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延長石油國際有限公司

YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00346)

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

THE SUBSCRIPTION AGREEMENT

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

The Subscription Shares represent:

- (a) approximately 18.99% of the existing issued share capital of the Company as at the date of this announcement; and
- (b) approximately 15.96% of the issued share capital of the Company as at the date of this announcement as enlarged by the allotment and issuance of the Subscription Shares.

Completion of the Subscription Agreement is conditional upon, among others, approval by the Independent Shareholders of the Subscription and the grant of the Specific Mandate. The allotment and issuance of the Subscription Shares will also be subject to, among others, the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Subscription Shares.

The aggregate gross proceeds of the Subscription will be HK\$663,000,000. The aggregate net proceeds of the Subscription, after deduction of expenses, are estimated to be approximately HK\$663,000,000 and the Company intends to use such amount as general working capital of the Company; for the development of the Group's oil and gas business and the exploitation of the oil field blocks in Madagascar; and for future investment opportunities to be identified by the Group.

LISTING RULES IMPLICATION

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

A circular containing, among other matters, further details of the Subscription, the letter from the independent financial adviser to the independent board committee of the Company and the Independent Shareholders, the recommendation of the independent board committee of the Company to the Independent Shareholders and a notice of the SGM will be despatched to the Shareholders on or before 21 September 2012.

THE SUBSCRIPTION AGREEMENT

Date: 1 September 2012

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

The Subscription Shares

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

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

Specific Mandate to issue the Subscription Shares

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

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

The Subscription Price

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

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

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

Conditions precedent

Completion of the Subscription Agreement is conditional upon:

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

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

Completion

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

CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

The following table illustrates the changes in the shareholding structure of the Company upon the issuance of the Subscription Shares:

Shareholders	As at the date of this announcement		Immediately after completion of the Subscription	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
Yanchang Petroleum Shannxi Daqinling Energy and Investment Group Limited	1,118,149,547	16.33	2,418,149,547	29.69
Public Shareholders	<u>4,090,847,947</u>	<u>59.76</u>	<u>4,090,847,947</u>	<u>50.22</u>
Total	<u>6,845,573,049</u>	<u>100.00</u>	<u>8,145,573,049</u>	<u>100.00</u>

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION

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

Yanchang Petroleum, being a substantial Shareholder, is one of the PRC major state-owned oil and gas corporations principally engaged in the exploration, exploitation, refinery, processing and sale of oil, gas and petrochemical products. Yanchang Petroleum has the right and licences to explore, exploit and operate oil and gas resources, and has oil refineries in the PRC and also owns sizeable oil and natural gas resources assets both in the PRC and overseas.

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

The Company has explored other means of raising funds for the Group's business needs including future expansion and investment opportunities. However, given the current unfavourable sentiment in the stock market, there are uncertainties in securing subscription from other potential investors with favourable terms. The Directors also consider that the Subscription will provide an opportunity to much strengthen the financial position of the Group as well as to raise the necessary capital for the ongoing development of the Group's core businesses without imposing additional interests burden to or deteriorating the gearing position of the Group had such capital been funded by borrowings. As such, the Directors (excluding the independent non-executive Directors who will express their view after

considering the advice from the independent financial adviser) consider that the terms of the Subscription Agreement, including the Subscription Price, are fair and reasonable and on normal commercial terms and the Subscription is in the interests of the Company and the Shareholders as a whole.

USE OF PROCEEDS

The aggregate gross proceeds of the Subscription will be HK\$663,000,000. The aggregate net proceeds of the Subscription, after deduction of expenses, are estimated to be approximately HK\$663,000,000, representing a net issue price of approximately HK\$0.51 per Subscription Share. The Company intends to use such amount as general working capital of the Company; for the development of the Group's oil and gas business and the exploitation of the oil field blocks in Madagascar; and for future investment opportunities to be identified by the Group.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

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

IMPLICATION UNDER THE LISTING RULES

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

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

GENERAL

The SGM will be held to consider and, if thought fit, pass the ordinary resolution to approve (i) the Subscription Agreement and the transactions contemplated thereunder; and (ii) the grant of the Specific Mandate for the allotment and issuance of the Subscription Shares.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, apart from Yanchang Petroleum and its associates, no Shareholders are required to abstain from voting at the SGM.

A circular containing, among other things, further details of the Subscription Agreement, the recommendation of the independent board committee to the Independent Shareholders, the letter from the independent financial adviser to the independent board committee and the Independent Shareholders and a notice convening the SGM will be despatched to the Shareholders in compliance with the Listing Rules on or before 21 September 2012.

TERMS USED IN THIS ANNOUNCEMENT

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

“associate(s)”	has the same meaning as defined in the Listing Rules
“Board”	the board of Directors
“Company”	Yanchang Petroleum International Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Subscription
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Shareholder(s)”	the Shareholders other than Yanchang Petroleum and its associates
“Last Trading Day”	31 August 2012, being the last trading day immediately prior to the entering into of the Subscription Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“SGM”	the special general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving (i) the Subscription Agreement and the transactions contemplated thereunder; and (ii) the grant of the Specific Mandate for the allotment and issuance of the Subscription Shares
“Share(s)”	existing ordinary share(s) of HK\$0.02 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares

“Specific Mandate”	the specific mandate for the allotment and issuance of the Subscription Shares, which is subject to approval by the Independent Shareholders voting by way of poll at the SGM
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of the Subscription Shares by Yanchang Petroleum in accordance with the terms and conditions of the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 1 September 2012 entered into between the Company and Yanchang Petroleum in relation to the Subscription
“Subscription Price”	the subscription price of HK\$0.51 per Subscription Share under the Subscription Agreement
“Subscription Shares”	1,300,000,000 new Shares of the Company to be subscribed by Yanchang Petroleum
“Yanchang Petroleum”	Shaanxi Yanchang Petroleum (Group) Co., Limited, a state-owned corporation registered in the PRC with limited liability, being a substantial Shareholder holding 1,118,149,547 Shares representing approximately 16.33% of the existing issued share capital of the Company as at the date of this announcement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

By order of the Board
Yanchang Petroleum International Limited
Zhang Kaiyong
Chairman

Hong Kong, 1 September 2012

Executive Directors:

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

Independent Non-Executive Directors:

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