ensured that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources while we did not conduct any independent investigation into the accuracy and completeness of such information.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion in respect of the Supplemental Facility Agreement, we have taken into consideration the following principal factors and reasons:

#### **1. Background of and reasons for the Supplemental Facility Agreement**

##### ***Business review of the Group***

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).

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Set out below is the key consolidated financial information of the Group for the six months ended 30 June 2022 and the two years ended 31 December 2021 as extracted from the interim report of the Company for the six months ended 30 June 2022 (the “**2022 Interim Report**”) and its annual report for the year ended 31 December 2021 (the “**2021 Annual Report**”), respectively:

	<b>For the six months ended 30 June 2022</b> (unaudited) <i>HK\$'000</i>	<b>For the year ended 31 December 2021</b> (audited) <i>HK\$'000</i>	<b>For the year ended 31 December 2020</b> (audited) <i>HK\$'000</i>
Revenue	9,336,236	19,776,474	27,256,800
Profit/(Loss) for the period/year	(35,831)	358,455	(792,669)

With reference to the 2022 Interim Report and the 2021 Annual Report, the Group’s operating segments comprised (i) exploration, exploitation and operation business; and (ii) supply and procurement business. The Group’s turnover was mainly derived from the production of oil and natural gas in Canada as well as the trading of oil and by-products in the PRC. In 2021, due to the sharp rebound of oil price, the Group’s exploration, exploitation and operation business in Canada recorded an operating profit and a significant impairment reversal of oil and gas assets; while its oil and by-products trading business in the PRC also remained profitable. As a result, despite the reduction in revenue as compared to 2020, the Group turned around from loss making and recorded net profit of approximately HK\$358.5 million in 2021. During the first half of 2022, the Group’s revenue amounted to approximately HK\$9,336.2 million but it suffered from net loss of approximately HK\$35.8 million. According to the 2022 Interim Report, the interim loss of the Group was mainly attributable to the loss of an indirect non-wholly owned PRC subsidiary of the Company, namely 延長石油(浙江自貿區)有限公司 (“**Yanchang Zhejiang**”), which has involved in a number of pending litigations (for details, 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 and 14 November 2022).

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *The Group's financial resources and liquidity*

The table below summarises the Group's unaudited financial resources and liquidity as at 30 June 2022 as extracted from the 2022 Interim Report:

	<b>As at 30 June 2022</b> <i>HK\$'000</i>
Current assets	
– Restricted cash	339,798
– Cash and bank balances	476,964
Current liabilities	
– Bank borrowings	(412,333)
– Secured term loans	(274,214)
Non-current liabilities	
– Secured term loans	(172,700)
Net current liabilities	(147,483)
Gearing ratio	460.8%

#### *(a) Cash and bank balances*

As at 30 June 2022, the Group had cash and bank balances totaling approximately HK\$816.8 million, out of which approximately HK\$339.8 million has been frozen by relevant court orders in respect of certain pending litigations against Yanchang Zhejiang.

#### *(b) Bank borrowings and other loans*

As at 30 June 2022, the Group had bank borrowings of approximately RMB352.0 million (equivalent to approximately HK\$412.3 million) bearing interest at the prevailing market rates quoted by the People's Bank of China on a revolving basis. Moreover, the Group had two secured term loans. Besides the Loan (equivalent to approximately HK\$274.2 million), the Company has further drawn down a secured term loan in the principal amount of US\$22 million (equivalent to approximately HK\$172.7 million) (the "2021 Loan") from Yanchang Petroleum HK pursuant to a loan agreement entered into by the two parties on 30 June 2021. The said secured term loan bears interest at 4.8% per annum and is repayable in three years (i.e. on 3 September 2024).

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As at 30 June 2022, the Group recorded net current liabilities of approximately HK\$147.5 million and its gearing ratio, measured on the basis of total liabilities as a percentage of total equity, was approximately 460.8%.

