

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

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

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.



**延長石油國際有限公司**

**YANCHANG PETROLEUM INTERNATIONAL LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 00346)**

**CONNECTED TRANSACTION  
IN RELATION TO  
SUBSCRIPTION OF NEW SHARES BY  
A SUBSTANTIAL SHAREHOLDER**

**Financial Adviser to the Company**



**大有融資有限公司**  
**MESSIS CAPITAL LIMITED**

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

**VEDA | CAPITAL**  
**智略資本**

A letter from the Board is set out on pages 4 to 10 of this circular.

A notice dated 25 September 2012 convening the SGM to be held at Aberdeen Room, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, 12 October 2012 at 3:30 p.m. is set out on pages 32 to 33 of this circular. Whether or not you are able to attend the SGM, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited, at 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or at any adjourned meeting thereof if you so wish and, in such event, the relevant form of proxy shall be deemed to be revoked.

25 September 2012

<b>CONTENTS</b>
-----------------

	<i>Page</i>
<b>DEFINITIONS</b> .....	1
<b>LETTER FROM THE BOARD</b> .....	4
<b>LETTER FROM THE INDEPENDENT BOARD COMMITTEE</b> .....	11
<b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISER</b> .....	12
<b>APPENDIX — GENERAL INFORMATION</b> .....	26
<b>NOTICE OF THE SGM</b> .....	32

## DEFINITIONS

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

“Announcement”	the announcement of the Company dated 1 September 2012 in relation to, among others, the Subscription
“associates”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Business Day”	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
“BVI”	the British Virgin Islands
“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
“Completion”	completion of the Subscription
“Completion Date”	the date of Completion
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“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
“Independent Shareholders”	the Shareholders other than Yanchang Petroleum and its associates

## DEFINITIONS

“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner(s) whom, to the best of the Directors’ knowledge, information and belief having made all reasonable enquires, are third parties independent of the Company and its connected person of the Company in accordance with the Listing Rules
“Last Trading Day”	31 August 2012, being the last trading day immediately prior to the entering into of the Subscription Agreement
“Latest Practicable Date”	20 September 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
“Listing Committee”	Listing Committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Option Share(s)”	the new Share(s) fall to be issued upon the exercise of the Share Options pursuant to the Share Option Agreement
“PRC”	the People’s Republic of China, which for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened at Aberdeen Room, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, 12 October 2012 at 3:30 p.m. to consider and, if thought fit, approve, among other things, the Subscription Agreement and the transactions contemplated thereunder; and the grant of the Specific Mandate for the allotment and issuance of the Subscription Shares
“Share(s)”	existing ordinary share(s) of HK\$0.02 each in the share capital of the Company
“Share Option(s)”	the right to subscribe for the Option Shares at the exercise price of HK\$0.716 per Option Share

## DEFINITIONS

“Share Option Agreement”	the share option agreement dated 29 April 2011 (as supplemented by a supplemental agreement dated 6 May 2011) entered into between the Company and Yanchang Petroleum in relation to the grant of 1,000,000,000 Share Options
“Shareholder(s)”	holder(s) of the Shares
“Specific Mandate”	the specific mandate for the allotment and issuance of the Subscription Shares, which is subject to approval by the Independent Shareholders voting by way of poll at the SGM
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of the Subscription Shares by Yanchang Petroleum in accordance with the terms and conditions of the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 1 September 2012 entered into between the Company and Yanchang Petroleum in relation to the Subscription
“Subscription Price”	The subscription price of HK\$0.51 per Subscription Share under the Subscription Agreement
“Subscription Shares”	1,300,000,000 new Shares of the Company to be subscribed by Yanchang Petroleum
“Veda Capital” or “Independent Financial Adviser”	Veda Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription
“Yanchang Petroleum”	Shaanxi Yanchang Petroleum (Group) Co., Limited (陝西延長石油(集團)有限責任公司), a state-owned corporation registered in the PRC with limited liability, being a substantial Shareholder holding 1,118,149,547 Shares representing approximately 16.33% of the existing issued share capital of the Company as at the Latest Practicable Date
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.



# 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. Zhang Kaiyong (*Chairman*)  
Dr. William Rakotoarisaina (*Vice Chairman*)  
Mr. Ren Yansheng (*Chief Executive Officer*)  
Mr. Hui Bo (*Vice President*)  
Mr. Shen Hao  
Mr. Feng Da Wei  
Mr. Yang Jie  
Mr. To Kwan

*Independent non-executive Directors:*

Mr. Ng Wing Ka  
Mr. Leung Ting Yuk  
Mr. Sun Liming

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

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

Suite 1512  
15th Floor  
One Pacific Place  
88 Queensway  
Hong Kong

25 September 2012

*To the Shareholders*

Dear Sir/Madam,

## **CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF NEW SHARES BY A SUBSTANTIAL SHAREHOLDER**

### **INTRODUCTION**

As set out in the Announcement, Yanchang Petroleum and the Company entered into the Subscription Agreement pursuant to which the Company has agreed to allot and issue and Yanchang Petroleum has agreed to subscribe for 1,300,000,000 new Shares at the Subscription Price of HK\$0.51 per Share. The Subscription Shares shall be allotted and issued by way of the Specific Mandate, the approval of which shall be sought at the SGM.

The purpose of this circular is to provide you with the information, among other things, (i) further details in respect of the Subscription Agreement; (ii) a letter from the Independent Board Committee to the Independent Shareholders in respect of the terms of the Subscription Agreement and the transactions contemplated thereunder; (iii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in

## LETTER FROM THE BOARD

respect of the terms of the Subscription Agreement and the transactions contemplated thereunder; and (iv) the notice of the SGM, and other information as required under the Listing Rules.

### THE SUBSCRIPTION AGREEMENT

**Date:** 1 September 2012

**Parties:** (1) Yanchang Petroleum; and  
(2) the Company.

### The Subscription Shares

Pursuant to the Subscription Agreement, the Company has agreed to allot and issue and Yanchang Petroleum has agreed to subscribe for 1,300,000,000 new Shares at the Subscription Price of HK\$0.51 per Share.

The Subscription Shares represent (i) approximately 18.99% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 15.96% of the issued share capital of the Company as enlarged by the allotment and issuance of the Subscription Shares.

### Specific Mandate to issue the Subscription Shares

The Subscription Shares will be issued by the Company under a Specific Mandate to be granted to the Directors at the SGM. The Subscription Shares, when allotted and issued as fully paid, will rank pari passu in all respects with all the Shares to be issued and will be subject to a lock-up period of twelve months from the date of the Completion.

An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares to be issued.

