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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)**

**RENEWAL OF  
CONTINUING CONNECTED TRANSACTIONS**

**Financial Adviser to the Company**

**MESSIS**  **大有融資**

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



A letter from the Board is set out on pages 5 to 15 of this circular.

A notice dated 7 April 2017 convening the SGM to be held at Aberdeen Room, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 25 May 2017 at 4:00 p.m. is set out on pages 37 to 38 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 Level 22, Hopewell Centre, 183 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.

7 April 2017

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## 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 30 December 2016 in relation to, among others, the New Supply Agreement and transactions contemplated thereunder
“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
“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
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Continuing Connected Transaction(s)”	transaction(s) between Yanchang Petroleum Group and Henan Yanchang for the supply of refined oil from Yanchang Petroleum Group to Henan Yanchang with terms and conditions in accordance with the New Supply Agreement
“Director(s)”	the director(s) of the Company
“Existing Annual Caps”	the annual caps for the purchase of refined oil by Henan Yanchang from Yanchang Petroleum Group for each of the three years ended 31 December 2016
“Existing Supply Agreement”	the agreement dated 24 December 2013 entered into between Henan Yanchang and Yanchang Petroleum Group in respect of the supply of refined oil from Yanchang Petroleum Group to Henan Yanchang for the three years ended 31 December 2016

## DEFINITIONS

“Group”	the Company and its subsidiaries
“Henan Yanchang”	河南延長石油銷售有限公司 (Henan Yanchang Petroleum Sales Co., Limited), a limited company incorporated under the PRC laws which is an indirect non-wholly owned subsidiary of the Company and 70% owned by the Group as at the Latest Practicable Date
“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 Financial Adviser” or “Astrum”	Astrum Capital Management Limited, a licensed corporation to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the New Supply Agreement and the transactions contemplated thereunder and the Proposed Annual Caps
“Independent Shareholders”	the Shareholders other than Yanchang Petroleum Group and its associates
“Independent Third Party(ies)”	person(s) or company(ies) and whose ultimate beneficial owner who/which is/are independent of the Directors, chief executive and substantial shareholders of the Company and its subsidiaries and any of their respective associates as defined in the Listing Rules
“Latest Practicable Date”	3 April 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

## DEFINITIONS

“New Supply Agreement”	the new agreement dated 30 December 2016 entered into between Henan Yanchang and Yanchang Petroleum Group in respect of the supply of refined oil from Yanchang Petroleum Group to Henan Yanchang for the three years ending 31 December 2019
“PRC”	the People’s Republic of China, which for the purpose of this circular, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
“Proposed Annual Caps”	the proposed annual caps for the Continuing Connected Transactions under the New Supply Agreement for each of the three years ending 31 December 2019
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, modified and supplemented from time to time
“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 Thursday, 25 May 2017 at 4:00 p.m. to consider and, if thought fit, approve, among other things, (i) the New Supply Agreement and the transactions contemplated thereunder, and (ii) the corresponding Proposed Annual Caps
“Shares”	existing ordinary share(s) of HK\$0.02 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Yanchang Petroleum Group”	陝西延長石油(集團)有限責任公司 (Shaanxi Yanchang Petroleum (Group) Co., Limited), a state-owned corporation registered in the PRC with limited liability, being a substantial Shareholder holding 6,496,729,547 Shares representing approximately 53.49% of the existing issued share capital of the Company as at the Latest Practicable Date

## DEFINITIONS

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	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. Li Yi (*Chairman*)

Mr. Bruno Deruyck (*Chief Executive Officer*)

Mr. Shen Hao

Ms. Sha Chunzhi

Mr. Li Jun

Mr. Tan Meng Seng

*Independent non-executive Directors:*

Mr. Ng Wing Ka

Mr. Leung Ting Yuk

Mr. Sun Liming

Dr. Mu Guodong

*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

7 April 2017

*To the Shareholders*

Dear Sir/Madam,

## RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

### INTRODUCTION

Reference is made to the Announcement dated 30 December 2016 in relation to, among others, the New Supply Agreement and the transactions contemplated thereunder. Henan Yanchang and Yanchang Petroleum Group entered into the New Supply Agreement on 30 December 2016 pursuant to which Yanchang Petroleum Group will continue to supply refined oil to Henan Yanchang for the three financial years ending 31 December 2019.

Pursuant to the New Supply Agreement, the Proposed Annual Caps for the purchase of refined oil by Henan Yanchang from Yanchang Petroleum Group are RMB5,000 million, RMB5,000 million and RMB5,000 million for the three years ending 31 December 2019 respectively.

Henan Yanchang is a non-wholly owned subsidiary of the Company, whereas Yanchang Petroleum Group, being a substantial Shareholder holding 6,496,729,547 Shares as at the Latest Practicable Date representing approximately 53.49% of the existing issued share capital of the Company, is a connected person of the Company as defined under the Listing

## LETTER FROM THE BOARD

Rules and hence the transactions contemplated under the New Supply Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the amount of the Continuing Connected Transactions exceed 5% on an annual basis, the New Supply Agreement and the transactions contemplated thereunder are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

The purpose of this circular is to provide you with information which includes, among other things, (i) further details in respect of the New Supply Agreement and the Proposed Annual Caps; (ii) the letter of recommendation from the Independent Board Committee in respect of the New Supply Agreement (including the Proposed Annual Caps) and the transactions contemplated thereunder; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the New Supply Agreement (including the Proposed Annual Caps) and the transactions contemplated thereunder; and (iv) a notice of the SGM.

### THE NEW SUPPLY AGREEMENT

<b>Date:</b>	30 December 2016
<b>Parties:</b>	(1) Henan Yanchang; and (2) Yanchang Petroleum Group
<b>Subject:</b>	Yanchang Petroleum Group has agreed to sell and Henan Yanchang has agreed to purchase refined oil on a normal commercial term basis. The refined oil supplied by Yanchang Petroleum Group to Henan Yanchang is generally classified into two types, namely, diesel and gasoline.
<b>Term:</b>	3 years commencing from 1 January 2017 until 31 December 2019, and is renewable for another term of three years under negotiation between both parties at least 30 days prior to the expiry date, subject to the compliance with the Listing Rules.
<b>Pricing basis:</b>	The purchase price of refined oil shall be the prevailing lowest price quoted by Yanchang Petroleum Group to customers and the purchase price paid by Henan Yanchang shall not be higher than that offered by Yanchang Petroleum Group to its independent third party customers.

## LETTER FROM THE BOARD

**Payment terms:** The purchase price of refined oil shall be paid in advance by Henan Yanchang before delivery of the refined oil, which is similar to the market practice. The payment terms offered by Yanchang Petroleum Group to Henan Yanchang should not be less favourable than those offered by Yanchang Petroleum Group to its independent third party customers. Payment terms for the two products, diesel and gasoline, are the same as above.

**Condition precedent:** The Independent Shareholders have approved at the SGM in accordance with the Company's memorandum of association and bye-laws and the Listing Rules, the New Supply Agreement and the transactions contemplated thereunder.

### **PRICING TERMS AND PAYMENT TERMS REGARDING SUPPLY OF REFINED OIL FROM YANCHANG PETROLEUM GROUP**

#### **Pricing terms**

The price of refined oil to be supplied by Yanchang Petroleum Group to Henan Yanchang is determined with reference to the average weekly selling price of refined oil quoted from the National Development and Reform Commission of the PRC (“NDRC”) as a basis. The average actual purchase price of refined oil by Henan Yanchang from Yanchang Petroleum Group was at a discount of approximately 20% to 30% to the average selling price of refined oil quoted from NDRC during the three years ended 31 December 2016. The price charged by Yanchang Petroleum Group would be lower than the average weekly selling price of refined oil quoted from NDRC. The average purchase price of refined oil offered by Yanchang Petroleum Group was lower and relatively favourable than that offered by the independent third parties to Henan Yanchang during the three years ended 31 December 2016.