### *The Going Concern Issue*

As extracted from note 3(b) of the notes to the consolidated financial statements for the year ended 31 December 2021 of the Company:

“The Group had net current liabilities of HK\$51,512,000 as at 31 December 2021. In addition, as disclosed in note 5(b), the Group has financial liabilities totaling HK\$1,387,095,000 that are on demand or have a contractual maturities within one year. The Group will be unable to repay these borrowings in full when they fall due unless it is able to generate sufficient net cash inflows from its operations and/or other sources. As at 31 December 2021, the Group only had cash and cash equivalents of HK\$394,132,000.”

“These events or conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group’s ability to continue as a going concern (the “**Going Concern Issue**”) and, therefore, the Group may be unable to realize its assets and discharge its liabilities in the normal course of business.”

“For assessing going concern, the Directors have prepared a cash flow forecast covering a period of one year from the date of approval of these consolidated financial statements. The Directors are of the opinion that the Group will be able to generate sufficient cash flows to finance its operations and meet its financial obligations as and when they fall due over the forecast period after taking account of the followings:

- (i) the Group expects to generate operating cash inflows for the next twelve months from the date of approval of these consolidated financial statements;
- (ii) obtaining additional finance from various sources including but not limited to banks, shareholders and other potential investors;
- (iii) the Group will renew the existing banking facilities from the banks; and
- (iv) disposal of certain assets to obtain funding.”

“Accordingly, the consolidated financial statements are prepared on going concern basis. Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in these consolidated financial statements.”

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Information on Novus*

As aforementioned, the Group's turnover was mainly derived from the production of oil and natural gas in Canada as well as the trading of oil and by-products in the PRC. The Group's business of acquisition, exploration, development and production of petroleum and natural gas reserves in Canada is carried out by Novus. The table below depicts the key audited financial information of Novus for the three years ended 31 December 2021 as extracted from the relevant financial statements provided to us by the Company:

	<b>For the year ended 31 December 2021 CAD'000</b>	<b>For the year ended 31 December 2020 CAD'000</b>	<b>For the year ended 31 December 2019 CAD'000</b>
Revenue	28,868	14,172	31,598
Income/(Loss) and comprehensive income/(loss) for the year	62,487	(109,491)	(71,310)

As depicted by the above table, revenue and profitability of Novus has been rather fluctuating in the recent three years. As advised by the Directors, owing to high costs, tight service resources, fluctuating oil prices and other factors, the business of Novus is likely to continue to face challenges in the near future.

As advised by the Directors, as at 30 June 2022, Novus's cash on hand was approximately CAD8.0 million.

### *Reasons for the renewal of the Loan*

As represented by the Directors, Novus requires substantial fund to cover expenses incurred in the exploration, exploitation and production process. As referred to in the 2022 Interim Report, during the first half of 2022, nine new wells were put into production and 16 wells had completed drilling. As of June 2022, Novus had 434.6 net horizontal wells and 69.7 net vertical wells. In order to finance the substantial amount of exploration, exploitation and production expenses, Novus has ongoing financing needs. Although the management of Novus has approached several banks in Canada, such banks refused to provide a facility proposal to Novus.

Under the aforesaid circumstances, besides the Loan, Yanchang Petroleum HK provided the 2021 Loan to the Company in 2021. As confirmed by the Directors, the Company had fully applied the 2021 Loan for drilling of new oil wells and general working capital of Novus as at the Latest Practicable Date.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As illustrated under the sub-section headed “The Group’s financial resources and liquidity” of this letter of advice, the Group had cash and bank balances totaling approximately HK\$816.8 million, out of which approximately HK\$339.8 million has been frozen by relevant court orders in respect of certain pending litigations against Yanchang Zhejiang. As advised by the Directors, among the unfrozen cash and bank balances of approximately HK\$477.0 million, approximately HK\$420.0 million was maintained in the bank accounts of the Company’s subsidiaries in the PRC for supporting their daily operation. The cash maintained in the PRC could only be transferred to countries and/or regions outside the PRC through burdensome and time-consuming administrative procedures. After deducting such “restricted” cash, the remaining “free” cash and bank balances of the Group amounted to approximately HK\$57.0 million as at 30 June 2022, which was insufficient for repayment of the Loan upon maturity.

