THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other appropriate professional advisor.

If you have sold or transferred all your securities in **SHUN CHEONG HOLDINGS LIMITED**, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and is being provided to you solely for the purpose of considering the resolutions to be voted upon at the SGM of the Company to be held at 10:00 a.m. on Friday, 22 July 2016. The circular does not constitute an offer to issue or sell or an invitation of an offer to acquire, purchase or subscribe for securities in the United States or any other jurisdiction, nor is it intended to invite any such offer or invitation. Securities may not be offered or sold in the United States absent registration or an exemption from registration under the United States Securities Act of 1933, as amended (the "**US Securities Act**"). The securities described herein have not been and will not be registered under the US Securities Act.

SHUN CHEONG HOLDINGS LIMITED
順昌集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 650)

(1) ISSUE OF ORDINARY SHARES AND PREFERRED SHARES PURSUANT TO SPECIFIC MANDATE; (2) VERY SUBSTANTIAL ACQUISITION AND REVERSE TAKEOVER IN RELATION TO THE ACQUISITION OF THE ENTIRE EQUITY CAPITAL OF 錫林郭勒盟宏博礦業開發有限公司 (XILIN GOL LEAGUE HONGBO MINING DEVELOPMENT CO., LTD.*); (3) ISSUE OF CONVERTIBLE NOTE PURSUANT TO SPECIFIC MANDATE; (4) SPECIAL DEAL, CONNECTED TRANSACTION AND VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE DIVESTMENT OF 100% OF THE SHARES IN AYKENS HOLDINGS LIMITED AND HOPLAND ENTERPRISES LIMITED; (5) INCREASE OF AUTHORISED SHARE CAPITAL; (6) ADOPTION OF NEW BYE-LAWS; AND (7) NOTICE OF SPECIAL GENERAL MEETING

Joint Sponsors to the deemed new listing application of the Company

上銀國際有限公司
BOSC International Company Limited

瑞東 REORIENT
REORIENT Financial Markets Limited

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

SOMERLEY CAPITAL LIMITED

A letter from the Independent Board Committee is set out on pages 155 to 156 of this circular, and a letter from the Independent Financial Advisor containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 157 to 185 of this circular.

A notice convening the SGM to be held at United Conference Centre Limited — Room 4, 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong at 10:00 a.m. on Friday, 22 July 2016 is set out on pages SGM-1 to SGM-5 of this circular. A form of proxy for use at the SGM is enclosed. Whether or not you intend to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Hong Kong branch share registrar of the Company, Computershare Hong Kong Services Limited, at 17M/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion and return of the proxy form shall not preclude you from attending and voting in person at the SGM or any adjournment thereon if you so desire and, in such event, the instrument appointing a proxy will be deemed to be revoked.

* *For identification purposes only*

29 June 2016

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The following expected timetable is indicative only and is subject to change. If necessary, further announcement(s) in relation to a revised timetable will be published as and when appropriate.

Latest time for lodging forms of proxy for the SGM	10:00 a.m. on Wednesday, 20 July 2016
SGM	10:00 a.m. Friday, 22 July 2016
Announcement of the results of the SGM to be published	Friday, 22 July 2016
S&P Completion taking place	Friday, 29 July 2016
The Subscription Completion, the CN Subscription Completion, the Acquisition Completion and the Divestment Completion taking place	Friday, 29 July 2016
Announcement of the Subscription Completion, the CN Subscription Completion, the Acquisition Completion and the Divestment Completion to be published	Friday, 29 July 2016
Despatch of the Composite Document	Friday, 5 August 2016

Note: All time and dates stated in this circular refer to Hong Kong local time and dates unless otherwise specified.

This summary aims to give you an overview of the information contained in this circular. As it is a summary, it does not contain all the information that may be important to you. You should read the whole circular before making a decision as to how you would cast your votes at the SGM in relation to the Transactions and the appropriate course of action for yourself.

There are risks associated with any business. You should read the section headed "Risk Factors" in this circular carefully before making a decision on the Transactions.

INTRODUCTION

On 22 June 2015, the Company entered into the Subscription Agreement, the Acquisition Agreement, the CN Subscription Agreement and the Divestment Agreement with various other parties. Pursuant to these Transaction Documents (as executed on 22 June 2015 and as further amended), the following Transactions are to take place, or have already taken place as the case may be:

- The Subscription, whereby the Company will allot and issue the Subscription Shares to the Subscribers;
- The Acquisition, whereby the Company will acquire the entire equity interests in the PRC Target, a PRC company principally engaged in the exploration, development and production of crude oil;
- The CN Subscription, whereby the Company will issue the Convertible Note to League Way; and
- The Divestment, whereby the Company will dispose of the Divestment Group, which contains all of the Group's existing hotel and restaurant assets and operations.

Additionally, on 22 June 2015, the Sellers, Mr. Mo and the Offeror entered into the S&P Agreement, pursuant to which the Offeror will become the controlling Shareholder of the Company.

The Acquisition constitutes a very substantial acquisition for the Company and a reverse takeover of the Company under the Listing Rules. As such, the Company is being treated as if it were a new listing applicant under the Listing Rules. The Company has submitted a new listing application to the Stock Exchange and the Acquisition will be subject to the approval of the Listing Committee.

TRANSFER AND TRANSACTIONS

The Group is principally engaged in hotel and restaurant operations in the PRC through the Divestment Group. The performance of these hotel and restaurant operations has been unsatisfactory, with the Group recording a net loss for each of the past four years ended 31 March 2015 and a deficiency in net assets. Under the Transfer, the Offeror has agreed to acquire the Sale Shares and the Sale Bonds from the Sellers. Accordingly, the Sellers (as vendors), Mr. Mo (being the ultimate controlling shareholder of the Sellers) and the Offeror (as purchaser) entered into the S&P Agreement on 22 June 2015. In light of the above business challenges and the Transfer, the Company entered into the Transactions as detailed below.

Subscription

Under the Subscription, the Offeror, together with other Subscribers, shall subscribe for the Subscription Shares. Accordingly, the Company (as issuer) and the Subscribers (as subscribers) entered into the Subscription Agreement on 22 June 2015. The Subscription would significantly improve the financial and liquidity positions of the Group.