#### **Payment terms**

The payment terms in respect of the refined oil under the New Supply Agreement will be based on market practice, which the purchase price of refined oil shall be paid in advance by Henan Yanchang before delivery. For refined oil offered by independent third parties to Henan Yanchang, in general, the purchase price shall also be paid in advance by Henan Yanchang before delivery. The Directors believe that the payment terms of refined oil offered by Yanchang Petroleum Group is comparable to that offered by independent third parties. According to the historical practice of Henan Yanchang, the purchase price of refined oil was generally paid within approximately one to two weeks in advance by Henan Yanchang before delivery by each of Yanchang Petroleum Group and independent third parties.

<b>LETTER FROM THE BOARD</b>
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## THE ANNUAL CAPS

### Existing Annual Caps

The Existing Annual Caps for the purchase of refined oil by Henan Yanchang from Yanchang Petroleum Group under the Existing Supply Agreement for each of the three years ended 31 December 2016 were as follows:

	<b>For the year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Existing Annual Caps	18,000	18,000	18,000
Historical transaction amounts under the Existing Supply Agreement	2,042	1,983	661

For each of the three years ended 31 December 2016, the historical transaction amounts under the Existing Supply Agreement were approximately RMB2,042 million, RMB1,983 million and RMB661 million respectively. The decrease in transaction amounts under the Existing Supply Agreement was mainly due to the increase in purchase of refined oil by Henan Yanchang from independent third parties during the year ended 31 December 2016.

There was a significant decrease in purchases from Yanchang Petroleum Group by Henan Yanchang during the year ended 31 December 2016, which was primarily due to the drop in production volume of refined oil by Yanchang Petroleum Group in view of the plunging oil price in the industry along with the relatively weak economic growth in the PRC market. While Yanchang Petroleum Group also commits to provide refined oil to certain strategic customers, with the overall production volume of refined oil of Yanchang Petroleum Group decreased and based on a pro-rata allocation basis, the supply of refined oil to Henan Yanchang decreased accordingly. As such, Henan Yanchang increased purchases of refined oil from independent third parties during the year ended 31 December 2016.

### Proposed Annual Caps

The Proposed Annual Caps for the purchase of refined oil by Henan Yanchang from Yanchang Petroleum Group for the three years ending 31 December 2019 are set out as follows:

	<b>For the year ending 31 December</b>		
	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Proposed Annual Cap	5,000	5,000	5,000

The Directors estimate that the aggregate purchase amount of refined oil by Henan Yanchang from Yanchang Petroleum Group under the New Supply Agreement for each of the three years ending 31 December 2019 will not exceed RMB5,000 million.

## LETTER FROM THE BOARD

The Proposed Annual Caps of the transactions contemplated under the New Supply Agreement are determined with reference to the following factors:

- (i) the projected increase in the estimated volume of refined oil required by Henan Yanchang; and
- (ii) the estimated purchase orders to be placed by Henan Yanchang to Yanchang Petroleum Group.

Henan Yanchang will enter into supply agreements with both independent third parties and connected persons from time to time, taking into account various factors including but not limited to the availability of supply of refined oil and the prevailing market prices of refined oil. Set out below the proportion of Henan Yanchang's total purchase amount from Yanchang Petroleum Group and from independent suppliers for each of the three years ended 31 December 2016 and expected three years ending 31 December 2019:

	<b>For the year ended</b>			<b>For the year ending</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>Approximate %</i>			<i>Approximate %</i>		
Yanchang Petroleum Group	12.29	10.11	3.84	18.54	16.90	15.42
Independent suppliers	87.71	89.89	96.16	81.46	83.10	84.58
Total	100.00	100.00	100.00	100.00	100.00	100.00

### **Projected increase in the estimated volume of refined oil required by Henan Yanchang**

- (i) Henan Yanchang plans to further expand its existing refined oil business in certain geographical areas in the PRC such as Yunnan, Guizhou and Sichuan. Based on the estimated increase in number of new customers, it is estimated that the total purchase volume for refined oil shall increase by approximately 10% annually;
- (ii) Alongside the completion of the Henan Yanchang's new oil pipeline project with which the new pipeline business is expected to commence in the second half of 2017, the additional refined oil required for the new pipeline business is estimated to increase by approximately 5% annually; and
- (iii) Henan Yanchang currently owns one gas station and plans to build an additional 5 new gas stations in each of the three years ending 31 December 2019.

Based on the above business expansion plan, the projected volume of refined oil required by Henan Yanchang is estimated to be approximately 5 to 6 million tonnes for each of the three years ending 31 December 2019.

## LETTER FROM THE BOARD

### **Estimated purchase orders to be placed by Henan Yanchang to Yanchang Petroleum Group**

The Directors estimate that the total purchase orders to be placed by Henan Yanchang to Yanchang Petroleum Group shall be approximately 1 million tonnes, representing approximately 15% to 20% of the total projected volume of refined oil purchased by Henan Yanchang for each of the three years ending 31 December 2019. As such, the Proposed Annual Caps are determined as RMB5,000 million for each of the three years ending 31 December 2019.

The Board considers that other than purchasing refined oil from independent third parties, the arrangement to purchase refined oil from Yanchang Petroleum Group pursuant to the New Supply Agreement will provide the flexibility for the Group so as to secure the stable supply of refined oil for the business expansion of Henan Yanchang. Such arrangement could significantly reduce Henan Yanchang's operation risks, including the risk of refined oil shortage due to economic instability, which may potentially affect its business operation. The Proposed Annual Caps under the New Supply Agreement are determined after taking into account: (i) the historical amounts for the purchase of refined oil by Henan Yanchang from Yanchang Petroleum Group for the three years ended 31 December 2016; (ii) the forecast amounts from Yanchang Petroleum Group to be purchased by Henan Yanchang for the three years ending 31 December 2019; (iii) under the New Supply Agreement, the Proposed Annual Caps were calculated based on the estimated purchase volume and the purchase price per tonne of refined oil estimated as to discount of approximately 20% to 30% to the latest average weekly selling price of refined oil in December 2016 quoted from NDRC, i.e. approximately RMB5,000 per tonne; (iv) the existing business scale of Henan Yanchang needed to be backed by the stable and sufficient supply of refined oil from Yanchang Petroleum Group; and (v) Henan Yanchang holding a valid licence for distribution and sales of refined oil in the whole PRC which enables the Group to expand the scale of its refined oil business as well as its sales network in the PRC in the coming future.

In light of the above, the Directors consider that the Proposed Annual Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned, which is in line with Henan Yanchang's business plan and is in the interests of the Company and the Independent Shareholders.

## LETTER FROM THE BOARD

### INTERNAL CONTROL MEASURES

To ensure the purchase price and payment terms of refined oil offered by Yanchang Petroleum Group under the New Supply Agreement are in line with the prevailing market practice and on normal commercial terms and fair and reasonable and no less favourable than available from the independent third parties, and the Proposed Annual Caps are not exceeded, the Group will adopt the following internal control measures:

- (i) the management of the Group is required to obtain, review and compare the quotations (e.g. purchase price and payment terms) from independent third party suppliers in respect of the supply of same products as required by Henan Yanchang's internal control procedures in relation to continuing connected transactions. As a general practice, Henan Yanchang will obtain quotations from at least three suppliers for comparison. Following the receipt of quotations, Henan Yanchang will compare the terms of quotations and determine the selection of suppliers by taking into account factors such as price quotations, quality of refined oil and ability of the supplier in meeting delivery time schedules. Henan Yanchang usually purchases refined oil from the supplier with the lowest fee quotation if the quality of refined oil supplied, delivery time schedule and payment terms offered by different suppliers are similar. However, Henan Yanchang may also consider other non-monetary factors, including quality of refined oil supplied, delivery time schedule and payment terms of different suppliers in determining its purchase decisions. The head of the procurement department would review the price and approve the purchase orders for the relevant products.
- (ii) the Company will closely monitor the transaction amounts in relation to the transactions under the New Supply Agreement to ensure that the Proposed Annual Caps are not exceeded;
- (iii) the independent non-executive Directors will review and confirm whether the transactions contemplated under the New Supply Agreement are entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better and are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and
- (iv) the Company will continue to engage the independent auditors to review the transactions under the New Supply Agreement in compliance with the annual reporting and review requirements under the Listing Rules.