Given the lack of internal resources, the Directors advised us that the Group has considered both debt financing and equity financing to raise additional funds of sizeable amount. In view of (i) the current loss making position of the Group; (ii) the net current liabilities of the Group of approximately HK\$147.5 million as at 30 June 2022; and (iii) the Going Concern Issue, the Group shall be unlikely to obtain bank borrowings of sizeable amount and favourable terms without lengthy negotiations. As regards equity financing, the Company will need to undergo a relatively lengthy process in order to (i) identify suitable investor(s), underwriter(s) and negotiate terms agreeable to the Company; and (ii) prepare the requisite compliance and legal documentation, including but not limited to the subscription agreement(s), underwriting agreement(s), announcement(s), circular(s) and prospectus(es), not to mention the higher transaction costs (such as placing/underwriting commission) to be incurred. In addition, the current market situation is unfavourable for equity fund raising.

Taking into account that (i) Novus has ongoing financing needs for business development and is unable to obtain loan facility from banks; (ii) the Group lacks internal resources for repayment of the Loan upon maturity; (iii) both borrowings from banks and equity financing are rather unfeasible for the Group at present; and (iv) the Loan will (a) ease the Group’s liquidity pressure; (b) not create dilution to the existing shareholding of the Shareholders; and (c) demonstrate the continuous financial support from the Controlling Shareholder (i.e. Yanchang Petroleum HK) to the Group, we concur with the Directors that the renewal of the Loan is in the interests of the Company and the Shareholders as a whole even though it is not conducted in the ordinary and usual course of business of the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 2. Principal terms of the Supplemental Facility Agreement

As extracted from the Letter from the Board, the principal terms of the Supplemental Facility Agreement dated 6 December 2022 are as follows:

Parties:	(1) Yanchang Petroleum HK (as lender); and  (2) Novus (as borrower).
Principal amount of the Loan:	US\$35 million.
Term:	Commencing from the Renewal Request Date and expiring on the third anniversary of the Renewal Request Date.
Interest rate:	4.8% per annum, which shall be payable every three months from the Renewal Request Date.
Security:	The Loan is secured by the Debenture in the sum of US\$70 million as described under the section headed “Debenture” of the Letter from the Board.

#### *Extension of the term*

As demonstrated under the sub-section headed “Reasons for the renewal of the Loan” of this letter of advice, the Group had cash and bank balances of approximately HK\$57.0 million outside the PRC as at 30 June 2022, which was insufficient for repayment of the Loan upon maturity. The Group therefore has an imminent need to obtain additional funds of sizeable amount. The Company has considered both borrowings from banks and equity financing but found both rather unfeasible. Thus, the renewal of the Loan for three years will alleviate the repayment pressure under the Facility Agreement and relieve the Going Concern Issue by reducing the Group’s current liabilities, and in turn allowing the Group more flexibility to negotiate and obtain fund raising arrangement for its business development in future, if necessary.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *The Interest Rate*

Pursuant to the Supplemental Facility Agreement, the interest rate for the Loan (the “**Interest Rate**”) will remain at 4.8% per annum. To assess the fairness and reasonableness of the Interest Rate, we have considered the following factors:

*(a) Global rise of interest rates*

The global economy is facing complex challenges. Unrelenting inflation pressures, the war in Ukraine and the Covid-19 pandemic have prompted the fastest rise in global interest rates since the early 1990s. The US Board of Governors of the Federal Reserve System started to raise its short-term interest rate to 0.5% in March 2022, and successively to 1%, 1.75%, 2.5%, 3.25%, 4% and 4.5% in May, June, July, September, November and December 2022. Other developed-market central banks, such as the Swiss National Bank, the Bank of England, the European Central Bank and central banks in Australia, Brazil, Canada, India, Korea, Mexico, Poland, South Africa etc., have all followed suit. In Hong Kong, the Hong Kong and Shanghai Banking Corporation also raised the best lending rate it offered (the “**Best Lending Rate**”) to 5.625% in December 2022 and it seems that further rate surge is inevitable. The cost of bank borrowings would likely be escalating in the short to medium run. Hence, it would be advantageous for the Group to secure a fixed Interest Rate, which is below the Best Lending Rate, amid the global rate surge.