Acquisition

The Offeror proposed that the Company acquire the PRC Target, which is principally engaged in the exploration, development and production of crude oil through the EPCC in the PRC, from the Target Sellers. Accordingly, the Target Sellers (as sellers), the Company (as purchaser) and the PRC Target entered into the Acquisition Agreement on 22 June 2015.

Divestment

The Offeror further proposed that the Company dispose of its entire interest in the Divestment Group, which holds the entire existing hotel and restaurant operations of the Group, to Seller 1. Accordingly, the Company (as vendor) and Seller 1 (as purchaser) entered into the Divestment Agreement on 22 June 2015.

CN Subscription

League Way, a fellow subsidiary of the Target Sellers agreed to subscribe for the Convertible Note, which is convertible into Shares of the Company. Accordingly, the Company (as issuer), League Way (as subscriber) and the Offeror (as guarantor) entered into the CN Subscription Agreement on 22 June 2015. Pursuant to an amendment agreement dated 28 June 2016, the Offeror was removed as guarantor.

After completion of the Transfer and the Transactions, the Offeror will become the controlling Shareholder holding approximately 51.01% of the issued share capital of the Company (immediately after the S&P Completion, the Subscription Completion and the CN Subscription Completion and assuming no conversion of the Convertible Bonds, the Convertible Note or the Preferred Shares) and the business of the Restructured Group will change from hotel and restaurant operations to upstream oil exploration, development and production in the PRC.

The Offeror will become the controlling Shareholder after completion of the Transfer. The other existing Shareholders will be offered a chance to dispose of their investments in the Company under the Offer on the same terms as Seller 1 and Seller 2.

Conditional on the S&P Completion, and subject to fulfilment or waiver (as the case may be) of the respective conditions precedent to the Subscription Agreement, the Acquisition Agreement, the CN Subscription Agreement and the Divestment Agreement, completion of the Transactions shall take place simultaneously.

For more details on the various agreements mentioned above, please refer to the section headed "Letter from the Board" on pages 61 to 154 of this circular.

For more details on the history and business of the PRC Target, please refer to the section headed "History and Business of the PRC Target" on pages 212 to 289 of this circular.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

The Group recorded net loss for each of the four years ended 31 March 2015. Whilst the Group has been implementing various measures with a view to increasing revenue and controlling cost, the operating environment and prospect of the Group's existing hotel and restaurant business remain challenging. The Group recorded audited net current liabilities of approximately HK$147.1 million and a deficiency in net assets of approximately HK$105.0 million as at 31 March 2015. The auditors of the Company have expressed a disclaimer opinion on their reports in respect of the Group's financial statements for the years ended 31 March 2014 and 2015. The ongoing operation of the Group will substantially depend on the continuing support of the Company's existing majority Shareholder and its affiliates.

Through Mr. Mo, the Company was approached by the Offeror which offered the Company a proposal to inject substantial cash of up to approximately HK$2,690 million under the Subscription to the Company. The Subscription will significantly improve the financial and liquidity positions of the Group. Under the Acquisition and the Divestment, the Company will be able to invest in the PRC Target which is principally engaged in the exploration, development and production of crude oil through the EPCC in the PRC and dispose of the entire Divestment Group which principal hotel and restaurant business has been facing operating and market challenges, and recorded net liabilities. The Offeror and the Company (having considered information and explanation as given by the Offeror) consider that it is a good time to invest in the PRC Target given the recent development in the oil market price and having taken into account the valuation of the PRC Target. The CN Subscription is carried out in connection with the Acquisition and will help the Restructured Group further strengthen its cash position for the development of the PRC Target's business after completion of the Transactions.

The Directors consider that the entering into of the Transactions represents a good opportunity for the Company to (i) raise a substantial amount of additional funds; and (ii) improve the financial position and liquidity and trading prospects of the Company.

For more details, please refer to the section headed "Letter from the Board" in this circular.

THE DIVESTMENT GROUP AND THE DIVESTMENT

The Offeror has indicated to the Company that it is not interested in the Group's existing hotel and restaurant assets and operations and has suggested the Company to divest them from the Group; the Group accordingly entered into the Divestment Agreement with Seller 1. The Divestment Completion is conditional on, among other things, the Subscription Completion, the Acquisition Completion and the CN Subscription Completion, all of which will take place simultaneously.

Consideration for the Divestment

The Initial Consideration for the Divestment is approximately HK$1,652,995, which was agreed with reference to the aggregate value of (i) the unaudited amount of Current Accounts Receivable as at 31 March 2015; and (ii) the unaudited combined net liabilities of the Divestment Group attributable to owners of the Divestment Group as at 31 March 2015.

The Current Accounts Receivable, represents the amount due to holding company (i.e. the Company) by the Divestment Group, which forms part of the Divestment consideration and accordingly will be settled upon Divestment Completion. The Company will not be liable for any of the liabilities of the Divestment Group upon Divestment Completion.

The Initial Consideration for the Divestment will be adjusted by, among other things, the latest fair market value of the Real Properties and that of the Company's holding of SouFun shares. The aggregate fair market value of the Real Properties as at 31 March 2016 amounted to approximately RMB345.6 million (equivalent to approximately HK$411.4 million) representing a shortfall of approximately HK$22.9 million from the aggregate book value of the Real Properties of approximately HK$434.2 million as of 31 March 2015, based on which the Initial Consideration was determined. Given the capital deficiency (as represented by the net liabilities) of the Divestment Group, the shortfall of the aggregate fair market value of the Real Properties to their aggregate book value and market price of SouFun shares as at the Latest Practicable Date, the Initial Consideration of approximately HK$1.65 million is likely to be adjusted pursuant to the Divestment Agreement (as detailed on pages 108 to 111 of this circular) to a nominal consideration of HK$1 being the minimum consideration pursuant to the Divestment Agreement.

Financial Position of the Divestment Group

The Divestment Group recorded total assets of approximately HK$421.8 million, total liabilities (not including the amount due to the Company under the Current Accounts Receivable) of approximately HK$436.1 million as of 31 December 2015 and thus net liabilities (attributable to the Group) of approximately HK$14.3 million. Those liabilities of the Divestment Group mainly represent trading liabilities, debts and advances made by related companies ultimately owned by Mr. Mo to the Divestment Group (which have not been and will not be waived prior to completion of the Transactions).