### The Subscription Price

The Subscription Price of HK\$0.51 per Share represents:

- (a) a discount of approximately 3.77% over the closing price of HK\$0.53 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 6.25% over the average closing price of HK\$0.544 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day; and
- (c) the same as the closing price of HK\$0.51 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

## **LETTER FROM THE BOARD**

The Subscription Price was determined after arm's length negotiation between the Company and Yanchang Petroleum after taking into account, among others, the prevailing market price of the Shares, the financial performance of the Group and the current market conditions.

### **Conditions precedent**

Completion of the Subscription Agreement is conditional upon:

- (a) the passing of an ordinary resolution by the Independent Shareholders at the SGM to be convened and held to approve the Subscription Agreement and the transactions contemplated thereunder, including but not limited to the issuance of the Subscription Shares;
- (b) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Subscription Shares; and
- (c) all necessary consents and approvals required to be obtained by Yanchang Petroleum in respect of the Subscription Agreement and the transactions contemplated thereunder, including but not limited to the Subscription, having been obtained.

None of the above conditions precedent can be waived by any of the parties to the Subscription Agreement. In the event that the above conditions have not been fulfilled by 31 December 2012 (or such later date as may be agreed by the Company and Yanchang Petroleum), the Subscription Agreement shall cease and determine and neither party to the Subscription Agreement shall have any obligations and liabilities towards each other thereunder save for any antecedent breaches of the terms thereof.

### **Completion**

Completion shall take place within 7 business days after the fulfillment of the above conditions or such later date as may be agreed between the Company and Yanchang Petroleum.

### **SHARE OPTIONS GRANTED TO YANCHANG PETROLEUM**

Reference is made to the announcements of the Company dated 14 April 2011, 2 May 2011, 6 May 2011 and the circular of the Company dated 20 May 2011 in respect of the Share Option Agreement pursuant to which the Company has conditionally agreed to grant to Yanchang Petroleum 1,000,000,000 Share Options with the exercise price of HK\$0.716 per Option Share.

The Option Shares to be issued to Yanchang Petroleum upon exercise of the Share Options are subject to a lock-up period of 3 months from the date of issue during which Yanchang Petroleum shall not dispose of, trade, or transfer such Option Shares.

## LETTER FROM THE BOARD

The gross proceeds from the exercise of the Share Options, assuming that the Share Options are exercised in full, will be HK\$716 million. The estimated net proceeds of approximately HK\$716 million are intended to be used in the development of the Company's oil and gas business and the exploitation of the Company's oil blocks in the Republic of Madagascar and as general working capital for the Company.

As at the Latest Practicable Date, Yanchang Petroleum had not exercised the Share Options and hence no Option Shares was issued to Yanchang Petroleum.

### CHANGE IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after completion of the Subscription; and (iii) immediately after completion of the Subscription, assuming full exercise of the Share Options (for illustrative purpose only):

Shareholders	As at the Latest Practicable Date		Immediately after completion of the Subscription		Immediately after completion of the Subscription, assuming full exercise of the Share Options ( <i>Note</i> )	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
Yanchang Petroleum Shaanxi Daqingling Energy and Investment Group Limited	1,118,149,547	16.33	2,418,149,547	29.69	3,418,149,547	37.37
Public Shareholders	1,625,865,555	23.75	1,625,865,555	19.96	1,625,865,555	17.78
	<u>4,101,557,947</u>	<u>59.92</u>	<u>4,101,557,947</u>	<u>50.35</u>	<u>4,101,557,947</u>	<u>44.85</u>
<b>Total</b>	<b><u>6,845,573,049</u></b>	<b><u>100.00</u></b>	<b><u>8,145,573,049</u></b>	<b><u>100.00</u></b>	<b><u>9,145,573,049</u></b>	<b><u>100.00</u></b>

*Note:* As at the Latest Practicable Date, the Company has outstanding share options granted to employees and consultants of the Company under the share option scheme of the Company, entitling them to subscribe for 12,000,000 Shares, representing approximately 0.18% of the issued capital of the Company.

These numbers related the total number of Shares that may be issued upon full exercise of the Share Options only and do not include the Shares that may be issued upon exercise of the share option under the aforesaid share option scheme.

### REASONS AND BENEFITS OF THE SUBSCRIPTION

The Group is principally engaged in the activities of: (i) investment in the oil, gas and energy related business; (ii) oil and gas exploration, exploitation and operation; and (iii) trading and distribution of fuel oil. Yanchang Petroleum, being a substantial Shareholder, is one of the PRC major state-owned oil and gas corporations principally engaged in the exploration, exploitation, refinery, processing and sale of oil, gas and petrochemical products. Yanchang Petroleum has the right and licences to explore, exploit and operate oil and gas resources, and has oil refineries in the PRC and also owns sizeable oil and natural gas resources assets both in the PRC and overseas.

## LETTER FROM THE BOARD

As at the Latest Practicable Date, Yanchang Petroleum is interested in approximately 16.33% of the existing issued share capital of the Company. The interests of Yanchang Petroleum in the issued share capital of the Company is expected to increase to approximately 29.69% of the issued share capital of the Company as enlarged by the allotment and issuance of the Subscription Shares. The Directors are of the view that as a result of the Subscription, Yanchang Petroleum will become the single largest Shareholder of the Company, will enhance the strategic relationship between Yanchang Petroleum and the Company which in turn, with more close involvement and support from Yanchang Petroleum, will benefit the business development of the Group.

The Company had considered other alternative methods to raise additional funds including arrangement of new bank loans and other forms of equity fund raising such as right issue or open offer. However, debt financing including the use of new bank loans will inevitably incur additional interest expense without improving the financial position of the Group. Also, the Company will be required to repay such bank loans upon maturity whereas no such repayment is required under the Subscription. Other forms of equity fund raising such as rights issue or open offer may incur substantial costs to the Company in the form of underwriting commission, as a typical rights issue or open offer would involve the engagement of an underwriter. In addition, rights issue or open offer often involves a deeper discount in the subscription price which may have an adverse impact on the price of the Shares. Accordingly, the Directors considered that the Subscription is a more direct and faster way to place Shares to Yanchang Petroleum than to other third parties; and that the Subscription can secure continuous and long-term support to the Company from Yanchang Petroleum for the future development of the Group in the most cost effective way. Given the current unfavourable sentiment in the stock market, there are uncertainties in securing subscription from other potential investors with favourable terms. The Directors also consider that the Subscription will provide an opportunity to much more strengthen the financial position of the Group as well as to raise the necessary capital for the ongoing development of the Group's core businesses without imposing additional interests burden to or deteriorating the gearing position of the Group had such capital been funded by borrowings. As such, the Directors (including the independent non-executive Directors) consider that the terms of the Subscription Agreement, including the Subscription Price, are fair and reasonable and on normal commercial terms and the Subscription is in the interests of the Company and the Shareholders as a whole.