Based on the internal procurement policies and the price comparison between the refined oil offered by each of Yanchang Petroleum Group and other independent third parties, Henan Yanchang have procured and will procure refined oil from Yanchang Petroleum Group which offered better pricing and other terms among other quotations obtained from independent third parties. As such, the Directors consider that above internal control measures would ensure that the pricing and other terms for refined oil under the New Supply Agreement will be fair and reasonable and no less favourable than that offered by independent third parties. The Directors also consider such measures could ensure that the transactions would be conducted on normal commercial terms and not prejudicial to the interests of the Company and minority shareholders.

## LETTER FROM THE BOARD

### REASONS AND BENEFITS OF ENTERING INTO THE NEW SUPPLY AGREEMENT

The Group is principally engaged in investment in the oil, gas and energy related business; oil, gas exploration, exploitation and operation; and trading and distribution of oil related products.

Henan Yanchang is principally engaged in the wholesale, retail, storage and transportation of refined oil (gasoline, diesel oil, paraffin fuel oil, lubricating oil, grease and asphalt). Henan Yanchang has been granted a valid licence since 21 December 2006 (without expiry date) for the distribution and sale of refined oil in the PRC.

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

The New Supply Agreement was entered into in the usual and ordinary course of the Group's business and the terms of which were negotiated based on normal commercial terms and the prices were determined after arm's length negotiation.

Currently, Henan Yanchang plans to achieve profit maximisation by fully utilising its storage capacity and expanding its customer base through exploring other high-value regions, such as Yunnan, Guizhou and Sichuan as well as building up more gas stations. In view of (i) the continuing support from Yanchang Petroleum Group with secured supply of refined oil; and (ii) Henan Yanchang holding a valid licence for distribution and sales of refined oil in the whole PRC, the Group would be able to expand its refined oil business as well as its sales network in the PRC. Given that Yanchang Petroleum Group is one of the four largest oil and gas state-owned enterprises in the PRC qualified to explore and develop oil and gas in the PRC with an extensive sales network, including Yunnan, Guizhou and Sichuan, the entering into the New Supply Agreement with Yanchang Petroleum Group shall provide an alternative source of refined oil to Henan Yanchang, further enhance the flexibility for the procurement of quality refined oil and better accommodate with the Henan Yanchang's business plan. Leveraging on the bulk volume and stable supply of refined oil from Yanchang Petroleum Group, Henan Yanchang could enhance its business and operation so as to foster its long term development. Henan Yanchang is not committed to purchase any refined oil or is not agreed to make any exclusive purchase from Yanchang Petroleum Group.

Having considered that (i) the decreased purchases of refined oil from Yanchang Petroleum Group under the Existing Supply Agreement was due to the drop in production volume and supply from Yanchang Petroleum Group for the year ended 31 December 2016; (ii) the New Supply Agreement provides a stable and secured supply of refined oil for Henan Yanchang, while refined oil supply from outside providers is not always guaranteed as a result of economy instability; (iii) the relatively favourable price of refined oil charged by Yanchang Petroleum Group as compared with the independent third party suppliers under Henan Yanchang's internal procurement policies as mentioned above; and (iv) the consistent long term collaboration with Yanchang Petroleum Group during the past years regarding refined oil

## LETTER FROM THE BOARD

supply, the Board (including the independent non-executive Directors after considering the advice of the Independent Financial Adviser) is of the opinion that the terms of the New Supply Agreement are fair and reasonable so far as the Independent Shareholders are concerned and the entering into the New Supply Agreement is in the interests of the Company and the Shareholders as a whole.

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

Henan Yanchang is a non-wholly owned subsidiary of the Company, whereas Yanchang Petroleum Group, being a substantial Shareholder holding 6,496,729,547 Shares representing approximately 53.49% of the existing issued share capital of the Company, is a connected person of the Company as defined under the Listing Rules and hence the transactions contemplated under the New Supply Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the amount of the Continuing Connected Transactions exceed 5% on an annual basis, the New Supply Agreement and the transactions contemplated thereunder are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

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

### **Non-compliance and remedial actions**

Due to an unintentional and inadvertent oversight, the Company did not make timely disclosure of and seek Independent Shareholders' approval for the Continuing Connected Transactions with an amount exceeding 5% of the applicable percentage ratio of approximately RMB100 million, which is not in compliance with Rule 14A.36 and Rule 14A.53 of the Listing Rules. Such non-compliance came to the notice of the Board in March 2017 and the Company estimates to transact for an amount of approximately RMB500 million before the New Supply Agreement and the Continuing Connected Transactions contemplated thereunder are approved at the SGM.

The Board took prompt actions to comply with the requirements of the Listing Rules by communicating with the Stock Exchange. In order to prevent similar incidents from occurring again, after seeking professional advices, the Company has taken steps to strengthen its compliance procedures including (i) to ensure the close monitoring, collecting and evaluating the specific information in relation to the Continuing Connected Transactions; (ii) to ensure timely reporting of the cumulative actual transaction amounts under the New Supply Agreement to the chief financial officer or related management of the Company; and (iii) to timely disclose and seek Independent Shareholders' approval for any future renewal of supply agreement in relation to the Continuing Connected Transactions.

## LETTER FROM THE BOARD

### **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 New Supply Agreement and the transactions contemplated thereunder and on how to vote. Astrum has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in these regards.

### **SGM**

The SGM will be convened by the Company to seek the approval from the Independent Shareholders for the New Supply Agreement and the transactions contemplated thereunder by way of poll. As at the Latest Practicable Date, Yanchang Petroleum Group, being a substantial Shareholder holding 6,496,729,547 Shares representing approximately 53.49% of the existing issued share capital of the Company, is a connected person and hence Yanchang Petroleum Group, together with its associates, will abstain from voting at the SGM.

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 Thursday, 25 May 2017 at 4:00 p.m. is set out on pages 37 to 38 of this circular. An ordinary resolution will be proposed at the SGM to approve, among other things, (i) the New Supply Agreement and the transactions contemplated thereunder; and (ii) the corresponding Proposed Annual Caps. 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 Level 22, Hopewell Centre, 183 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.

## LETTER FROM THE BOARD

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, as at the Latest Practicable Date, Yanchang Petroleum Group, being a substantial Shareholder holding 6,496,729,547 Shares representing approximately 53.49% of the existing issued share capital of the Company, is a connected person and hence Yanchang Petroleum Group, together with its associates, will abstain from voting at the SGM. Save for the above, no other Shareholders or any of their respective associates have any interests in the transaction contemplated under the New Supply Agreement and are required to abstain from voting at the SGM in relation to the resolution regarding the New Supply Agreement and the transactions contemplated thereunder.

### RECOMMENDATIONS

Taking into consideration of the reasons set out in the paragraph headed "Reasons and benefits of entering into the New Supply Agreement" above, the Directors (including the independent non-executive Directors) consider that the terms of the New Supply Agreement and the Proposed Annual Caps are fair and reasonable and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group, on normal commercial terms and 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 be proposed at the SGM to approve the New Supply Agreement and the corresponding Proposed Annual Caps.

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 16 of this circular containing the recommendation of the Independent Board Committee to the Independent Shareholders regarding the New Supply Agreement and the corresponding Proposed Annual Caps; (ii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 17 to 31 of this circular; and (iii) the information set out in the appendix of this circular.