As a result of the Divestment, the Group is expected to record a material accounting gain upon disposal of the Divestment Group which would amount to approximately HK$42.2 million assuming that the Divestment had completed on 30 September 2015.

BUSINESS OVERVIEW OF THE PRC TARGET

The PRC Target is principally engaged in the exploration, development and production of crude oil pursuant to the EPCC in the PRC. Under the current EPCC, Yanchang (as the mineral right owner) and the PRC Target (as the operator) cooperate to explore crude oil in the Area; the crude oil produced from the Area, which belongs to Yanchang, is sold by the PRC Target (as entrusted by Yanchang) to the customer designated by Yanchang; and the PRC Target and Yanchang are entitled to share 80% and 20% of the sale proceeds (net of any sales related taxes). Currently, the PRC Target's business has the following characteristics:

(i) **Reliance on Yanchang** — the PRC Target's business relies on the EPCC entered into with Yanchang which will expire on 30 June 2018;

(ii) **One customer** — the PRC Target can only sell the crude oil it produces to customers designated by Yanchang under the EPCC, and Yanchang has only designated one customer to the PRC Target;

(iii) **One project** — the PRC Target generated all its revenue from the oil produced in Block 212 and Block 212 accounts for all the proved and probable reserves in the Area;

(iv) **Temporary land use rights** — the PRC Target's oil wells in Block 212 are built on land with temporary land use rights; and

(v) **No production permit** — the exploration permit of Block 212 will expire in March 2017 and the Restructured Group's development plan relies on whether Yanchang will obtain the production permit.

RISK FACTORS

The Company's proposed investment in the PRC Target and the business operations of the PRC Target and the Restructured Group are/will be subject to certain risks and uncertainties. The Offeror and the Board (after consultation with the Offeror) believe that the following are some of the major risks that may have a material adverse effect on the Company's proposed investment in the PRC Target and the Restructured Group:

(i) completion of the Transactions is subject to the fulfillment of conditions precedent which may not be under the control of the parties to the Transactions;

(ii) the Restructured Group's business operations depend on renewal of the EPCC with Yanchang in respect of the sole concession that the PRC Target is working on;

(iii) the Restructured Group's business operations and development plans depend on Yanchang obtaining or maintaining certain permits and approvals including the renewal of exploration permits, obtaining of production permits and the PRC Target renewing its temporary land use rights;

(iv) crude oil development has inherent uncertainties and risks;

(v) the Restructured Group's results of operations and potential value are affected by the volatility of global oil prices;

(vi) the PRC Target's operations are limited to a single project; and

(vii) Yanchang controls, to a significant extent, the amount of the Restructured Group's sales which is currently made to one single customer designated by Yanchang.

It is also expected that completion of the Transactions will lead to the Restructured Group recognising significant listing expenses as further explained below in the paragraph headed "The Restructured Group will record a substantial amount of listing expenses in the financial year when the Transfer and the Transactions complete, which is expected to be the financial year ending 31 March 2017".

Please refer to the section headed "Risk Factors" on pages 188 to 211 of this circular for further details.

RELIANCE ON YANCHANG

The PRC Target first entered into the EPCC with Yanchang on 1 July 2010. The EPCC was renewed on 1 July 2012, 23 June 2015 and 2 February 2016, with the current term extending until 30 June 2018.

As stated in risks (ii), (iii) and (vii) above, and as further elaborated in the section headed "Risk Factors" in this circular, the PRC Target relies on Yanchang designating customer(s) to which the PRC Target can sell crude oil from the Area, renewing the EPCC, and holding of various licences and permits including the exploration permits and of any production permits to be obtained in respect of the Area, and crude oil sales permit. Accordingly, continued cooperation with Yanchang is critical for the PRC Target and the Restructured Group's operations and development.

Save for the above reliance, the PRC Target has been operating materially independently from Yanchang with autonomy in making decisions on the exploration, development and production plans for the Area.

MEASURES TAKEN TO MANAGE CERTAIN KEY RISKS

The PRC Target considers that many of the above risks are similarly being faced by other independent operators relying on exploration and production sharing or other cooperation contracts with Yanchang or other mineral right owners in the PRC. The management of the PRC Target has been closely monitoring the risks and has taken measures to help manage and mitigate the risks. The Company and the proposed Directors consider these risks (in particular the risks of Yanchang not renewing the EPCC, sale to one single customer designated by Yanchang, the risks of Yanchang not being able to obtain and maintain necessary permits and licences, including the exploration permits and production permits, and the PRC Target not being able to renew the temporary land use rights) have been well managed by the PRC Target as follows:

- Yanchang has committed (through the First Confirmation Letter) to timely renewal of the EPCC if the PRC Target fulfils its obligations under the EPCC and has confirmed (through the Second Confirmation Letter) that it will not terminate the EPCC as a result of the outstanding overdue payment from the PRC Target, which will be repaid in full using part of the proceeds from the Subscription as soon as practicable after completion of the Transactions takes place.

- The PRC Target has entered into a long term contract with the Customer under which, and as further confirmed by the Customer, the Customer will purchase all crude oil produced by the PRC Target, and the Customer has purchased all of the PRC Target's crude oil produced during the Track Record Period. Under such agreement, the Customer has no right to unilaterally terminate the sales agreement with the PRC Target. Crude oil is a commodity with a sustainable demand in the PRC, and the PRC Target believes that it would be able to find other customers for its crude oil even if the Customer was unwilling or unable to buy crude oil from the PRC Target. Whilst the PRC Target is only allowed to sell crude oil to customers designated by Yanchang under the EPCC, Yanchang has confirmed (through the Second Confirmation Letter) that the PRC Target may sell crude oil to other customers in future subject to its then approval. The PRC Target further believes that Yanchang has the same commercial interests as itself and would ensure that appropriate customers are designated to buy the PRC Target's crude oil.

- Current development and production operations in Block 212 are limited to Unit 2 and Unit 19. The PRC Target believes that the majority remaining area of Block 212 and all of Block 378 have substantial potential of further exploration and development to expand its oil reserves and resources as funded by part of the proceeds from the Subscription.

- Whilst the wells of the PRC Target are built on land with temporary land use rights, such temporary land use rights have been renewed previously. The related land bureau has confirmed that it will duly process the PRC Target's renewal applications subject to the approval of on-site inspection and the PRC Target does not anticipate any impediment to continued renewals.