### USE OF PROCEEDS

The aggregate gross proceeds of the Subscription will be HK\$663 million. The aggregate net proceeds of the Subscription, after deduction of expenses, are estimated to be approximately HK\$663 million representing a net issue price of approximately HK\$0.51 per Subscription Share. The Company intends to apply the net proceeds from the Subscription as follows: (i) approximately HK\$163 million for general working capital of the Company; (ii) approximately HK\$400 million for the development of the Group's oil and gas business and the exploitation of the oil field blocks in Madagascar; and (iii) approximately HK\$100 million for future investment opportunities.

As at the Latest Practicable Date, the Company had not identified any potential or concrete investment plan.

## **LETTER FROM THE BOARD**

### **FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS**

The Company does not have any fund raising exercises during the twelve month period prior to the date of this circular.

### **IMPLICATION OF THE ACQUISITION UNDER THE LISTING RULES**

As Yanchang Petroleum, being a substantial Shareholder, is interested in approximately 16.33% of the issued share capital of the Company, Yanchang Petroleum is a connected person of the Company under Chapter 14A of the Listing Rules. The Subscription constitutes a non-exempted connected transaction for the Company under the Listing Rules and is subject to the reporting and announcement requirements and the approval by the Independent Shareholders at the SGM.

The Subscription Shares will be issued by the Company under the Specific Mandate to be granted to the Directors at the SGM. An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

None of the Directors or their respective associates have a material interest in the Subscription and were required to abstain from voting on the relevant board resolution of the Company approving the entering into of the Subscription Agreement.

As at the Latest Practicable Date, Yanchang Petroleum and its associates held 1,118,149,547 Shares, representing 16.33% of the issued share capital of the Company. As Yanchang Petroleum has material interest in the Subscription Agreement, Yanchang Petroleum and its associates are required to abstain from voting at the SGM to approve the Subscription Agreement and the transaction contemplated thereunder.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, as at the Latest Practicable Date, save for Yanchang Petroleum and its associates, who will abstain from voting at the SGM, no Directors and no other Shareholders or any of their respective associates have any interests in the transaction contemplated under the Subscription Agreement and are required to abstain from voting at the SGM in relation to the resolution regarding the Subscription and the transactions contemplated thereunder.

### **SGM**

The notice convening the SGM to be held at Aberdeen Room, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, 12 October 2012 at 3:30 p.m. is set out on pages 32 to 33 of this circular. An ordinary resolution will be proposed at the SGM to approve, among other things, (i) the Subscription Agreement and the transactions contemplated thereunder; and (ii) the grant of the Specific Mandate for the allotment and issuance of the Subscription Shares. 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.

## LETTER FROM THE BOARD

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 and transfer office in Hong Kong, Tricor Tengis Limited, at 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, 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.

The Independent Board Committee comprising all independent non-executive Directors has been formed to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Subscription Agreement. The Independent Financial Adviser, being Veda Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in this connection.

### RECOMMENDATIONS

Taking into consideration of the reason set out in the paragraph headed "Reasons for and benefits of the Subscription" above, the Directors (including the independent non-executive Directors) consider that the terms of the Subscription Agreement and the transaction contemplated thereunder are fair and reasonable and on normal commercial terms and the Subscription is in the 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 as set out in the notice of the SGM to approve (i) the Subscription Agreement and the transactions contemplated thereunder; and (ii) the grant of the Specific Mandate for the allotment and issuance of the Subscription Shares.

Your attention is drawn to the letter from the Independent Board Committee set out on page 11 of this circular, the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 12 to 25 of this circular and the information set out in the appendix of this circular.

Yours faithfully,  
By Order of the Board  
**Yanchang Petroleum International Limited**  
**Zhang Kaiyong**  
*Chairman*



# 延長石油國際有限公司

YANCHANG PETROLEUM INTERNATIONAL LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 00346)**

25 September 2012

*To the Independent Shareholders*

Dear Sir or Madam,

## **CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF NEW SHARES BY A SUBSTANTIAL SHAREHOLDER**

We refer to the circular (the “Circular”) dated 25 September 2012 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 the Subscription Agreement and the transactions contemplated thereunder; and the grant of the Specific Mandate. Veda Capital has been appointed by the Company as the Independent Financial Adviser to advise us in this regard. 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 12 to 25 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 the terms of the Subscription Agreement and the transactions contemplated thereunder; and the Specific Mandate are 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. Accordingly, we recommend that the Independent Shareholders should vote in favor of the resolution to be proposed at the SGM to approve (i) the Subscription Agreement and the transactions contemplated thereunder; and (ii) the grant of the Specific Mandate for the allotment and issuance of the Subscription Shares.

Yours faithfully

For and on behalf of the

**Independent Board Committee**

**Mr. Ng Wing Ka**

**Mr. Leung Ting Yuk**

**Mr. Sun Liming**

*Independent non-executive Directors*

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*The following is the full text of a letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement prepared for the purpose of inclusion in this circular.*

**VEDA | CAPITAL**  
**智 略 資 本**

**Veda Capital Limited**  
Suite 3214, 32/F., COSCO Tower  
183 Queen's Road Central, Hong Kong

25 September 2012

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

Dear Madam/Sir,

### **CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF NEW SHARES BY A SUBSTANTIAL SHAREHOLDER**

#### **INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement, details of which are set out in the letter from the Board (the "Board Letter") in the Company's circular dated 25 September 2012 (the "Circular") to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 1 September 2012, the Company announced, among others, that Yanchang Petroleum and the Company entered into the Subscription Agreement pursuant to which the Company has agreed to allot and issue and Yanchang Petroleum has agreed to subscribe for 1,300,000,000 new Shares at the Subscription Price of HK\$0.51 per Share.

As Yanchang Petroleum, being a substantial Shareholder, is interested in approximately 16.33% of the issued share capital of the Company, Yanchang Petroleum is a connected person of the Company under Chapter 14A of the Listing Rules. The Subscription constitutes a non-exempted connected transaction for the Company under the Listing Rules and is subject to the reporting and announcement requirements and the approval by the Independent Shareholders at the SGM.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Ng Wing Ka, Mr. Leung Ting Yuk and Mr. Sun Liming has been established to advise the Independent Shareholders in respect of the Subscription Agreement. Veda Capital has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned and whether the

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Subscription Agreement is in the interests of the Company and the Independent Shareholders as a whole. The appointment of Veda Capital has been approved by the Independent Board Committee.

### **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, the Directors and the management of the Company and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be true as at the Latest Practicable Date and should there be any material changes to our opinion after the despatch of the Circular and up to the date of the SGM, the Shareholders would be notified as soon as possible.

All Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm in the Circular, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Subscription Agreement and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In assessing the Subscription Agreement and in giving our recommendation to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

### **A. Financial highlights of the Group**

The Group is principally engaged in the activities of: (i) investments in the oil, gas and energy related business; (ii) oil and gas exploration, exploitation and operation; and (iii) trading and distribution of fuel oil.

#### *1. For the six months ended 30 June 2012*

As set out in the interim result announcement of the Company for the six months ended 30 June 2012 dated 30 August 2012 (the “IR Announcement 2012”), the Group recorded an unaudited turnover of approximately HK\$647.3 million, representing an increase of approximately 101.1% as compared to the six months ended 30 September 2011 of approximately HK\$321.9 million. As set out in the IR Announcement 2012, the increase mainly came from the refined oil business in Henan Province of the PRC acquired by the Group in the previous year.

The Group recorded an unaudited loss attributable to Shareholders of approximately HK\$54.1 million as compared to the six months ended 30 September 2011 of approximately HK\$167.4 million. According to the IR Announcement 2012, the decrease in loss was mainly due to the absence of the huge share option expenses, which was substantially reduced by approximately HK\$109.0 million and reduced in operation loss by approximately HK\$117.1 million in the six months.

#### *2. For the nine months ended 31 December 2011*

As set out in the annual report 2011 for the nine months ended 31 December 2011 (“AR 2011(Dec)”), the Group recorded a turnover of approximately HK\$512.2 million as compared to the financial year ended 31 March 2011 of approximately HK\$1,020.8 million. As set out in AR 2011(Dec), the decrease in turnover was due to the shorter financial period that was covered (i.e. 9 months against 12 months), an adjustment that was made to align with the financial year end of the Company’s principal subsidiaries in the PRC and Yanchang Petroleum.

The Group recorded a loss attributable to Shareholders of approximately HK\$144.3 million for the nine months ended 31 December 2011 as compared to the profit attributable to Shareholders of approximately HK\$23.0 million for the financial year ended 31 March 2011. As advised by the Company, the turnaround from profit to loss was mainly attributable to the equity-settled share option expenses which were a one-off non-cash accounting charge incurred mainly in respect of 1 billion share options granted to Yanchang Petroleum in June 2011. According to AR 2011(Dec), without accounting for the non-cash share option expense of HK\$145.6 million, there would be a profit attributable to Shareholders of approximately HK\$1.3 million for the Group.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### 3. *Financial year ended 31 March 2011*

As set out in the annual report 2011 for the financial year ended 31 March 2011, the Group recorded a turnover of approximately HK\$1,020.8 million, representing a decrease of approximately 1.83% from that for financial year ended 31 March 2010 of approximately HK\$1,039.8 million. As advised by the Company, the reduction of revenue was mainly due to the drop in trading volume of fuel oil.

The Group reported profit attributable to Shareholders of approximately HK\$23.0 million for the financial year ended 31 March 2011 whilst it reported loss attributable to Shareholders of approximately HK\$47.3 million for the financial year ended 31 March 2010. As advised by the Company, the Group managed to turnaround from a loss was mainly attributable to (i) the Company recorded other loss of approximately HK\$17.8 million for the financial year 2010 whilst the Company reported other revenue and gains of approximately HK\$34.3 million for the financial year 2011; (ii) the reduction in administrative expenses and equity-settled share option expenses; and (iii) the Company recorded finance costs of approximately HK\$2.0 million for the financial year 2010 whilst the Company did not have finance costs for the financial year 2011.

With reference to the historical financial information of the Group, we noted that the Group recorded improved turnover contributed by the oil business of the Group while the historical adverse effects on financial position of the Group was mainly unrelated to the business operation of the Group. As such, based on the financial highlights of the Group as abovementioned, the business development of the Group is in positive trend and we are of the view that the intended use of proceeds of the Subscription is in the interests of the Shareholders and the Company as a whole.

## **B. Financial effects of the Subscription**

### 1. *Cashflow*

According to the IR Announcement 2012, the Company had unaudited cash and bank balances of approximately HK\$24 million and unaudited net current liabilities of approximately HK\$179 million as at 30 June 2012. Upon completion of the Subscription, the liquidity and cash position of the Group will be substantially improved by the net proceeds of approximately HK\$663 million.

### 2. *Net assets value*

According to the IR Announcement 2012, the unaudited consolidated net asset of the Company as at 30 June 2012 was approximately HK\$9,056 million. Upon completion of the Subscription, the consolidated net assets of the Company is expected to be increased by the net proceeds from the Subscription to approximately HK\$9,719 million.

*3. Gearing ratio*

As set out in the interim result announcement of the Company dated 30 August 2012, the gearing ratio of the Group, measured on the basis of unaudited total liabilities as a percentage of total equity, was 6.5% as at 30 June 2012. As advised by the Company, the total equity is expected to increase by the net proceeds of the Subscription and hence the gearing position of the Group is expected to improve to approximately 6.1%.

In view of the improvements on cashflow, net assets value and gearing ratio of the Company, we consider the Subscription as beneficial to the financial position of the Company and in the interests of the Independent Shareholders and the Company as a whole.

**C. Yanchang Petroleum and strategic cooperation**

As at the Latest Practicable Date, Yanchang Petroleum is interested in approximately 16.33% of the existing issued share capital of the Company. The interest of Yanchang Petroleum in the issued share capital of the Company is expected to increase to approximately 29.69% of the issued share capital of the Company as enlarged by the allotment and issuance of the Subscription Shares.

In 2008, the Company entered into an investment and co-operation agreement with Yanchang Petroleum and ECO Energy (International) Investments Ltd., a wholly-owned subsidiary of Hong Kong and China Gas Ltd. on exploration, exploitation and operation in Madagascar Oilfield Block 3113 (the “Oilfield Block 3113”). A management committee was also set up to jointly invest and manage the exploration, exploitation and operation of the Oilfield Block 3113.

The Group has further expanded its fuel oil business in the PRC by the acquisition of 70% equity interests in Henan Yanchang Petroleum Sales Co., Limited (“Henan Yanchang”) in late 2011. Henan Yanchang is mainly engaged in the wholesale, retail, storage and transportation of refined oil (gasoline, diesel oil, paraffin fuel oil, lubricating oil, grease and asphalt) and has been granted a valid licence for the distribution and sale of refined oil in the PRC. Four members from the Company and Yanchang Petroleum are board members of Henan Yanchang. As explained in the press release made by the Company dated 8 December 2011, the board members appointment demonstrate that Yanchang Petroleum provide its unequivocal support to Henan Yanchang for the development of its refined oil operations.