Yours faithfully,  
By Order of the Board  
**Yanchang Petroleum International Limited**  
**Li Yi**  
*Chairman*



**延長石油國際有限公司**  
**YANCHANG PETROLEUM INTERNATIONAL LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 00346)**

7 April 2017

*To the Independent Shareholders*

Dear Sir or Madam,

**RENEWAL OF  
CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular (the “**Circular**”) dated 7 April 2017 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 (i) the New Supply Agreement and the transactions contemplated thereunder and (ii) the corresponding Proposed Annual Caps. Astrum 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 17 to 31 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 New Supply Agreement and the transactions contemplated thereunder; and the corresponding Proposed Annual Caps are on normal commercial terms and 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 New Supply Agreement and the transactions contemplated thereunder; and (ii) the Proposed Annual Caps.

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*



Room 2704, 27/F, Tower 1, Admiralty Centre,  
18 Harcourt Road, Admiralty, Hong Kong

7 April 2017

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

Dear Sirs,

## RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

### INTRODUCTION

We refer to our engagement as the independent financial adviser to make recommendations to the independent board committee (the “**Independent Board Committee**”) and the independent shareholders (the “**Independent Shareholders**”) of Yanchang Petroleum International Limited (the “**Company**”) in relation to the continuing connected transactions (the “**Continuing Connected Transactions**”) contemplated under the New Supply Agreement with the proposed annual caps (the “**Proposed Annual Caps**”). Details of the Continuing Connected Transactions are disclosed in the announcement of the Company dated 30 December 2016 (the “**Announcement**”) and in the letter from the board (the “**Letter from the Board**”) set out on pages 5 to 15 of the circular of the Company dated 7 April 2017 (the “**Circular**”) to its shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 30 December 2016, Henan Yanchang, an indirect non wholly-owned subsidiary of the Company, and Yanchang Petroleum Group entered into the New Supply Agreement pursuant to which Yanchang Petroleum Group will continue to supply refined oil to Henan Yanchang for the three years ending 31 December 2019.

Yanchang Petroleum Group is a substantial Shareholder holding 6,496,729,547 Shares as at the Latest Practicable Date, representing approximately 53.49% of the existing issued share capital of the Company. Accordingly, Yanchang Petroleum Group is a connected person of the Company as defined under the Listing Rules and hence the transactions contemplated under the New Supply Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the amount of the Continuing Connected Transactions exceed 5% on an annual basis, the New Supply Agreement and the transactions contemplated thereunder are subject to the reporting, announcement, annual review and the Independent Shareholders’ approval requirement under Chapter 14A of the Listing Rules.

## LETTER FROM ASTRUM

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

An Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Ng Wing Ka, Mr. Leung Ting Yuk, Mr. Sun Liming and Dr. Mu Guodong, has been established to make recommendations to the Independent Shareholders in respect of the terms of the New Supply Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps) and as to voting at the SGM. We, Astrum Capital Management Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

### INDEPENDENCE DECLARATION

As at the Latest Practicable Date, we were not aware of any relationships or interests between Astrum Capital Management Limited, the Company, Henan Yanchang and Yanchang Petroleum Group and/or any of their respective substantial shareholders, directors or chief executive, or any of their respective associates. In the last two years, there was no other engagement between the Group and Astrum Capital Management Limited. Apart from the normal advisory fees payable to us for the relevant engagement in relation to the Continuing Connected Transactions, no other arrangement exists whereby we will receive any fees and/or benefits from the Group. Accordingly, Astrum Capital Management Limited is independent as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Continuing Connected Transactions.

### BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have reviewed, inter alia, the Announcement, the Circular, the New Supply Agreement, the Existing Supply Agreement, the annual report of the Company for the financial year ended 31 December 2015 (the “**2015 Annual Report**”) and the annual results announcement of the Company for the financial year ended 31 December 2016 (the “**2016 Results Announcement**”). We have also reviewed certain information provided by the management of the Company (the “**Management**”) relating to the operations, financial conditions and prospects of the Group. We have also (i) considered such other information, analyses and market data which we deemed relevant; and (ii) conducted discussions with the Management regarding the Continuing Connected Transactions, the businesses and future outlook of the Group. We have assumed that such information and statements, and any representation made to us, are true, accurate and complete in all material respects as of the date hereof and we have relied upon them in formulating our opinion.

## LETTER FROM ASTRUM

All Directors collectively and individually accept full responsibility for the purpose of giving information with regard to the Company in the Announcement and the Circular and, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Announcement and the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters not contained in the Announcement and the Circular, the omission of which would make any statement herein or in the Announcement and the Circular misleading. We consider that we have performed all necessary steps to enable us to reach an informed view regarding the terms of, and the reasons for entering into, the New Supply Agreement and to justify our reliance on the information provided so as to provide a reasonable basis of opinion. We have no reasons to suspect that any material information has been withheld by the Directors or the Management, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date. This letter is issued to provide the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Continuing Connected Transactions. Except for the inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall it be used for any other purposes, without our prior written consent.

Unless otherwise specified in this letter, amounts denominated in RMB have been converted to HK\$ at a rate of RMB1.000 to HK\$1.128.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the New Supply Agreement (including the Proposed Annual Caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

**1. Background of, reasons for, and benefits of the entering into of the New Supply Agreement**

According to the Letter from the Board, the Group is principally engaged in (i) investment in the oil, gas and energy related business; (ii) oil and gas exploration, exploitation and operation; and (iii) trading and distribution of oil related products.

Henan Yanchang is an indirect 70% owned subsidiary of the Company and acts as the sole operating arm of the Group's refined oil trading business in the PRC. It is principally engaged in the wholesale, retail, storage and transportation of refined oil (gasoline, diesel oil, paraffin fuel oil, lubricating oil, grease and asphalt). Henan Yanchang has been granted a valid license since 21 December 2006 (without expiry date) for the distribution and sale of refined oil in the PRC. According to the 2015 Annual Report and 2016 Results Announcement, Henan Yanchang's sales of refined oil achieved approximately 2.6 million tonnes, approximately 3.9 million tonnes and approximately 4.2 million tonnes for the three years ended 31 December 2014, 2015 and 2016, respectively. The Group's refined oil trading business, being operated by Henan

## LETTER FROM ASTRUM

Yanchang, remained as the core revenue driver of the Group. Revenue derived from the Group's refined oil trading business amounted to approximately HK\$21,530.6 million, approximately HK\$22,949.1 million and approximately HK\$20,369.2 million for the three years ended 31 December 2014, 2015 and 2016, respectively, representing approximately 96.3%, approximately 98.4% and approximately 99.0% of the Group's total revenue for the respective periods. For the three years ended 31 December 2014, 2015 and 2016, Henan Yanchang contributed operating profit of approximately HK\$108.2 million, approximately HK\$108.1 million and approximately HK\$20.9 million to the Group, respectively.

In its ordinary course of business, Henan Yanchang has been from time to time purchasing refined oil from different suppliers (including but not limited to Yanchang Petroleum Group). Indeed, Henan Yanchang has been carrying on transactions pursuant to the Existing Supply Agreement entered into between Henan Yanchang and Yanchang Petroleum Group on 24 December 2013 in relation to the supply of refined oil from Yanchang Petroleum Group to Henan Yanchang, which constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The Existing Supply Agreement and the transactions contemplated thereunder (including the annual caps) were duly approved by the then Independent Shareholders at the special general meeting of the Company held on 27 February 2014. Having considered the fact that (i) the Existing Supply Agreement has expired on 31 December 2016; and (ii) it is expected that Henan Yanchang will continue to enter into transactions of similar nature from time to time thereafter so as to facilitate the operation of its refined oil trading business, Henan Yanchang and Yanchang Petroleum Group entered into the New Supply Agreement on 30 December 2016 as an extension of the Existing Supply Agreement.