- Yanchang has confirmed that it will timely renew the exploration permits when they expire and apply for the production permit as soon as practicable. According to the PRC legal advisors to the Company, Haiwen & Partners, (i) Haiwen & Partners was told in an interview with relevant officials of MOLR that under the current rules and regulations in the PRC, Yanchang shall have the right to continue to renew its exploration permits and during the term of the exploration permits, MOLR will not accept any application from other applicants for a production permit in respect of the Area and will not sell the production right in respect of the Area via tenders; (ii) subject to the provision of documents and/or information required by MOLR, there is no legal impediment for Yanchang to be granted the production permit in respect of Unit 2 and Unit 19 of Block 212, as it has already successfully submitted a reserve report to MOLR; and (iii) the statements by the MOLR officials on point (i) do not contradict any laws of the PRC. If there is a delay in obtaining a production permit, the PRC Target's existing exploration, development and production work, as well as its future development plans, can continue pursuant to the exploration permits, which can be renewed.

Option to sell the entire equity interest in the PRC Target to the Offeror

In light of the risk of Yanchang not being able to obtain and/or maintain the exploration permits and production permit in respect of Block 212, the Offeror has granted to the Company an option (the "**Option**") to sell the PRC Target to the Offeror, exercisable at the discretion of the Company (with the consent of the independent non-executive Directors) if, at any time within the two years after completion of the Acquisition:

(i) the exploration permit for Block 212 (covering the entire area in Block 212, including, among other units of the area, Unit 2 and Unit 19) is not renewed; and

(ii) a production permit is not granted in respect of Unit 2 and Unit 19 and/or any particular area in Block 212 with proved reserves (together, the "**Triggering Event**").

Upon occurrence of the Triggering Event, the Company shall then use its reasonable endeavour and effort by taking appropriate actions, depending on the circumstances, such as communicating with the relevant authority, understanding the reasons for the Triggering Event, making appropriate submissions, providing necessary information and carrying out work required by the relevant authority, carrying out appropriate review/appeal procedures, etc., to remedy the Triggering Event in the six months after the occurrence of the Triggering Event. If the Company fails to remedy the Triggering Event within the six-month period, the Company shall have the right to exercise the Option within 120 days after expiry of the six-month period. The Option requires the Offeror to purchase the entire equity interest in the PRC Target from the Company, for a cash consideration of RMB558,880,000, being the consideration payable by the Company to the Target Sellers under the Acquisition. The Board shall inform all independent non-executive Directors immediately upon occurrence of the Triggering Event. The then independent non-executive Directors will consider whether the exercise of the Option will be in the best interests of the Company and the Shareholders as a whole, for example that they may consider whether there are other possible buyers for the investment in the PRC

Target and whether this will give the Company a better return than selling the PRC Target to the Offeror under the Option. The exercise or non-exercise of the Option and the disposal of the PRC Target by the Company to the Offeror shall be reviewed and approved by the independent non-executive Directors and/or shall be subject to any applicable disclosure and Shareholders' approval requirements under the Listing Rules. The Company believes that this Option can help provide certain monetary protection to the Company's proposed investment in the PRC Target under the Acquisition in the case the value of the PRC Target is materially and adversely affected if the development of the Area cannot be continued due to the lack of a valid exploration permit and production permit. The Joint Sponsors agree with the Company that the Option effectively provides the Company with an additional protection against the proposed investment in the PRC Target in respect of the major risk that the PRC Target will not be able to continue its production in the Area as a result of the Triggering Event.

However, if upon completion of the disposal pursuant to the exercise of the Option, the Stock Exchange considers the Company's assets consist wholly or substantially of cash or short dated securities, trading in the Shares may be suspended. Shareholders may refer to the risk factors headed "Upon exercise of the Option, the Company may be considered a cash company by the Stock Exchange and trading in the Shares may be suspended" in the "Risk Factors" section.

PRINCIPAL PERMITS OF YANCHANG AND THE PRC TARGET

Summary

Type	Authorised entity	Issuing authority	Effective period From	Effective period To	Description
Exploration permit	Yanchang	MOLR	6 March 2015	5 March 2017	Allows oil and gas exploration work in Block 212
Exploration permit	Yanchang	MOLR	10 November 2015	9 November 2017	Allows oil and gas exploration work in Block 378
Temporary land use permit	PRC Target	Bureau of Land and Resources of East Ujimqin Banner	26 May 2016	26 May 2018[Note]	Allows temporary use of approximately 739,973.44 m^2 of agricultural land for an oil/gas exploration construction project for two years. The user of the land must not construct permanent structures, and must rectify any damage to the land in accordance with law. The PRC Target's oil wells are built on this land.

Type	Authorised entity	Issuing authority	Effective period From	To	Description
State-owned land use permit	PRC Target	Bureau of Land and Resources of East Ujimqin Banner	23 May 2014	10 February 2054	Allows usage of 90,000 m^2 of state-owned land for industrial purposes. The PRC Target's oil gathering station is built on this land.
State-owned land use permit	PRC Target	Bureau of Land and Resources of East Ujimqin Banner	11 October 2011	October 2050	Allows usage of 60,347.67 m^2 of state-owned land for commercial purposes. The PRC Target's logistics centre is built on this land.

Note: The Bureau of Land and Resources of East Ujimqin Banner has confirmed that in respect of the use of certain agricultural land by the PRC Target under temporary land use rights, it will duly process any renewal application if the PRC Target wishes to renew the temporary land use rights in future subject to approval of the inspection process, which mainly involves a site visit. According to the legal opinion dated 29 June 2016 of Haiwen & Partners, the PRC legal advisors to the Company, the Bureau of Land and Resources of East Ujimqin Banner is legally competent to issue this confirmation, and this confirmation does not contradict any laws of the PRC.