*(b) The Company’s attempt to identify other means of debt financing*

As stated under the sub-section headed “The Group’s financial resources and liquidity” of this letter of advice, as at 30 June 2022, the Group had bank borrowings of approximately RMB352.0 million. Upon our enquiry, we understand from the Directors that such bank borrowings were drawn down by an indirect non-wholly owned PRC subsidiary of the Company engaging in the trading of refined oil business. Other than this loan, the Company has not obtained other bank borrowings outside the PRC. To support the Group’s business operation, Yanchang Petroleum HK conditionally agreed to provide the 2021 Loan to the Company. The interest rate of the 2021 Loan was the same as the Interest Rate, i.e. 4.8%.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(c) *Comparable analysis*

To evaluate as to whether the Interest Rate follows general market practice in loan provision regardless of business nature of the borrowers and/or the lenders, we have researched over the website of the Stock Exchange on an exhaustive basis for transactions involving the provision of new financial assistance by listed companies in Hong Kong to independent third parties. To the best of our knowledge and as far as we are aware of, there were 17 such announcements (the “**Comparables**”) dated from 1 November 2022 to 6 December 2022 (being the approximate 1-month period prior to and including the date of the Supplemental Facility Agreement). We chose the said approximate 1-month research period due to its recency before signing of the Supplemental Facility Agreement and we consider the Comparables to be fair and representative. Summarised below are our relevant findings:

Date of announcement	Company (stock code)	Principal amount of the loan	Term of the loan	Annual interest rate	Security/ Guarantee/ Collateral	Loan to security ratio (times) (Note)
6 December 2022	Newway Group Holdings Limited (55)	HK\$4,900,000	12 months	12.38%	A first legal charge/mortgage in respect of a residential property	0.64
6 December 2022	Capital Finance Holdings Limited (8239)	RMB1,300,000	12 months	3.66%	A first legal charge in respect of a residential property	0.35
30 November 2022	China Everbright Limited (165)	RMB539,000,000	3 months	3.65%	Nil	Not applicable
30 November 2022	Emperor Capital Group Limited (717)	HK\$39,900,000	12 months	10.03%	A first mortgage over two residential units	0.68
28 November 2022	China Sunshine Paper Holdings Company Limited (2002)	RMB60,000,000	1 year	7.50%	Not mentioned in the relevant announcement	Not available
25 November 2022	New Century Group Hong Kong Limited (234)	HK\$19,500,000	12 months	9.50%	A first legal charge over a residential property	0.58
25 November 2022	Allied Group Limited (373)	RMB45,000,000	24 months	7.20%	A corporate guarantee	Not applicable