According to the Letter from the Board, Yanchang Petroleum Group is principally engaged in oil and gas exploration, exploitation, processing, pipeline transportation and sales of oil and gas; chemical engineering of oil, gas and coal, machinery manufacturing, project construction and oil and gas research and development. Yanchang Petroleum Group owns the right for exploration, exploitation and operation of oil and natural gas resources and has refining facilities in the PRC, and owns oil and natural gas resource assets in the PRC and abroad. Yanchang Petroleum Group is one of the four largest oil and gas state-owned enterprises qualified to explore and develop oil and gas in the PRC with an extensive sales network. Based on our research, it is ranked no. 325 on the global fortune 500 in 2016. As advised by the Management, Yanchang Petroleum Group is one of the Group's major suppliers of refined oil and has commenced to supply refined oil to the Group since 2011. For the three years ended 31 December 2016, Yanchang Petroleum Group supplied approximately 318,000 tonnes, approximately 395,000 tonnes and approximately 160,000 tonnes of refined oil, respectively, to Henan Yanchang under the Existing Supply Agreement, representing approximately 12.3%, approximately 10.1% and approximately 3.8% of the total purchase of refined oil by Henan Yanchang for the respective years. It is noted that the purchase volume of refined oil from Yanchang Petroleum Group to Henan Yanchang dropped significantly for the year ended 31 December 2016. The Management explained to us that such significant decrease was primarily due to the drop in production volume of refined oil by Yanchang Petroleum Group in view of the plunging oil price in the industry along with the relatively weak economic growth in the PRC market. While Yanchang Petroleum Group also commits to

## LETTER FROM ASTRUM

provide refined oil to certain strategic customers, with the overall production volume of refined oil of Yanchang Petroleum Group decreased and based on a pro-rata allocation basis, the supply of refined oil to Henan Yanchang decreased accordingly. Having considered the facts that (i) Yanchang Petroleum Group is one of the Group's major suppliers of refined oil and has commenced to supply refined oil to the Group since 2011; (ii) Yanchang Petroleum Group is one of the four largest oil and gas state-owned enterprises qualified to explore and develop oil and gas in the PRC with an extensive sales network; (iii) the significant decrease in purchase volume of refined oil from Yanchang Petroleum Group to Henan Yanchang for the year ended 31 December 2016 was primarily due to the drop in production volume of refined oil by Yanchang Petroleum Group, we are of the view that it is crucial for the Group to secure a stable source of refined oil from Yanchang Petroleum Group so as to maintain and develop its refined oil trading business.

As mentioned in the Letter from the Board, Henan Yanchang is currently planning to achieve profit maximisation by fully utilising its storage capacity and expanding its customer base through exploring other high-value regions such as Yunnan, Guizhou and Sichuan, as well as building up more gas stations. The Group has formulated a development plan of Henan Yanchang (the "**Development Plan**"), including but not limited to (i) to further expand its existing refined oil business in high-value regions of the PRC (e.g. Yunnan, Guizhou and Sichuan) by soliciting new customers; (ii) to commence the operation of the Lanzhou-Zhengzhou-Changsha oil pipeline project (the "**Oil Pipeline Project**") in the second half of 2017; and (iii) to build 5 gas stations in each of the three years ending 31 December 2019.

In respect of the expansion of the existing refined oil business, Henan Yanchang plans to further expand its existing refined oil business in high-value regions of the PRC (e.g. Yunnan, Guizhou and Sichuan) by soliciting 3 to 5 new customers in each of the coming three years. With reference to the expected number of new customers to be solicited and the average sales of refined oil to the existing customers, it is estimated by Henan Yanchang that the total purchase volume of refined oil shall increase by approximately 10% annually. In assessing the fairness and reasonableness of the anticipated growth rate of 10% per annum, we have discussed with the Management and were advised that the Group has proactively been expanding its existing refined oil business in certain regions of the PRC (including but not limited to Yunnan, Guizhou and Sichuan). In 2016, Henan Yanchang has solicited 8 new customers in Yunnan, Chongqing and Sichuan, the PRC. For the year ended 31 December 2016, the average purchase volume of refined oil by each of such new customers (without taking into account the purchase volume of refined oil by a customer, which has just commenced purchasing refined oil from Henan Yanchang in November 2016) amounted to approximately 91,000 tonnes. With reference to the said historical transaction figures, the Management expected that each new customer to be solicited will bring an additional purchase of 100,000 tonnes of refined oil to Henan Yanchang per annum. Taking into account the facts that (i) 3 to 5 new customers are expected to be solicited by Henan Yanchang in each of the coming three years; and (ii) each new customer is expected to bring an additional purchase of 100,000 tonnes of refined oil to Henan Yanchang per annum, it is estimated by Henan Yanchang that the total purchase volume of refined oil by Henan Yanchang shall increase by approximately 400,000 tonnes per annum, representing approximately 9.6% of the total purchase volume of refined oil by Henan Yanchang for the year ended 31 December

## LETTER FROM ASTRUM

2016. In view of the above, we are of the view that the growth rate of the total purchase volume of refined oil under the existing trading business (i.e. 10% per annum) was estimated by the Management under reasonable grounds.

In relation to the Oil Pipeline Project, we were advised by the Management that the construction of the Oil Pipeline Project has been completed. Subject to the approvals from the government, it is expected by the Management that the Oil Pipeline Project will commence operation in the second half of 2017. The Management anticipated that the trading volume of the Oil Pipeline Project in 2017 is approximately 800,000 tonnes, with an anticipated annual growth rate of 5% in each succeeding year. Having considered the facts that (i) it is expected that the Oil Pipeline Project will only commence its initial operation in the second half of 2017; (ii) the maximum trading volume of the Oil Pipeline Project (the “**Maximum Trading Volume**”) is 1.5 million tonnes per annum; (iii) the anticipated trading volume of the Oil Pipeline Project in 2017 of approximately 800,000 tonnes represents approximately 53.3% of the Maximum Trading Volume, we are of the view that the anticipated trading volume of the Oil Pipeline Project in 2017 is justifiable. In order to assess the fairness and reasonableness of the anticipated annual growth rate of 5% in each succeeding year, we have conducted research from public domains in relation to the refined oil market in the PRC. According to the information released by the National Development and Reform Commission of the PRC, the consumption volume of refined oil in the PRC for the year ended 31 December 2016 amounted to 289,480,000 tonnes, representing an annual growth rate of 5% (the “**2016 National Consumption Growth Rate**”) as compare to the previous year. In view of the fact that the anticipated annual growth rate of the trading volume of the Oil Pipeline Project of 5% is the same as the 2016 national Consumption Growth Rate, we are of the opinion that the anticipated annual growth rate of the trading volume of the Oil Pipeline Project is justifiable.

Having considered the Development Plan and the anticipated growth in sales volume of refined oil arising from such business development, we concur with the Management’s view that the entering into of the New Supply Agreement could enhance the flexibility of Henan Yanchang for the procurement of quality refined oil, and that by leveraging on the bulk volume and stable supply from Yanchang Petroleum Group, the refined oil trading business of the Group will be further enhanced.

In view of the above, we concur with the Directors’ view that the Continuing Connected Transactions contemplated under the New Supply Agreement are in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

## LETTER FROM ASTRUM

### 2. Principal terms of the New Supply Agreement

According to the Letter from the Board, the principal terms of the New Supply Agreement are as follows:

- Date** : 30 December 2016
- Parties** : (i) Henan Yanchang; and  
(ii) Yanchang Petroleum Group
- Subject** : Yanchang Petroleum Group has agreed to sell and Henan Yanchang has agreed to purchase refined oil on a normal commercial term basis. The refined oil supplied by Yanchang Petroleum Group to Henan Yanchang is generally classified into two types, namely, diesel and gasoline.
- Term** : 3 years commencing from 1 January 2017 until 31 December 2019, and is renewable for another term of three years under negotiation between both parties at least 30 days prior to the expiry date, subject to the compliance with the Listing Rules.
- Pricing basis** : The purchase price of refined oil shall be the prevailing lowest price quoted by Yanchang Petroleum Group to customers and the purchase price paid by Henan Yanchang shall not be higher than that offered by Yanchang Petroleum Group to its independent third party customers.
- Payment terms** : The purchase price of refined oil shall be paid in advance by Henan Yanchang before delivery of the refined oil, which is similar to the market practice. The payment terms offered by Yanchang Petroleum Group to Henan Yanchang should not be less favourable than those offered by Yanchang Petroleum Group to its independent third party customers. Payment terms for the two products, diesel and gasoline, are the same as above.