Application for production permit

A production permit in respect of any part of the Area has not been granted to Yanchang. The Directors understand that Yanchang, as holder of the mineral rights for the Area, has made an application to MOLR for a production permit for Unit 2 and Unit 19 in Block 212. The management of the PRC Target has indicated that they do not foresee any material impediment in respect of the application, and expects the production permit to be granted in the second half of 2016. Based on the industry knowledge of the management of the PRC Target, the PRC Target estimates that the production permit in respect of Unit 2 and Unit 19 of Block 212 will be granted by November 2016. The management of the PRC Target expects that after the production permit is granted by MOLR to Yanchang, Yanchang will renew the EPCC with the PRC Target with reference to the effective period of the production permit in accordance with the First Confirmation Letter, which is usually 20 years and shall be renewable upon expiration of the initial effective period. According to the memorandum dated 29 June 2016 of Haiwen & Partners, the PRC legal advisors to the Company, having considered the related laws regarding the application of production permits and the results of its interview with officers of MOLR, (a) subject to the provision of documents/information required, there should not be any legal impediment for Yanchang to be granted the production permit in respect of Unit 2 and Unit 19 of Block 212, and (b) Yanchang shall legally be obligated to renew the EPCC with the PRC Target equal to the term of the production permit as per the First Confirmation Letter if the PRC Target has performed its obligations under the EPCC.

Risk of not being able to obtain or renew permits

If the production permit is not granted in respect of Unit 2 and Unit 19 of Block 212, current crude oil development and production work could continue so long as a valid exploration permit is maintained though exploration permits can be renewed from time to time.

If the exploration permits are not renewed and the production permit is not granted or temporary land use permit is not renewed, operations would have to cease in the relevant locations and the business operation, financial condition and results of operations of the PRC Target will be adversely affected.

However, for the reasons set out in the section headed "History and Business of the PRC Target — Relationship with Yanchang" on pages 228 to 231 of this circular, the Offeror and the Board (after consultation with the Offeror) believe that the risk in relation to failure to obtain a production permit, or to renew the exploration permits, is low. The Offeror and the Board (after consultation with the Offeror) are also not aware of any impediment to the continued renewal of the PRC Target's temporary land use permit, as confirmed by the Bureau of Land and Resources of the East Ujimqin Banner subject to its inspection approval process.

The PRC Target has also obtained another confirmation from the Bureau of Land and Resources of East Ujimqin Banner that up to the date of the confirmation on 28 September 2015, the PRC Target has not received any administrative punishment in respect of the agricultural land which the PRC Target had obtained temporary land use rights, the PRC Target had been complying with the related laws, regulations, guidelines, the use of the related agricultural land complied with the land planning, and had been approved in compliance with the related laws, the PRC Target had paid all necessary usage fees and the Bureau of Land and Resources of East Ujimqin Banner had not been involved in any dispute in respect of the use of this agricultural land. According to the legal opinion dated 29 June 2016 of Haiwen & Partners, the PRC Legal Advisors to the Company, the confirmations given by the Bureau of Land and Resources of East Ujimqin Banner do not contradict any PRC laws.

Effect on consideration for the Acquisition

The risk of failure to renew these or any other permits is not the subject of any indemnity from the Target Sellers, and the Company has taken into account these risks when agreeing to the consideration for the Acquisition. The consideration was agreed by the Company with reference to, among other things, the estimated value of the PRC Target's working interests in Block 212. According to the Competent Evaluator's Report as set out in Appendix VIII to this circular, the Competent Evaluator is of the opinion that the oil reserves pertaining to the PRC Target's working interest in Block 212 under the EPCC had a fair market value in the range of US$120 million to US$130 million (equivalent to approximately RMB790 million to RMB855 million) as at 31 December 2015 based on VALMIN Code. The Company understands that when determining the estimated fair market value, the Competent Evaluator has considered various risks, including the PRC Target's (as operator) capability, facility and environmental liabilities, risk of securing production permit, development risks, costs, oil price, timetable for the development plan and litigation. Shareholders may refer to the Competent Evaluator's Report for details of the Competent Evaluator's assessment of those risks.

RESERVES

The following tables set forth the PRC Target's reserve data for Block 212 in MMstb as of 31 December 2015, adopting the definitions under PRMS and based on an expected production life of 20 years. The net reserves figures represent the PRC Target's 80% revenue interest under the EPCC. As at the Latest Practicable Date, no material exploration work has been undertaken for Block 378, therefore no reserves have been stated for Block 378.

	As of 31 December 2015	
	Gross	**Net**
	(MMstb)	*(MMstb)*
Proved (1P)	10.1	8.1
Proved + Probable (2P)	14.2	11.4

	As of 31 December 2015	
	Gross	**Net**
	(MMstb)	*(MMstb)*
Possible	4.7	3.8

GEOGRAPHICAL LOCATION AND ACCESS TO THE AREA

The Area is located in East Ujimqin Banner and West Ujimqin Banner, Xilin Gol League, Inner Mongolia of the PRC. It can be accessed from the nearest major city, Xilinhot, via provincial road S101, and then by a dirt road to Block 212 and Block 378. Please refer to the section headed "History and Business of the PRC Target — The Area" on pages 235 to 240 of this circular for further details.

BUSINESS MODEL

The PRC Target engages in exploration, development and production of crude oil in cooperation with Yanchang under the EPCC. Yanchang is a branch company of Shaanxi Yanchang Petroleum (Group) Company Limited, a state-owned enterprise that is one of four enterprises which can own mineral rights in respect of upstream oil and gas resources in the PRC, and owns the oil exploration rights in respect of the Area pursuant to exploration permits granted by MOLR since 2008 (in respect of Block 378) and 2009 (in respect of Block 212). The exploration permits are renewed every two years and currently will expire on 5 March 2017 in respect of Block 212 and on 9 November 2017 in respect of Block 378. Under the EPCC, Yanchang has granted the PRC Target the right to explore and extract crude oil from the Area.

Pursuant to the terms of the EPCC, the PRC Target is responsible for formulating investment, production and exploration work implementation plans for Yanchang's review. The PRC Target is required to make actual work of not less than RMB30,000 per km^2 per year for the Area. The PRC Target is entitled to share 80% of the proceeds from the sale of the crude oil produced from the Area whilst Yanchang is entitled to the remaining 20% of the proceeds.

Settlement of amounts due to Yanchang by the PRC Target shall be made on a monthly basis. Other principal terms of the EPCC are set out in the section headed "History and Business of the PRC Target — EPCC" on pages 225 to 227 of this circular.