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Date of announcement	Company (stock code)	Principal amount of the loan	Term of the loan	Annual interest rate	Security/ Guarantee/ Collateral	Loan to security ratio (times) (Note)
25 November 2022	China Sunshine Paper Holdings Company Limited (2002)	RMB100,000,000	1 year	7.50%	Not mentioned in the relevant announcement	Not available
23 November 2022	New Century Group Hong Kong Limited (234)	HK\$17,500,000	12 months	9.00%	A first legal charge over a residential property	0.70
18 November 2022	Hong Kong Finance Group Limited (1273)	HK\$34,000,000	6 months	13.20%	A first legal charge/mortgage in respect of 42 car parking spaces	0.69
17 November 2022	Beijing North Star Company Limited (588)	RMB54,880,000	2 years	6.50%	Not mentioned in the relevant announcement	Not available
16 November 2022	Rich Goldman Holdings Limited (70)	HK\$6,000,000	15 years	15.00%	A first legal charge in respect of a residential property	0.75
15 November 2022	Sheen Tai Holdings Group Company Limited (1335)	RMB45,000,000	7 months	7.19%	Equity pledge and personal guarantee	Not applicable
4 November 2022	Emperor Capital Group Limited (717)	HK\$17,000,000	12 months	9.29%	A first mortgage over an industrial unit	0.53
2 November 2022	Legend Upstar Holdings Limited (459)	HK\$52,000,000	10 months	8.50%	A first legal charge/mortgage in respect of a residential property and two car parking spaces	0.72
1 November 2022	Joy City Property Limited (207)	RMB147,000,000	3 years	4.30%	Nil	Not applicable
1 November 2022	Kong Sun Holdings Limited (295)	RMB120,000,000	36 months	9.00%	Accounts receivable pledge	0.38

*Note: The loan to security ratio is calculated by dividing the principal loan amount of the Comparables by the aggregate value of their respective securities as disclosed in the relevant announcement.*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As shown by the above table, the interest rates of the Comparables ranged from 3.65% to 15% and only three of the Comparables were with interest rate below the Interest Rate of 4.8%. As such, the Interest Rate is fair and reasonable based on market comparison.

To conclude, having taken into account (i) the global rate surge that will escalate the cost of bank borrowings in the short to medium run and therefore it would be advantageous for the Group to secure a fixed Interest Rate, which is below the Best Lending Rate; (ii) the failing attempt of the Company to obtain bank borrowings outside the PRC; (iii) the Interest Rate is the same as the interest rate of the 2021 Loan; and (iv) the results of our comparable analysis as just presented, we are of the view that the Interest Rate is fair and reasonable so far as the Independent Shareholders are concerned.

### *Security*

From the table under the paragraph headed “Comparable analysis” of this letter of advice, we noted that except for the unsecured loans provided by China Everbright Limited (stock code: 165) and Joy City Property Limited (stock code: 207) and certain other Comparables of which the relevant information was unavailable in the announcement, loans of the Comparables (the “**Secured Comparables**”) were all secured in different forms, such as personal or corporate guarantees, legal charge/mortgage on properties, and pledge of shares or accounts receivable. Likewise, the Loan is also secured by the Debenture.

In this relation, we further noted that the Debenture is in the sum of US\$70 million and represents a loan to security ratio of 0.5 times, which is within the loan to security ratio of approximately 0.35 times and 0.75 times of the Secured Comparables. Moreover, the loan to security ratio as represented by the Debenture is better than that of the previous debenture of approximately 0.24 times that Novus had given to a bank in Canada.

With the above being the case, we are of the opinion that the security arrangement under the Supplemental Facility Agreement is fair and reasonable.

### **3. Possible financial effects of the Supplemental Facility Agreement**

As confirmed by the Directors, it is expected that the Supplemental Facility Agreement would not have any immediate material effect on the Group’s overall asset and liability position. The Loan will be classified as a non-current liability of the Group in its consolidated statement of financial position after the Supplemental Facility Agreement taking effect.

On the other hand, based on the Loan amount of US\$35 million and the Interest Rate of 4.8%, the estimated annual interest expense for the Loan would be approximately US\$1.68 million during the remainder term of the Loan.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Supplemental Facility Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the renewal of the Loan is in the interests of the Company and the Shareholders as a whole even though it is not conducted in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Supplemental Facility Agreement, and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,  
For and on behalf of  
**VBG Capital Limited**  
**Doris Sing**  
*Managing Director*

*Ms. Doris Sing is a licensed person and responsible officer of VBG Capital Limited registered with the Securities and Futures Commission to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and has over 17 years of experience in corporate finance industry.*

## 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	600,000	0.003%
Dr. Mu Guodong ("Dr. Mu")	Personal interest and interest of spouse ( <i>Note</i> )	Long position	300,000	0.003%