As mentioned in the Letter from the Board, the terms of the New Supply Agreement were negotiated based on normal commercial terms and the prices were determined after arm's length negotiation between Henan Yanchang and Yanchang Petroleum Group.

## LETTER FROM ASTRUM

In assessing the fairness and reasonableness of the terms of the New Supply Agreement, we have reviewed and compared the terms of the Existing Supply Agreement and the New Supply Agreement, and noted that save for the Proposed Annual Caps for each of the three years ending 31 December 2019, the terms of the aforementioned agreements are substantially the same. In addition, we have discussed with the Management on the terms of the New Supply Agreement (in particular, the pricing terms), and were advised that the price of refined oil to be supplied by Yanchang Petroleum Group to Henan Yanchang will be determined with reference to the average weekly selling price of refined oil quoted from the National Development and Reform Commission of the PRC. Pursuant to the New Supply Agreement, the purchase price of refined oil shall be the prevailing lowest price quoted by Yanchang Petroleum Group to customers and the purchase price paid by Henan Yanchang shall not be higher than that offered by Yanchang Petroleum Group to its independent third party customers. We were also given to understand by the Management that notwithstanding the entering into of the New Supply Agreement, Henan Yanchang is entitled to purchase refined oil from other suppliers (not limited to Yanchang Petroleum Group). In this regard, Henan Yanchang has designed and implemented a procedure manual (the “**Procedure Manual**”) in respect of the purchase of refined oil as required by Henan Yanchang’s internal control procedures in relation to continuing connected transactions. We have obtained from the Management, and reviewed, the Procedure Manual, the details of which were summarized as below:

- (i) Before every purchase of refined oil, Henan Yanchang will obtain, review and compare the quotations (e.g. purchase price and payment terms) from Yanchang Petroleum Group and independent third-party supplier(s) in respect of the supply of same products. As a general practice, Henan Yanchang will obtain quotations from at least three suppliers for comparison.
- (ii) Following the receipt of quotations, Henan Yanchang will compare the terms of quotations and determine the selection of suppliers by taking into account factors such as price quotations, quality of refined oil and ability of the supplier in meeting delivery time schedules. Henan Yanchang usually purchases refined oil from the supplier with the lowest fee quotation if the quality of refined oil supplied, delivery time schedule and payment terms offered by different suppliers are similar. However, Henan Yanchang may also consider other non-monetary factors, including quality of refined oil supplied, delivery time schedule and payment terms of different suppliers in determining its purchase decisions.
- (iii) The head of the procurement department would review the price and approve the purchase orders for the relevant products.

Upon review of the Procedure Manual and our discussion with the Management, we are of the view that the implementation of the Procedure Manual can ensure that Henan Yanchang would purchase refined oil with the most favorable terms available to it under a systematic procedure, and thus safeguard the interests of the Company and the Shareholders as a whole.

## LETTER FROM ASTRUM

Furthermore, we have obtained and reviewed 3 sample walk-through documents (including, among other things, price quotation from Yanchang Petroleum Group and independent third party supplier, the ultimate supplier of refined oil selected by Henan Yanchang with specified reasons, and the relevant purchase agreements entered into between (i) Henan Yanchang and Yanchang Petroleum Group under the Existing Supply Agreement; and (ii) Henan Yanchang and its independent third party supplier) (the “**Walk-through Documents**”) provided by the Group in respect of the purchase of refined oil by Henan Yanchang during the period commencing from 1 January 2014 to 31 December 2016 (the “**Review Period**”). Based on our sample review on the Walk-through Documents, we noted that (i) the transactions under the Existing Supply Agreement were carried out in accordance with the Procedure Manual; and (ii) Henan Yanchang would purchase refined oil from Yanchang Petroleum Group under the Existing Supply Agreement only when the price quotation and terms offered by Yanchang Petroleum Group are more favorable to Henan Yanchang than those offered by independent third party suppliers. We are of the view that the pricing policy and mechanism in respect of the purchase of refined oil has been well in place, and the interests of the Company and the Shareholders are properly safeguarded.

In respect of the payment terms, the purchase price of refined oil shall be paid in advance by Henan Yanchang to Yanchang petroleum Group before delivery of the refined oil under the New Supply Agreement. As advised by the Management, according to the historical practice of Henan Yanchang, the purchase price of refined oil was generally paid within approximately one to two weeks in advance by Henan Yanchang before delivery of refined oil by Yanchang Petroleum Group. In order to assess the fairness and reasonableness of the payment terms of the New Supply Agreement, we have obtained from the Management 4 sample purchase agreements (the “**Sample Purchase Agreements**”) entered into between Henan Yanchang and its independent third party suppliers during the Review Period, and noted therefrom that it is common for suppliers of refined oil to request their customers to pay the purchase price of refined oil in advance before delivery of the products. We further obtained from the Management the transaction record for the transactions under the Sample Purchase Agreements, and noted that the purchase price of refined oil was paid within one to two weeks in advance by Henan Yanchang before delivery of refined oil by the relevant independent third party suppliers. In this regard, we are of the same view as the Management that the payment terms of the New Supply Agreement are comparable to that offered by independent third parties to Henan Yanchang.

Having considered the facts that (i) the terms of the New Supply Agreement were negotiated based on normal commercial terms and the prices were determined after arm’s length negotiation between Henan Yanchang and Yanchang Petroleum Group; (ii) the purchase price of refined oil shall be the prevailing lowest price quoted by Yanchang Petroleum Group to customers and the purchase price paid by Henan Yanchang shall not be higher than that offered by Yanchang Petroleum Group to its independent third party customers; (iii) the implementation of the Procedure Manual can ensure that Henan Yanchang would purchase refined oil with the most favorable terms available to it under a systematic procedure, and thus safeguard the interests of the Company and the Shareholders as a whole; and (iv) the payment terms of the New Supply Agreement are comparable to that offered by independent third parties to Henan Yanchang, we consider that the terms of the New Supply Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

## LETTER FROM ASTRUM

### 3. The Proposed Annual Caps for the Continuing Connected Transactions

The table below sets forth (i) the Existing Annual Caps for the continuing connected transactions contemplated under the Existing Supply Agreement for each of the three years ended 31 December 2016, the actual transaction amounts under the Existing Supply Agreement for the three years ended 31 December 2016, and the utilization rate of the historical annual caps; and (ii) the Proposed Annual Caps for the continuing connected transactions under the New Supply Agreement for the three years ending 31 December 2019 are set out as follows:

**Table 1: Annual caps**

	For the year ended 31 December			For the year ending 31 December		
	2014	2015	2016	2017	2018	2019
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Existing/ Proposed Annual Caps	18,000	18,000	18,000	5,000	5,000	5,000
Historical transaction amounts	2,042	1,983	661	NA	NA	NA
Utilization rate of Existing Annual Caps	11.3%	11.0%	3.7%	NA	NA	NA

According to the Letter from the Board, the Proposed Annual Caps under the New Supply Agreement are determined after taking into account: (i) the historical amounts for the purchase of refined oil by Henan Yanchang from Yanchang Petroleum Group for the three years ended 31 December 2016; (ii) the forecast amounts from Yanchang Petroleum Group to be purchased by Henan Yanchang for the three years ending 31 December 2019; (iii) the purchase price per tonne of refined oil of approximately RMB5,000 with reference to the latest average selling price of refined oil in December 2016 quoted from the National Development and Reform Commission of the PRC; (iv) the existing business scale of Henan Yanchang needed to be backed by the stable and sufficient supply of refined oil from Yanchang Petroleum Group; and (v) Henan Yanchang holding a valid licence for distribution and sales of refined oil in the whole PRC which enables the Group to expand the scale of its refined oil business as well as its sales network in the PRC in the coming future.