The PRC Target has been responsible for making all decisions in respect of the exploration, development and production plans and works on the Area and other related operations, other than that the PRC Target shall only sell to customers designated by Yanchang. In connection with the annual investment plans, quarterly production plans and exploration work implementation plans, the PRC Target also prepares the operating budgets in respect of the exploration, development and production works.

According to the Internal Management Guidelines of Yanchang, any exploration and production cooperation contract in respect of projects in exploration stages shall be of a term of no more than two years, in line with the requirements of MOLR where exploration permits are renewable every two years. If the projects reach production stage, the term of the related exploration and production cooperation contract shall be extended appropriately. Since 2010, the PRC Target has renewed its EPCC with Yanchang after expiry of each EPCC term.

Further, as set out in the First Confirmation Letter, Yanchang has stated that it has established a history of good working relationship with the PRC Target and confirmed to the PRC Target that it will renew the EPCC with the PRC Target, for so long as the PRC Target has performed its obligations under the EPCC, equal to the term of the related oil exploration and/or production permits held by Yanchang from time to time. Due to the PRC Target's tightening liquidity and cash management, as of 31 December 2015, about RMB74.2 million of revenue sharing monies payable by the PRC Target to Yanchang under the EPCC were due and remain outstanding (as further detailed in the section headed "History and Business of the PRC Target — Relationship with Yanchang" in this circular), which is not in accordance with the terms of the EPCC. Whilst the PRC Target has not fully complied with the terms of the EPCC, Yanchang has confirmed in the Second Confirmation Letter that it will not terminate the EPCC as a result of these overdue amounts payable to Yanchang. Yanchang decided to renew the EPCC in 2015 and again in 2016 despite the overdue outstanding payments. It is the intention of the Offeror and the PRC Target that the Company will use part of the net proceeds from the Subscription to allow the PRC Target to repay the amount payable to Yanchang after completion of the Transactions takes place once the monies from the Subscription are transmitted from the Company in Hong Kong to the PRC Target in the PRC (which based on the current tentative timetable, the Company estimates that the repayment shall take place in August or September 2016). Up to the Latest Practicable Date, the PRC Target has not received any indication or notice from Yanchang that it will terminate the EPCC.

The Company understands from its PRC legal advisors that based on their understanding of the rules and regulations and the market practice, subject to the provision of documents/ information required, there should not be any legal impediment for Yanchang to be granted the production permit in respect of Unit 2 and Unit 19 of Block 212, and that pursuant to the First Confirmation Letter, Yanchang shall be legally obligated to renew the EPCC with the PRC Target equal to the term of the production permit if the PRC Target has performed its obligations under the EPCC. The PRC Target believes that the First Confirmation Letter will help it secure a long-term working interest in the Area under the EPCC.

Save for customer selection, the PRC Target enjoys a high degree of autonomy in the exploration and development of the Area. The PRC Target's sole customer is designated by Yanchang. A framework agreement has been signed between Yanchang and the Customer, and the PRC Target is entrusted to sell its entire production of crude oil to the Customer. The PRC Target is not a party to the framework agreement between Yanchang and the Customer. Material terms of the framework agreement, such as the manner in which the price of crude oil is determined, are set out in the section headed "History and Business of the PRC Target — Suppliers and Customer" on pages 267 to 274 of this circular.

COMPETITIVE LANDSCAPE

With regard to the exploration and development of crude oil extraction in the Area, the PRC Target does not encounter competition as the sole operator of the Area. However, the Restructured Group may explore new locations or acquire other operators. According to Wood Mackenzie, the PRC government is in the process of reforming the PRC's oil industry, which could encourage competition between NOCs and provide expansion opportunities to independent E&P operators like the Restructured Group. Please refer to "Appendix I — Industry Overview" on pages I-1 to I-15 of this circular for further details.

COMPETITIVE STRENGTHS

The Offeror and the Board (after consultation with the Offeror) believe the following competitive strengths distinguish the PRC Target from its competitors:

- Its high reserve-to-production ratio and further exploration potential;
- Its seasoned management team with extensive industry experience, operating and business development capability;
- Its proven track record in developing tight oil resources;
- Its strong support from the Offeror's shareholders; and
- Its good operational standard and management system.

Please refer to the section headed "History and Business of the PRC Target — Competitive Strengths" on pages 219 to 221 of this circular for further details.

BUSINESS STRATEGIES

After the Acquisition Completion, the Company and the Offeror will pursue the following business strategies of the Restructured Group:

- Enhance production in core areas by implementation of comprehensive development plan;

- Increase reserves through continued development and delineation of contingent and prospective areas;

- Continue to focus on cost control, operational efficiency and application of mature technologies;

- Capture oil and gas industry reform opportunities to enter new exploration projects in China; and

- Selectively make strategic acquisitions of oil assets overseas.

Please refer to the section headed "History and Business of the PRC Target — Business Strategies" on pages 222 to 225 of this circular for further details.

PRODUCT AND CUSTOMER

The crude oil produced from the Area contains less than 0.5% sulfur. The average gravity of the crude oil produced from the Area is 0.87, which translates to an API gravity of 31 degrees. The above indicators show that crude oil produced from the Area is generally described as "light" to "medium".

During the Track Record Period, the PRC Target had one single customer which is designated by Yanchang. Please refer to the section headed "History and Business of the PRC Target — Suppliers and Customer" on pages 267 to 274 of this circular for further details.

EXPLORATION, DEVELOPMENT AND PRODUCTION

The PRC Target conducts exploration work to understand oil reservoirs and locate suitable locations for drilling oil wells. Due to the relatively low porosity and permeability of the oil reservoirs in Block 212, they are regarded as tight oil and more generally as unconventional oil assets. Crude oil is extracted from the PRC Target's wells and transferred to the PRC Target's oil gathering station, where it is processed by separating water and natural gas from the crude oil. Crude oil separated from water and natural gas is passed from the 3-phase separator to storage tanks to await collection. Please refer to the section headed "History and Business of the PRC Target — Exploration, Development and Production" on pages 241 to 246 of this circular for further details.

The PRC Target has formulated a plan to move the development of Unit 2 and Unit 19 of Block 212 on to commercial production, details of which are set out in the section "History and Business of the PRC Target — Future Plans for Commercial Production" on pages 246 to 260 of this circular. The Company shall issue updates to the Shareholders regarding the development of Block 212, and the utilisation of proceeds from the Subscription and the CN Subscription, in each year's interim results announcement and annual results announcement. The Company shall also make announcements on a timely basis in respect of any major development of Block 212 which constitutes inside information.