*Note:* Out of these 300,000 Shares, Dr. Mu personally held 230,000 Shares and his spouse held 70,000 Shares. Dr. Mu is deemed to be interested in these 70,000 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:

<b>Name</b>	<b>Nature of interest</b>	<b>Long position/ Short position</b>	<b>Number of Shares held</b>	<b>Approximate percentage of the total issued share capital of the Company</b>
Yanchang Petroleum Group ( <i>Note</i> )	Interest of controlled corporation	Long position	12,686,203,231	69.19%
Yanchang Petroleum HK ( <i>Note</i> )	Directly owned	Long position	12,686,203,231	69.19%

*Note:* Yanchang Petroleum Group beneficially held these 12,686,203,231 shares through its direct wholly owned subsidiary, Yanchang Petroleum 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.

### **3. COMPETING INTEREST**

As at the Latest Practicable Date, none of the Directors and their 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 INTEREST

As at the Latest Practicable Date, none of the Directors have any interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any members of the Group since 31 December 2021, 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 were 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 had any existing or proposed service agreement with any member of the Group (excluding contracts expiring or determinable by the Company within one year without 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) (“**Yanchang Zhejiang**”), the Company’s 51% indirectly owned PRC subsidiary, has involved in a number of pending 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 and 14 November 2022 for further details.

Apart from the aforesaid, no member of the Group was engaged in any litigation, arbitration or claim which would materially and adversely affect the operations of the Company and no litigation, arbitration or claim 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 disclosed in the Company’s interim report for the six months ended 30 June 2022, the Group recorded a loss of HK\$35,831,000 for the six months ended 30 June 2022, as compared to a profit of HK\$12,083,000 for the six months ended 30 June 2021. The interim loss of the Group was mainly attributable to the loss of Yanchang Zhejiang, which has involved in a number of pending litigations.

Save as disclosed above, 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 2021 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 expert, and its qualification, who has given opinion contained in this circular:

<b>Name</b>	<b>Qualification</b>
VBG Capital Limited	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Facility Agreement and the transactions and matters contemplated thereunder

VBG Capital Limited has given and confirmed that it has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, advice, opinion and/or reports and references to its name in the form and context in which it respectively appeared.

As at the Latest Practicable Date, VBG Capital 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 2021 (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 situated 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 at Room 3403, 34th 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 Facility Agreement will be available for display on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company (<http://www.yanchanginternational.com/en/index.php>) during the period of 14 days from the date of this circular (both days inclusive).

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## NOTICE OF THE SGM

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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)**

## NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** that a special general meeting (the “SGM”) of Yanchang Petroleum International Limited (the “Company”) will be held at Tianshan and Lushan Rooms, Level 5, Island Shangri-La, Pacific Place, Supreme Court Road, Central, Hong Kong on Tuesday, 17 January 2023 at 3:30 p.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution as an ordinary resolution of the Company:

### ORDINARY RESOLUTION

**“THAT:**

- (i) the Supplemental Facility Agreement and the transactions and matters contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (ii) any one director 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 Facility Agreement and the transactions contemplated thereunder and to agree to such variations, amendments or waivers of matters relating thereto that are of administrative nature and ancillary to the implementation of the Supplemental Facility Agreement and any other transactions contemplated under or incidental to the Supplemental Facility Agreement.”

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

Hong Kong, 23 December 2022

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## NOTICE OF THE SGM

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*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 abovementioned 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 Wednesday, 11 January 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 Wednesday, 11 January 2023.
8. As at the date of this notice, the board of directors of the Company consists of seven directors, of which three are executive directors, namely Mr. Feng Yinguo (chairman), Mr. Zhang Jianmin and Mr. Ding Jiasheng and four are independent non-executive directors, namely Mr. Ng Wing Ka, Mr. Leung Ting Yuk, Mr. Sun Liming and Dr. Mu Guodong.