The Company has been working to tighten the strategic relation with Yanchang Petroleum. As mentioned in the 2011 Annual Report, the Company has granted share options to Yanchang Petroleum aiming to increase the incentive of Yanchang Petroleum on the business growth of the Group in the long run. As at the Latest Practicable Date, the share options granted to Yanchang Petroleum had not been exercised. In April 2012, the Company has appointed senior management of Yanchang Petroleum as executive Directors to strengthen the Board experience in petroleum industry. With strong support from Yanchang Petroleum, the Company intends to act as a platform for international expansion and strive to become an

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

international energy enterprise through dynamic expansion in the overseas business and investment. In recent years, the Company has been tapping into overseas markets of oil and gas resources for sustainable business growth.

Upon completion of the Subscription, Yanchang Petroleum will become the single largest Shareholder of the Company and we concur with the Board that the Subscription would encourage more support and involvement from Yanchang Petroleum and is beneficial to the business development of the Group. As such, we consider the Subscription is in the interests of the Shareholders and the Company as a whole.

### **D. Reasons for the Subscription**

#### *1. Use of proceeds*

The aggregate gross proceeds of the Subscription will be HK\$663 million. The aggregate net proceeds of the Subscription, after deduction of expenses, are estimated to be approximately HK\$663 million, representing a net issue price of approximately HK\$0.51 per Subscription Share. The Company intends to apply the net proceeds from the Subscription as follows: (i) approximately HK\$163 million for general working capital of the Company; (ii) approximately HK\$400 million for the development of the Group's oil and gas business and the exploitation of the oil field blocks in Madagascar; and (iii) approximately HK\$100 million for future investment opportunities to be identified by the Group.

As at the Latest Practicable Date, the Board had not identified any potential or concrete investment plan.

#### *2. Overview on oil business in Madagascar*

The Company is the only listed company in Hong Kong to own two oilfield blocks in Africa, which holds 100% stake in two onshore oilfield blocks in Madagascar — the Oilfield Block 2104 and Oilfield Block 3113. As disclosed in the IR Announcement 2012, the Company advised that there is rapid development of the oilfields in Madagascar along with pressing demand of energy for its industrial development and as a result, the government of Madagascar has been actively supporting the industrial development district and energy utilities projects. According to the World Factbook 2012 by the Central Intelligence Agency, Madagascar's real gross domestic products ("GDP") has been growing from -4.1% in 2009 to 0.5% in 2011. According to the World Economic Outlook by the International Monetary Fund ([www.imf.org](http://www.imf.org)) Madagascar is estimated to achieve real GDP growth of 2.9% in 2012 and 5.1% in 2013. The industrial and economic development of Madagascar is optimistic and it is expected to have positive effects to the Group's oil business in Madagascar.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As disclosed in the IR Announcement 2012, the drilling of the 4 exploration wells in the Oilfield Block 3113 located onshore in Madagascar had been completed in 2011 and satisfactory oil and gas logging results were obtained. The Company will pick up its pace of exploration and exploitation in the Oilfield Blocks 3113 and 2104 in Madagascar and the Company believes that proceeds from the Subscription could provide additional funds and facilitate the Company's exploration and exploitation plan.

Accordingly, in view that the proceeds from the Subscription are intended to be used for the oil and gas business and the exploitation of the oil field blocks of the Company in Madagascar, we consider the Subscription is in the interests of the Shareholders and Company as a whole.

### **E. The Subscription**

Pursuant to the Subscription Agreement, the Company has agreed to allot and issue and Yanchang Petroleum has agreed to subscribe for 1,300,000,000 new Shares at the Subscription Price of HK\$0.51 per Share.

The Subscription Price of HK\$0.51 per Share represents:

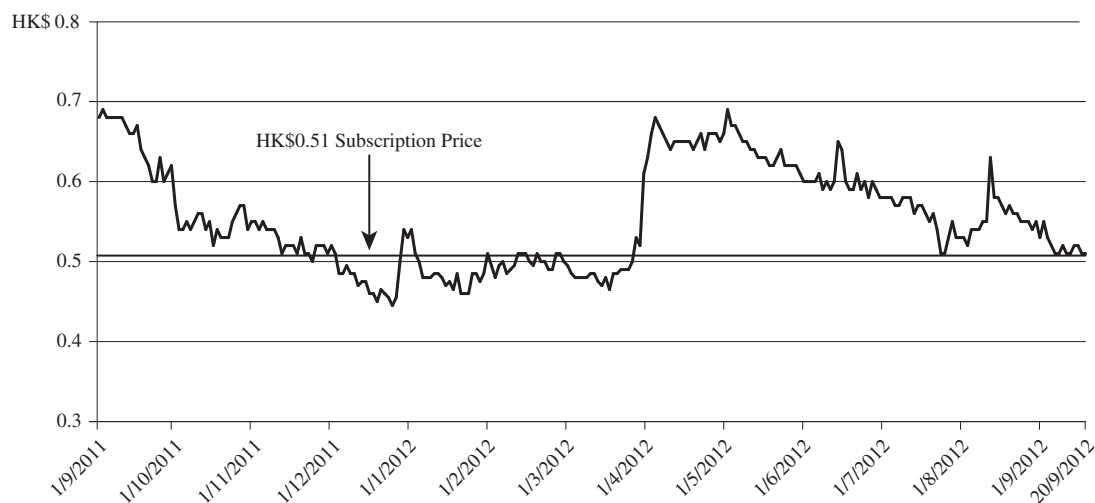
- (a) a discount of approximately 3.77% to the closing price of HK\$0.53 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 6.25% to the average closing price of HK\$0.544 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (c) the same as the closing price of HK\$0.51 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (d) a discount of approximately 61.45% to the unaudited net asset value ("NAV") per Share as at 30 June 2012 of approximately HK\$1.323.

As stated in the Board Letter, the Subscription Price was determined after arm's length negotiations between the Company and Yanchang Petroleum after taking into account, among others, the prevailing market price of the Shares, the financial performance of the Group and the current market conditions.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### 1. *Historical closing prices*

We have reviewed the movements in the trading price of the Shares during the period from 1 September 2011 (being the 12 calendar months period prior to the date of the Subscription Agreement) to the Latest Practicable Date (the “Review Period”). The closing prices of the Shares during the Review Period are set out below:



Source: website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk))

Note: The trading of the Shares was suspended on 9 and 10 January 2012.

The closing prices of the Shares ranged from the lowest of HK\$0.445 on 22 December 2011 to the highest of HK\$0.69 on 2 September 2011 and 8 May 2012 during the Review Period. The average closing prices of the Shares during the Review Period was approximately HK\$0.554 (the “Historical Average Closing Price”). The closing prices of the Shares illustrated a drop around the fourth quarter in 2011 and substantial rise around second quarter in 2012. In recent months, the closing prices of the Shares are dropping near the Subscription Price.

Taken into account of the fluctuation of the historical closing prices of the Shares during the Review Period and that the Subscription Price falls close to the Historical Average Closing Price, we considered the Subscription Price is fair and reasonable.