As set out in Table 1 above, the historical transaction amounts under the Existing Supply Agreement for the three years ended 31 December 2016 amounted to approximately RMB2,042 million, approximately RMB1,983 million and approximately RMB661 million, respectively. The utilization rate of the Existing Annual Caps under the Existing Supply Agreement for the three years ended 31 December 2016 were approximately 11.3%, approximately 11.0% and approximately 3.7%, respectively. We have enquired the Management about the reasons for the relatively low utilization rate in 2016, and were advised that it was primarily due to the drop in production volume of refined oil by Yanchang Petroleum Group in view of the plunging oil price in the industry along with the relatively weak economic growth in the PRC market. While Yanchang

## LETTER FROM ASTRUM

Petroleum Group also commits to provide refined oil to certain strategic customers, with the overall production volume of refined oil of Yanchang Petroleum Group decreased and based on a pro-rata allocation basis, the supply of refined oil to Henan Yanchang decreased accordingly. As such, Henan Yanchang increased purchases of refined oil from independent third parties during the year ended 31 December 2016.

In order to assess the fairness and reasonableness of the Proposed Annual Caps, we have obtained from the Management the calculation of the Proposed Annual Caps prepared by the Group, and discussed with the Management regarding (i) the estimated total purchase amounts of the refined oil to be purchased by Henan Yanchang for the three years ending 31 December 2017, 2018 and 2019; (ii) the estimated purchase amounts of the refined oil from Yanchang Petroleum Group to be purchased by Henan Yanchang; and (iii) the estimated purchase price per tonne of the refined oil of approximately RMB5,000 (the “**Estimated Purchase Price**”).

During our review of the calculation of the Proposed Annual Caps, we noted that the expected total purchase amounts of the refined oil of Henan Yanchang for the three years ending 31 December 2017, 2018 and 2019 are approximately 5.4 million tonnes, approximately 5.9 million tonnes and approximately 6.5 million tonnes, respectively, representing year-on-year increases of approximately 29.9%, approximately 9.7% and approximately 9.6% as compared to the respective previous year. We were given to understand by the Management that the total purchase amounts of the refined oil of Henan Yanchang for the three years ending 31 December 2019 were estimated with reference to (i) the historical total purchase amount of refined oil of Henan Yanchang for the three years ended 31 December 2016; and (ii) the expected purchase volume of refined oil to be brought by the implementation of the Development Plan. In this regard, we have discussed with the Management about the Development Plan. As advised by the Management, Henan Yanchang is currently planning to achieve profit maximisation by fully utilising its storage capacity and expanding its customer base through exploring high-value regions such as Yunnan, Guizhou and Sichuan, as well as building up more gas stations. With an aim to maximize the profit, Henan Yanchang has formulated the Development Plan, including but not limited to (i) to further expand its existing refined oil business in high-value regions of the PRC (e.g. Yunnan, Guizhou and Sichuan) by soliciting new customers; (ii) to commence the operation of the Oil Pipeline Project in the second half of 2017; and (iii) to build 5 gas stations in each of the three years ending 31 December 2019. For further details of the Development Plan, please refer to the paragraph headed “*1. Background of, reasons for, and benefits of the entering into of the New Supply Agreement*” above. It is expected by the Management that the implementation of the Development Plan can bring an additional sales of approximately 1.2 million tonnes, approximately 0.5 million tonnes and approximately 0.6 million tonnes of refined oil, respectively, to Henan Yanchang for each of the three years ending 31 December 2019 (the “**Additional Sales Volume**”). We were further advised by the Management that the expected purchase volume of refined oil to be brought by the Development Plan was estimated with reference to (i) the average sales of refined oil to the existing customers of Henan Yanchang; (ii) the maximum trading volume of the Oil Pipeline Project of 1.5 million tonnes per annum; and (iii) the average purchase amount of refined oil by each gas station. Upon our review on the Development Plan, together with the calculation of the estimated total purchase amounts of the refined oil of Henan Yanchang, we are of the view that the estimated total purchase amounts of the refined oil to be purchased by Henan

## LETTER FROM ASTRUM

Yanchang for the three years ending 31 December 2017, 2018 and 2019 were estimated by the Management under reasonable ground.

As disclosed in the Letter from the Board, Henan Yanchang will enter into supply agreements with both independent third parties and connected persons from time to time, taking into account various factors including but not limited to the availability of supply of refined oil and the prevailing market prices of refined oil. The historical and estimated proportion of Henan Yanchang's total purchase amounts from Yanchang Petroleum Group and from independent suppliers for the three years ended 31 December 2016 and for the three years ending 31 December 2019 are set out as follow:

**Table 2: The proportion of Henan Yanchang's total purchase amounts from Yanchang Petroleum Group and from independent suppliers**

	For the year ended			For the year ending		
	2014	2015	2016	2017	2018	2019
	(Historical)			(Estimated)		
	<i>Approximate %</i>			<i>Approximate %</i>		
Yanchang Petroleum Group	12.29	10.11	3.84	18.54	16.90	15.42
Independent third-party suppliers	87.71	89.89	96.16	81.46	83.10	84.58
Total	100.00	100.00	100.00	100.00	100.00	100.00

Based on the Table 2 above, we note that there was a significant decrease in proportion of purchase from Yanchang Petroleum Group by Henan Yanchang during the year ended 31 December 2016. As mentioned above, such decrease was primarily due to the drop in production volume of refined oil by Yanchang Petroleum Group and therefore, Henan Yanchang increased purchases of refined oil from independent third parties during the year ended 31 December 2016.

For the three years ending 31 December 2019, it is estimated by the Directors that the total purchase orders to be placed by Henan Yanchang to Yanchang Petroleum Group shall be approximately 1 million tonnes, representing approximately 15% to 20% of the total projected volume of refined oil purchased by Henan Yanchang for each of the three years ending 31 December 2019. We noted that the estimated proportion of the total projected volume of the refined oil to be purchased by Henan Yanchang from Yanchang Petroleum Group for the three years ending 31 December 2019 is relatively higher than the proportion of the total volume of the refined oil purchased by Henan Yanchang from Yanchang Petroleum Group for the three years ended 31 December 2016. We have discussed with the Management regarding the underlying reasons and were advised that the increased in proportion of the total volume of the refined oil to be purchased by Henan Yanchang from Yanchang Petroleum Group is primarily attributable to the expectation that approximately 50% of the Additional Sales Volume will be purchased from Yanchang Petroleum Group by Henan Yanchang. Having considered the facts that (i) the total purchase amount of the refined oil included in the New Supply Agreement to be purchased

## LETTER FROM ASTRUM

by Henan Yanchang from Yanchang Petroleum Group is estimated based on the existing business scale, the Additional Sales Volume and the current anticipation of the market condition for the three years ending 31 December 2019; (ii) it is expected by the Management that approximately 50% of the Additional Sales Volume will be purchased from Yanchang Petroleum Group by Henan Yanchang; and (iii) the estimated total purchase amount of the refined oil to be purchased by Henan Yanchang from Yanchang Petroleum Group does not form a majority portion of Henan Yanchang's total purchase amount and upon our review on the calculation, we consider that the estimated purchase amounts of the refined oil from Yanchang Petroleum Group to be purchased by Henan Yanchang for the three years ending 31 December 2017, 2018 and 2019 is justifiable.