As at the Latest Practicable Date, the PRC Target has principally been carrying out exploration, development and production activities in Block 212. Save for 2D seismic survey and analysis carried out in 2013, no material exploration work on Block 378 has been carried out up to the Latest Practicable Date. Based on the seismic data and other information available, with the remaining areas in Block 212 and Block 378 sharing close geophysical structure and formation history with Unit 2 and Unit 19, the PRC Target considers that these remaining areas can potentially contain valuable oil and gas assets which can be further explored and developed. With regard to Block 378, the PRC Target has entered into the Services Agreement with Hongjin Engineering, pursuant to which Hongjin Engineering will carry out exploration and development works in Block 378. As consideration under the Services Agreement, the PRC Target shall pay Hongjin Engineering a fixed fee of RMB30,000,000 within three years of the date of the Services Agreement, and a further success fee of RMB200,000,000 if certain benchmark exploration results are achieved. Other principal terms of the Services Agreement are set out in the section headed "History and Business of the PRC Target — Services Agreement and the Early Termination Right" on pages 231 to 234 of this circular.

SUPPLIERS AND CONTRACTORS

The PRC Target's suppliers are mainly service providers that provide oil and gas technical and engineering services. The PRC Target outsources oilfield technical and engineering requirements including seismic survey, drilling, coring, logging, casing, cementing, perforating, fracturing, testing and workover in Block 212 to independent third parties. Please refer to the section headed "History and Business of the PRC Target — Suppliers and Customer" on pages 267 to 274 of this circular for further details.

NON-COMPLIANCE INCIDENTS AND LITIGATION

During the Track Record Period and up to the Latest Practicable Date, the PRC Target had certain incidents of non-compliance with the applicable laws and regulations including those relating to the use of its oil gathering station, property titles, social insurance and housing provident fund contributions and taxation. The Offeror and the Board (after consultation with the Offeror) consider that these non-compliance incidents, whether individually or collectively, will not have a material impact on the PRC Target's business, financial conditions and results of operations. Please refer to the section headed "History and Business of the PRC Target — Non-compliance Incidents" on pages 283 to 288 of this circular for further details.

The PRC Target is currently a party to ongoing litigation brought against it by an independent third party. Please refer to the section headed "History and Business of the PRC Target — Litigation" on pages 288 to 289 of this circular for further details.

SELECTED OPERATIONAL AND FINANCIAL INFORMATION

The following is the selected operational and financial information of the PRC Target as at and for the years ended 31 December 2013, 2014 and 2015, derived from the section headed "Financial Information of the PRC Target" in this circular and "Appendix III — Accountants' Report on the PRC Target" to this circular.

Selected items of the statements of profit or loss and other comprehensive income

	For the year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	232,176	191,341	98,761
Gross profit	75,064	72,794	9,988
Profit before interest, income tax, depreciation and amortisation (EBITDA)	89,008	66,553	28,013
Loss before taxation	(22,911)	(9,653)	(25,193)
Loss and total comprehensive income for the year	(25,447)	(13,068)	(24,594)

Sales and production volume of crude oil

	For the year ended 31 December		
	2013	**2014**	**2015**
	bbl	*bbl*	*bbl*
Gross production volume	497,525	433,141	416,862
Gross sales volume	511,800	433,307	406,356
Net sales volume	409,440	346,645	325,085

Average unit selling price, unit selling cost, unit production cost before depreciation and amortisation and unit production cost*(Note)*

	For the year ended 31 December		
	2013	**2014**	**2015**
	RMB/bbl	*RMB/bbl*	*RMB/bbl*
Average unit selling price	567.1	552.0	303.8
Average unit selling cost	383.7	342.0	273.1
Average unit production cost before depreciation and amortisation	114.6	126.8	114.0
Average unit production cost	312.8	273.3	220.5

Note: During the Track Record Period, the average unit production cost was lower than the average unit selling cost because gross production volume was used in the calculation of average unit production cost and average unit production cost before depreciation and amortisation which includes the share of 20% production volume of crude oil to Yanchang. The average unit selling price and average unit selling cost were calculated using net sales (i.e. the revenue of the PRC Target) and net sales volume which excludes Yanchang's 20% share in sales.

Selected items of the statements of financial position

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets	656,698	606,682	555,669
Current assets	88,996	114,902	102,097
Current liabilities	620,599	614,197	354,845
Net current liabilities	531,603	499,295	252,748
Total assets less current liabilities	125,095	107,387	302,921
Non-current liabilities	48,760	44,120	32,728
Net assets	76,335	63,267	270,193

Selected items of the cash flow statements

	For the year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Net cash flows generated from/(used in) operating activities	103,809	81,428	(11,589)
Net cash flows used in investing activities	(60,232)	(21,078)	(37,360)
Net cash flows (used in)/generated from financing activities	(41,644)	(63,695)	54,106

Key financial ratios

	For the year ended/ As at 31 December		
	2013	**2014**	**2015**
Gross profit margin	32.3%	38.0%	10.1%
Net (loss)/profit margin before interest and tax	(4.8)%	0.9%	(18.9)%
Net loss margin	(11.0)%	(6.8)%	(24.9)%
Current ratio	0.14	0.19	0.29
Quick ratio	0.14	0.18	0.27
Gearing ratio	2.40	2.93	0.33
Debt-to-equity ratio	2.26	2.82	0.29
Return on assets	(3.4)%	(1.8)%	(3.7)%
Return on equity	(33.3)%	(20.7)%	(9.1)%
Interest coverage ratio	(0.95)	0.16	(2.89)

During the Track Record Period, the PRC Target recorded net losses for the three years ended 31 December 2015. The loss recorded during the Track Record Period was mainly due to (1) the lack of economies of scale prior to any further development plan, (2) decrease in oil market price and thus selling price, and (3) the exploration and fracturing work performed by the PRC Target, which affected its production costs and exploration expenses. Please refer to the section headed "Financial Information of the PRC Target" on pages 321 to 373 of this circular for further details on the PRC Target's financial information for the Track Record Period and "Appendix VI — Unaudited Pro Forma Financial Information of the Restructured Group" on pages VI–1 to VI–20 of this circular for an illustration of the financial information of the Restructured Group as a result of completion of the Transactions.