### 2. *Comparison with comparables*

The Subscription Price represents (i) a discount of approximately 3.77% to the closing price of the Shares on the Last Trading Day; (ii) a discount of approximately 6.25% to the average closing price of Shares for the last five consecutive trading days up to and including the Last Trading Day; and (iii) a discount of approximately 61.45% to the NAV per Share.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in the Board Letter, the Subscription Price is determined with reference to the financial performance of the Group (as analyzed in the above section), prevailing market price of the Shares and the current market conditions and sentiments. Therefore, despite the discount to the NAV per Share, we consider the discounts to the closing price on the last trading day and the average closing price of the last five consecutive trading days represented by the Subscription Price as compared with the CT Comparables and the Comparables (as defined below) respectively as more appropriate when assessing the fairness and reasonableness of the Subscription Price. Nonetheless, we have included the NAV per Share in comparison with the CT Comparables and the Comparables (as defined below) in our analysis.

### *Connected transaction of subscription comparables*

We have compared the Subscription with, to the best of our knowledge, the identified connected transactions in relation to subscription of shares listed in Hong Kong by connected parties of the respective companies listed on the Stock Exchange (the “CT Comparables”), which announced the respective subscriptions for the 12 months prior to the date of the Subscription Agreement i.e. since 1 September 2011 until 1 September 2012.

As the Subscription is a connected transaction same as the CT Comparables, the CT Comparables could reflect the sentiments of other market participants who engaged in subscription of shares to their connected parties, which is helpful in assessing the fairness and reasonableness of the Subscription Price in comparison with similar transactions. Considered the similar nature of the CT Comparables and the period that covers, we are of the view that the CT Comparables are representative samples. Details of the Comparables are summarized in the following table:

Comparable (stock code)	Date of announcements	Subscription Price HK\$	Premium/	Premium/	Premium/
			(discount) of price over/(to) the closing price on the last trading day	(discount) of price over/(to) the average closing price of the last 5 consecutive trading days	(discount) of price over/(to) the net asset value per share
			%	%	%
China Nonferrous Metals Company Limited (8306)	31/8/2012	0.08	23.08	17.65	(72.41)
Hua Lien International (Holding) Company Limited (969)	12/4/2012	0.60	0.00	1.35	62.20
Climax International Company Limited (439)*	5/3/2012	0.10	(80.00)	(82.14)	69.49
Bingo Group Holdings Limited (8220)	19/1/2012	0.03	(59.46)	(58.90)	36.36
Chun Wo Development Holdings Limited (711)	12/1/2012	0.40	9.59	9.89	(73.47)

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Comparable (stock code)	Date of announcements	Subscription Price HK\$	Premium/ (discount) of subscription price over/(to) the closing price on the last trading day %	Premium/ (discount) of subscription price over/(to) the average closing price of the last 5 consecutive trading days %	Premium/ (discount) of subscription price over/(to) the net asset value per share %
Yueshou Environmental Holdings Limited (1191)	30/12/2011	0.036	(10.00)	(10.89)	(92.48)
New City (China) Development Limited (456)*	15/11/2011	0.12	(77.36)	(73.80)	Not applicable
Beijing Development (Hong Kong) Limited (154)	15/9/2011	1.23	1.65	(0.32)	34.57
Siberian Mining Group Company Limited (1142)	8/9/2011	0.04	37.90	22.70	(92.00)
Asia Telemedia Limited (376)	7/9/2011	3.00	(30.23)	(31.32)	Not applicable
Maximum discount			(59.46)	(58.90)	(92.48)
Minimum discount			(10.00)	(0.32)	(72.41)
Average discount			(33.23)	(25.36)	(82.59)
Company	2/9/2012	0.51	(3.77)	(6.25)	(61.45)

*Source: website of the Stock Exchange (www.hkex.com.hk)*

\* *Trading of the shares of the listed company has been suspended for more than 12 months, i.e. throughout the Review Period, which the closing prices and subscription prices could not reflect the recent market conditions and sentiments and therefore, we considered this company not suitable for comparison.*

In view that, (i) the discount to the closing price on the last trading day of approximately 3.77% as represented by the Subscription Price falls lower than the minimum discount of approximately 10.00% represented by the CT Comparables; (ii) the discount to the average closing price of the last five consecutive trading days of approximately 6.25% represented by the Subscription Price falls much lower than the average discount and within the range of discounts represented by the CT Comparables; and (iii) the discount to the NAV per Share of approximately 61.45% represented by the Subscription Price is lesser than that of the minimum discount represented by the CT Comparables, we consider the Subscription Price's discount is fair and reasonable so far as the Independent Shareholders are concerned.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *Subscription comparables*

We have also compared the Subscription with, to the best of our knowledge, the identified subscription of shares listed in Hong Kong by independent third parties of the respective companies listed on the Stock Exchange (the “Comparables”), which announced the respective subscriptions for the 6 months prior to the date of the Subscription Agreement i.e. since 1 March 2012 until 1 September 2012.

As the terms of the Comparables are determined under similar market conditions and sentiments as the Subscription and Yanchang Petroleum and the Company had considered the then recent market conditions, i.e. during the few months’ period prior to the Subscription Agreement, when determining the terms of the Subscription, we believe that the Comparables may reflect the recent trend of the subscription of shares in the market and is helpful in assessing the fairness and reasonableness of the Subscription Price. Considered the similar market conditions and sentiments of the Comparables and the recent period that covers, we are of the view that the Comparables are representative samples. Details of the Comparables are summarized in the following table:

Comparable (stock code)	Date of announcements	Subscription Price <i>HK\$</i>	Premium/ (discount) of subscription price over/(to) the closing price on the last trading day <i>%</i>	Premium/ (discount) of subscription price over/(to) the average closing price of the last 5 consecutive trading days <i>%</i>	Premium/ (discount) of subscription price over/(to) the net asset value per share <i>%</i>
Superb Summit International Timber Company Limited (1228)	25/8/2012	0.145	2.84	23.30	(82.43)
Karl Thomson Holdings Limited (7)	23/8/2012	0.25	(41.90)	(40.50)	(3.80)
Titan Petrochemicals Group Limited (1192)	7/8/2012	0.025	(98.98)	(98.90)	(82.33)
Enviro Energy International Holdings Limited (1102)	30/7/2012	0.152	(7.90)	(9.00)	(46.30)
Sino Oil and Gas Holdings Limited (702)	18/7/2012	0.15	(15.73)	(16.67)	(40.43)
China Financial International Investments Limited (721)	18/7/2012	0.45	(5.26)	(0.22)	186.40
Topsearch International (Holdings) Limited (2323)	17/7/2012	0.1023	(16.15)	(19.95)	(84.81)
Cypress Jade Agricultural Holdings Ltd. (875)	11/7/2012	0.205	(18.00)	(17.00)	Not applicable
China Water Property Group Limited (2349)	14/6/2012	0.6	(13.04)	(13.79)	(36.02)