Furthermore, in assessing the fairness and reasonableness of the Estimated Purchase Price, we have reviewed, and discussed with the Management, the basis of determination for the Estimated Purchase Price. We were given to understand that the average actual purchase price of refined oil by Henan Yanchang from Yanchang Petroleum Group in 2016 represented a discount of approximately 23.4% (the “**2016 Discount Rate**”) to the average selling price of refined oil quoted from the National Development and Reform Commission of the PRC (the “**NDRC Quoted Average Price**”) for the year ended 31 December 2016. The Estimated Purchase Price of RMB5,000 per tonne was determined by the Management with reference to (i) the 2016 Discount Rate; and (ii) the average NDRC Quoted Average Price in December 2016. In this regard, we have reviewed the relevant documents in respect of the NDRC Quoted Average Price (calculated based on the wholesale price quoted by the major refined oil sales companies in 70 major cities and all local refineries in the PRC) issued by the National Development and Reform Commission of the PRC. We noted that the average NDRC Quoted Average Price in December 2016 was approximately RMB6,685.5 per tonne, and that the Estimated Purchase Price represents a discount of approximately 25.2% to the NDRC Quoted Average Price in December 2016, which is similar to the 2016 Discount Rate. As such, we consider that the Purchase Price Estimation is justifiable.

In view of the foregoing, and upon our review on the calculation of the Proposed Annual Caps, we are of the view that the Proposed Annual Caps were determined by the Management under reasonable ground and due care, and that the Proposed Annual Caps are justifiable, fair and reasonable so far as the Company and the Independent Shareholders are concerned.

However, the Independent Shareholders should note that the Proposed Annual Caps relate to future events and do not represent a forecast of transaction amounts to be incurred as a result of the Continuing Connected Transactions. Consequently, we express no opinion as to how closely the actual transaction amounts of the Continuing Connected Transactions correspond with the Proposed Annual Caps as discussed above.

## LETTER FROM ASTRUM

#### **4. Reporting requirements and conditions of the Continuing Connected Transactions**

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Continuing Connected Transactions are subject to the following annual review requirements:

- (a) Each year, the independent non-executive Directors must review the Continuing Connected Transactions and confirm in the annual report and accounts of the Company that the Continuing Connected Transactions have been entered into:
  - (i) in the ordinary and usual course of business of the Group;
  - (ii) on normal commercial terms or better; and
  - (iii) in accordance with the New Supply Agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (b) each year the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange at least ten business days prior to the bulk printing of the Company's annual report) confirming whether anything has come to their attention that causes them to believe that the Continuing Connected Transactions:
  - (i) have not been approved by the Board;
  - (ii) were not, in all material respects, in accordance with the pricing policies of the Group (if applicable);
  - (iii) were not entered into, in accordance with the New Supply Agreement governing the Continuing Connected Transactions; and
  - (iv) have exceeded the Proposed Annual Caps;
- (c) the Company must allow, and ensure that the relevant counterparties to the Continuing Connected Transactions allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Continuing Connected Transactions as set out in paragraph (b); and
- (d) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required.

## LETTER FROM ASTRUM

The Company confirms that they will strictly comply with the aforementioned annual review requirements under Rules 14A.55 to 14A.59 of the Listing Rules in respect of the Continuing Connected Transactions under the New Supply Agreement. Taking into account the aforementioned reporting requirements attached to the Continuing Connected Transactions, in particular, (i) the restriction of the value of the Continuing Connected Transactions by way of the Proposed Annual Caps; and (ii) the on-going review by the independent non-executive Directors and auditors of the Company of the Continuing Connected Transactions, we are of the view that there exist appropriate measures to monitor the conduct of the Continuing Connected Transactions so as to ensure that the Continuing Connected Transactions contemplated under the New Supply Agreement are on normal commercial terms, fair and reasonable and in the interests of the Group and the Shareholders as a whole, and thus, the interests of the Independent Shareholders is safeguarded.

### OPINION

Having taken into account the above principal factors and reasons, we consider that the entering into of the New Supply Agreement is in the ordinary and usual course of business of the Group and the terms of the New Supply Agreement are on normal commercial terms, fair and reasonable, and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favor of the relevant resolution(s) at the SGM to approve the entering into of the New Supply Agreement, and the transactions contemplated thereunder (including the Proposed Annual Caps).

Yours faithfully,  
For and on behalf of  
**Astrum Capital Management Limited**  
**Hidulf Kwan**                      **Rebecca Mak**  
*Managing Director*                      *Director*

*Note: Mr. Hidulf Kwan has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under the SFO since 2006 and has participated in and completed various independent financial advisory transactions.*

*Ms. Rebecca Mak has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under the SFO since 2011 and has participated in and completed various independent financial advisory transactions.*

## 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 Director 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. Bruno Deruyck ("Mr. Deruyck")	Personal interest (Note 1)	Long position	12,000,000	0.099%
Dr. Mu Guodong ("Dr. Mu")	Personal interest and interest of spouse (Note 2)	Long position	300,000	0.002%
Mr. Sun Liming	Personal interest	Long position	600,000	0.005%

*Note:*

- 12,000,000 share options were granted to Mr. Deruyck on 18 October 2016 under the share option scheme of the Company. Mr. Deruyck is deemed to be interested in these 12,000,000 shares under the SFO.
- 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:

Name	Capacity	Long position/ Short position	Number of Shares held	Approximate percentage of the total issued share capital of the Company
Yanchang Petroleum Group ( <i>Note</i> )	Interest of controlled corporation	Long position	6,496,729,547	53.49%
Yanchang Petroleum Group (Hong Kong) Co., Limited ("Yanchang Petroleum HK") ( <i>Note</i> )	Directly beneficially owned	Long position	6,496,729,547	53.49%

*Note:* Yanchang Petroleum Group beneficially held these 6,496,729,547 Shares through its direct wholly owned subsidiary, Yanchang Petroleum HK. Therefore, Yanchang Petroleum Group is deemed to be interested in the said Shares under the SFO.

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 INTERESTS

As at the Latest Practicable Date, none of the Directors and his 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 INTERESTS

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 members of the Group since 31 December 2015, 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 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.

#### 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, 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.

#### 7. 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 2015, being the date to which the latest audited financial statements of the Company 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>
Astrum	a corporation licensed to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions

Astrum 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, Astrum 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 2015 (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 located at Clarendon House, 2 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 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 Level 22, Hopewell Centre, 183 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.

## 10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Company's head office 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 Existing Supply Agreement;
- (b) the New Supply Agreement;
- (c) the letter from the Independent Board Committee, the text of which is set out on page 16 of this circular;
- (d) the letter from Astrum to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 17 to 31 of this circular;

- (e) the memorandum of association and the bye-laws of the Company;
- (f) the annual report of the Company for the year ended 31 December 2014;
- (g) the annual report of the Company for the year ended 31 December 2015;
- (h) the interim report of the Company for the six months ended 30 June 2016;
- (i) the written consents referred to in the paragraph headed “Expert’s qualification and consent” in this appendix; and
- (j) 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 Thursday, 25 May 2017 at 4:00 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 fulfilment of the terms and conditions set out in the supply agreement dated 30 December 2016 (the “**New Supply Agreement**”) entered into between 河南延長石油銷售有限公司 (Henan Yanchang Petroleum Sales Co., Limited) (“**Henan Yanchang**”) and 陝西延長石油(集團)有限責任公司 (Shaanxi Yanchang Petroleum (Group) Co., Limited) (“**Yanchang Petroleum Group**”) (a copy of the New Supply 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 supply of refined oil from Yanchang Petroleum Group to Henan Yanchang for the three years ending 31 December 2019:

- (i) the New Supply Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (ii) the Proposed Annual Caps for the continuing connected transactions contemplated under the New Supply Agreement for the three years ending 31 December 2019, being approximately RMB5,000 million per year be and are hereby approved; and
- (iii) 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 New Supply Agreement and the transactions contemplated thereunder and the Proposed Annual Caps.”

By Order of the Board  
**Yanchang Petroleum International Limited**  
**Li Yi**  
*Chairman*

Hong Kong, 7 April 2017

## 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 Level 22, Hopewell Centre, 183 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.