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Comparable (stock code)	Date of announcements	Subscription Price <i>HK\$</i>	Premium/ (discount) of subscription price over/(to) the closing price on the last trading day <i>%</i>	Premium/ (discount) of subscription price over/(to) the average closing price of the last 5 consecutive trading days <i>%</i>	Premium/ (discount) of subscription price over/(to) the net asset value per share <i>%</i>
Greentown China Holdings Limited (3900)	8/6/2012	5.2	(2.80)	4.10	(60.46)
Dejin Resources Group Company Limited (1163)	21/5/2012	0.08	1.27	(4.99)	(96.53)
Creative Energy Solutions Holdings Limited (8109)	21/5/2012	2.8	(7.90)	(7.90)	1,631.60
Xinyi Glass Holdings Limited (868)	3/5/2012	4.69	(11.20)	(7.30)	102.86
Dragonite International Limited (329)	23/4/2012	0.138	(9.80)	(0.72)	(68.20)
Heritage International Holdings Limited (412)	20/4/2012	0.12	(12.41)	(11.37)	34.41
China Ground Source Energy Limited (8128)	12/4/2012	0.41	(9.89)	(6.82)	(23.00)
Fountain Set (Holdings) Limited (420)	3/4/2012	1.25	32.98	30.75	(65.03)
First Natural Foods Holdings Limited (1076)*	26/3/2012	0.5622	(97.60)	(97.50)	Not applicable
Larry Jewelry International Company Limited (8351)	25/3/2012	0.77	6.94	8.45	233.33
Dejin Resources Group Company Limited (1163)	23/3/2012	0.1	38.89	38.89	(83.41)
Siberian Mining Group Company Limited (1142)	6/3/2012	0.5658	8.81	22.47	(89.74)
Maximum discount			(98.98)	(98.90)	(96.53)
Minimum discount			(2.80)	(0.22)	(3.80)
Average discount			(19.35)	(18.22)	(61.61)
Company	2/9/2012	0.51	(3.77)	(6.25)	(61.45)

*Source: website of the Stock Exchange (www.hkex.com.hk)*

\* *Trading of the shares of the listed company has been suspended for more than 12 months, i.e. throughout the Review Period, which the closing prices and subscription prices could not reflect the recent market conditions and sentiments and therefore, we considered this company not suitable for comparison.*

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in the Comparables, we noted that (i) the discount to the closing price on the last trading day of approximately 3.77% as represented by the Subscription Price falls close to the minimum discount of approximately 2.80% represented by the Comparables; (ii) the discount to the average closing price of the last five consecutive trading days of approximately 6.25% represented by the Subscription Price is lesser than the average discount of 18.22% represented by the Comparables; and (iii) the discount to the NAV per Share of approximately 61.45% represented by the Subscription Price falls near to that of the average discount of 61.61% represented by the Comparables. In view that the discounts represented by the Subscription Price are at lower level as compared with the subscription comparables involving respective independent third parties, we consider the Subscription Price's discount is fair and reasonable so far as the Independent Shareholders are concerned.

### **F. Potential Dilution**

As at the Latest Practicable Date, the Independent Shareholders held 5,727,423,502 Shares, representing approximately 83.67% of the issued shares of the Company. Upon Completion, the shareholdings of the Independent Shareholders are expected to be diluted to approximately 70.31%. However, taken into account to the benefits as abovementioned, we are of the view that despite there is a dilution effect to the shareholdings of the Independent Shareholders, the extent of such dilution is acceptable so far as the Independent Shareholders are concerned due to the increase in funding available for the business development and potential investment of the Group.

### **RECOMMENDATION**

Taking into account the factors and reasons as mentioned above, which include:

- (i) the improvement of cashflow, net assets value and financial position of the Company;
- (ii) possible enhancement of gearing ratio of the Company;
- (iii) the strategic relation between Yanchang Petroleum and the Company could be tightened and more support and involvement from Yanchang Petroleum are encouraged;
- (iv) the proceeds of the Subscription intended to be utilized in Madagascar where there is growth in economic development and demand of energy;
- (v) the discount to the closing price on the last trading day represented by the Subscription Price falls lower than the minimum discount of the CT Comparables;
- (vi) the discount to the average closing price of the last five consecutive trading days represented by the Subscription Price is much lesser than the average discount and within the range of the discounts represented by the CT Comparables;

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (vii) the discount to the closing price on the last trading day represented by the Subscription Price falls close to the minimum discount represented by the Comparables;
- (viii) the discount to the average closing price of the last five consecutive trading days represented by the Subscription Price is lesser than the average discount represented by the Comparables;
- (ix) the discount to the NAV per Share represented by the Subscription Price is lesser than that of the minimum discount represented by the CT Comparables and falls close to that of the average discount represented by the Comparables;
- (x) the Subscription Price falls close to the Historical Average Closing Price;
- (xi) the Company had not conducted any fund raising activities over the past 12 months from the date of Subscription Agreement; and
- (xii) the dilution effects to the Independent Shareholders as a result of the Subscription from approximately 83.67% to approximately 70.31% is acceptable.

We consider that, the terms of the Subscription Agreement are on normal commercial terms and are fair and reasonable and the Subscription Agreement is in the interests of the Company and the Shareholders as a whole. We would therefore advise the Independent Shareholders and the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to approve the Subscription Agreement to be proposed at the SGM.

Yours faithfully,  
For and on behalf of  
**Veda Capital Limited**

**Julisa Fong**  
*Managing Director*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors of the Company 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 Company. 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 statements herein or this Circular misleading.

## 2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately after Completion are set out as follow:

<i>Authorised</i>		<i>HK\$'000</i>
<u>100,000,000,000</u>	Shares	<u>2,000,000</u>
 <i>Issued and fully paid</i>		
6,845,573,049	Shares	136,911
<u>1,300,000,000</u>	New Subscription Shares	<u>26,000</u>
<u>8,145,573,049</u>	Total	<u>162,911</u>

## 3. DISCLOSURE OF INTERESTS

### (a) Directors' interests and short positions in the securities of the Company and its associated corporations

As at 31 December 2011, the interests and short positions of the Directors and chief executive of the Company 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 as contained in the Listing Rules, were as follows:

Name	Capacity	Long position/ Short position	Number of Shares held	Approximate percentage of the total issued share capital of the Company
Dr. Zhuo Ze Fan ("Dr. Zhuo") ( <i>Note 1</i> ) (Resigned on 1 April 2012)	Interest of controlled corporation	Long position	1,636,575,555	25.00%
Mr. Liu Xingyuan ( <i>Note 2</i> ) (Resigned on 1 April 2012)	Beneficially owned	Long position	354,110,000	5.41%

*Notes:*

- 1,636,575,555 Shares are held through by Shaanxi Daqinling Energy and Investment Group Limited ("Shaanxi Daqinling"), a company wholly and beneficially owned by Dr. Zhuo who is deemed to be interested in these Shares under the SFO. Dr. Zhuo resigned as an executive Director on 1 April 2012.
- Mr. Liu Xingyuan resigned as an executive Director on 1 April 2012.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and proposed Director is a director or employee of a company which has an interest or short position in the Shares and underlying Share which would fall to be disclosed under the provision of Division 2 and 3 of Part XV since 31 December 2011 (being the date to which the latest published audited financial statements of the Company were made up). None of the Directors or chief executive of the Company or their respective associates had any personal, family, corporate or other interests in the share capital of the Company or any of its associated corporations as defined in the SFO.

**(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders**

So far as was known to the Directors, as at the Latest Practicable Date, the following persons (not being a Director or the chief executive of the Company) had an interest or short position, if any, in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or who/

which was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

Name	Capacity	Long position/ Short position	Number of Shares held	Approximate percentage of the total issued share capital of the Company
Yanchang Petroleum (Note 1)	Interest of controlled corporation	Long position	2,118,149,547	30.94%
Yanchang Petroleum Group (Hong Kong) Co., Limited ("Yanchang Petroleum HK")	Directly beneficially owned	Long position	1,118,149,547	16.33%
Shaanxi Daqingling (Note 2)	Directly beneficially owned	Long position	1,625,865,555	23.75%
Dr. Zhuo (Note 2)	Interest of controlled corporation	Long position	1,625,865,555	23.75%

*Notes:*

1. Yanchang Petroleum is beneficially interested in 1,118,149,547 Shares (which held these Shares through its direct wholly-owned subsidiary, Yanchang Petroleum HK). Yanchang Petroleum is also deemed to be interested in 1,000,000,000 Shares under the SFO by virtue of the Share Option Agreement under which the Company has granted to Yanchang Petroleum the right to subscribe for up to a maximum of 1,000,000,000 Shares at the exercise price of HK\$0.716 each within the exercise period as stated in the Share Option Agreement.
2. These 1,625,865,555 Shares are held through by Shaanxi Daqingling, a company wholly and beneficially owned by Dr. Zhuo who is deemed to be interested in these Shares under the SFO.

As at the Latest Practicable date, save and except for Mr. Zhang Kaiyong, Mr. Hui Bo, Mr. Shen Hao, Mr. Feng Da Wei and Mr. Yang Jie are executive Directors of the Company as well as the employees of Yanchang Petroleum and/or its associates, none of the Directors is a director or employee of Yanchang Petroleum, Yanchang Petroleum HK and Shaanxi Daqingling.

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.

#### 4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group or had any other conflict of the interests with the Company and/or the Group.

**5. DIRECTORS' INTERESTS IN ASSETS**

As at the Latest Practicable Date, none of the Directors has any interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to acquired or disposed of by or leased to any member of the Group since 31 December 2011, being the date to which the latest published audited financial statements of the Group were made up.

**6. DIRECTORS' INTERESTS IN CONTRACTS**

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries, which was subsisting and was significant in relation to the business of the Group.

**7. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Director 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)).

**8. LITIGATION**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration or claims which would materially and adversely affect the operations of the Company and no litigation, arbitration or claims which would materially and adversely affect the operations of the Company is known to the Directors to be pending or threatened by or against any members of the Group.

**9. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2011, being the date to which the latest audited financial statements of the Company were made up.

**10. EXPERT AND CONSENT**

The following is the expert, and its qualification, who has given opinion contained in this circular:

<b>Name</b>	<b>Qualification</b>
Veda Capital	A licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO

Veda Capital 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 they respectively appeared.

As at the Latest Practicable Date, Veda Capital 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 the date to which the latest published audited financial statements of the Company were made up (i.e. 31 December 2011), 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.

## 11. MISCELLANEOUS

- (i) The registered office of the Company is located at Clarendon House, Church Street, Hamilton, HM 11, Bermuda.
- (ii) The head office and principal place of business of the Company in Hong Kong is located at Suite 1512, 15th Floor, One Pacific Place, 88 Queensway, 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 also 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, whose address is 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (v) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

## 12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Company's head office and principal place of business in Hong Kong at Suite 1512, 15th Floor, One Pacific Place, 88 Queensway, Hong Kong during normal business hours on any Business Day from the date of this circular up to and including the date of the SGM:

- (a) the Subscription Agreement;
- (b) the letter from the Independent Board Committee, the text of which is set out on page 11 of this circular;
- (c) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 12 to 25 of this circular;
- (d) the memorandum of association and the bye-laws of the Company;
- (e) the annual reports of the Company for the nine months ended 31 December 2011;

- (f) the written consent referred to in the paragraph headed “Expert and Consent” in this appendix; and
- (g) this circular.



# 延長石油國際有限公司

**YANCHANG PETROLEUM INTERNATIONAL LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 00346)**

**NOTICE IS HEREBY GIVEN** that a special general meeting (the “SGM”) of Yanchang Petroleum International Limited (the “Company”) will be held at Aberdeen Room, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, 12 October 2012 at 3:30 p.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution of the Company:

## **ORDINARY RESOLUTION**

**“THAT:**

subject to the fulfillment of the terms and conditions set out in the subscription agreement dated 1 September 2012 (the “Subscription Agreement”) entered into between the Company and Shaanxi Yanchang Petroleum (Group) Co., Limited (“Yanchang Petroleum”) (a copy of the Subscription Agreement having been produced to the meeting and marked “A” and initialled by the chairman of the meeting for the purpose of identification) in respect of the subscription of 1,300,000,000 shares of HK\$0.02 each in the share capital of the Company (the “Subscription Shares”) at a subscription price of HK\$0.51 per Subscription Share:

- (i) the Subscription Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (ii) the subscription for the Subscription Shares by Yanchang Petroleum be and is hereby approved and the directors of the Company (the “Directors”) be and are hereby authorised to allot and issue the Subscription Shares pursuant to the terms of the Subscription Agreement; and
- (iii) any one Director 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 Subscription Agreement and the transactions contemplated thereunder.”

By Order of the Board  
**Yanchang Petroleum International Limited**  
**Zhang Kaiyong**  
*Chairman*

Hong Kong, 25 September 2012

## NOTICE OF THE SGM

*Registered Office:*  
Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Head Office and Principal Place  
of Business in Hong Kong:*  
Suite 1512  
15th Floor  
One Pacific Place  
88 Queensway  
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 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, 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.