NPV Estimates

In Appendix VII and Appendix VIII to this circular, the Competent Person/Competent Evaluator has calculated various NPV estimates, taking into account various oil price scenarios, drilling schedules and discount rates. Independent Shareholders should note that the NPV estimates do not represent fair market value of the reserves, and can vary widely, in particular as a result of differing oil price assumptions, cost assumptions and discount rates. The Competent Person's/Competent Evaluator's post-tax NPV estimate attributable to the PRC Target's proved and probable reserves (at a 10% discount rate) drops from:

- US$169 million (equivalent to approximately RMB1,112 million) under the US$90 per barrel (equivalent to approximately RMB586.8 per barrel) case, to

- US$115 million (equivalent to approximately RMB757 million) under the base case oil price scenario, to

- US$82 million (equivalent to approximately RMB540 million) assuming an average 2016 oil price of US$32 per barrel and escalating thereafter (the PRC Target's lowest selling price of crude oil since 2013 was RMB208.7 per barrel (equivalent to US$32 per barrel), which represents the actual selling price per barrel received from the Customer, and assuming a 10% cost reduction by the PRC Target and drilling scheduled for commencement in 2016 delayed to 2018), and further drops to

- negative US$22 million (equivalent to approximately negative RMB145 million) assuming a constant oil price of US$26 per barrel (equivalent to approximately RMB169.5 per barrel) (being the lowest Brent Crude since 1 January 2016) and at which point, recovery of the PRC Target's undeveloped crude oil in Block 212 could become economically unviable.

The Competent Person's/Competent Evaluator's analysis of the above is set out in full in the Independent Technical Report in Appendix VII to this circular, and the Competent Evaluator's Report in Appendix VIII to this circular. Subsequent to the publication of this circular and up to the SGM, if there are any subsequent material changes in the view of the Competent Person/Competent Evaluator in the Independent Technical Report and/or the Competent Evaluator's Report and/or changes to the market conditions, including among other things, the general market view on oil price forecasts which may be material to the Independent Shareholders' assessment of the Transactions, the Company shall issue an announcement and/or a supplementary circular (where appropriate) accordingly.

IMPLICATIONS UNDER THE LISTING RULES AND THE TAKEOVERS CODE

The Acquisition constitutes: (a) a very substantial acquisition for the Company under Rule 14.06(5) of the Listing Rules as one or more of the relevant percentage ratios under Rule 14.07 of the Listing Rules are over 100% for the Company in relation to the Acquisition; and (b) a reverse takeover of the Company under Rule 14.06(6)(a) of the Listing Rules on the basis that the Acquisition (i) constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules; and (ii) the Acquisition will take place in connection with the Transfer.

Accordingly, the Acquisition is subject to the approval of the Independent Shareholders at the SGM.

As the Acquisition constitutes a reverse takeover of the Company, the Company is treated as if it were a new listing applicant under Rule 14.54 of the Listing Rules. The Company has submitted a new listing application to the Stock Exchange and the Acquisition will be subject to the approval of the Listing Committee. As the PRC Target's principal business relates to exploration, development and production of crude oil, the deemed new listing application of the Company is required to comply with all the applicable requirements under the Listing Rules, in particular the applicable requirements under Chapter 18 of the Listing Rules. As the Company is not able to satisfy the financial requirements under Rule 8.05 of the Listing Rules, the Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.05 of the Listing Rules. Please refer to the section headed "Waivers from Strict Compliance with the Listing Rules" on pages 313 to 320 of this circular for further details.

As one or more of the applicable percentage ratios in respect of the Divestment are 75% or more, the Divestment constitutes a very substantial disposal for the Company under Chapter 14 of the Listing Rules. Seller 1 is wholly owned by, and an associate of, Mr. Mo, a non-executive Director. Accordingly, the Divestment also constitutes a connected transaction for the Company. Pursuant to Chapter 14 and Chapter 14A of the Listing Rules, the Divestment Agreement and the transactions contemplated thereunder are therefore subject to the disclosure and the Independent Shareholders' approval requirements.

Since the Divestment is an arrangement made between the Company and Seller 1, the majority Shareholder, which is not capable of being extended to all Shareholders, the Divestment constitutes a special deal of the Company under Rule 25 of the Takeovers Code and requires the consent of the Executive. Such consent, if granted, will be subject to (i) an independent financial advisor publicly stating that in its opinion the terms of the Divestment are fair and reasonable; and (ii) the approval of the Divestment by the Independent Shareholders by way of poll at the SGM.

The Ordinary Subscription Shares and any New Conversion Shares which may fall to be issued by the Company upon conversion of the Preferred Shares and the Convertible Note will be issued under the Specific Mandates which are subject to the Independent Shareholders' approval at the SGM.

Resolutions will be proposed to approve (i) the Increase of Authorised Share Capital; (ii) the Transactions; (iii) the Specific Mandates; and (iv) the adoption of the New Bye-Laws. Voting at the SGM will be conducted by way of poll. Mr. Mo, Seller 1, the Offeror, Lin Dongliang (林棟梁), IDG Technology and their respective associates and any person who has a material interest or who are involved in or interested in any of the Transfer, the Subscription, the Acquisition, the CN Subscription and/or the Divestment will abstain from voting on each of the resolutions proposed at the SGM.

NON-COMPETITION DEED

In order to protect the interests of the Company, the Offeror, Titan Gas Holdings, Standard Gas, Kingsbury, Mr. Wang and Lin Dongliang (林棟梁) (collectively, the "**Covenantors**") has entered into a Non-Competition Deed in favour of the Company.

Pursuant to the Non-Competition Deed, each of the Covenantors has undertaken to the Company (for itself and for the benefit of its subsidiaries) that, save and except as disclosed in this circular, he/it will not, and would procure that his/its close associates (except any members of the Restructured Group (including any subsidiaries of the Company from time to time)) would not, during the effective period of the Non-Competition Deed, directly or indirectly, either on his/its own, through any company controlled by him/it or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or hold interests in or engage in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise) any business which is involved in any upstream crude oil exploration and/or production project in Inner Mongolia (save for the Excluded Project as defined in the section headed "Relationship between the Restructured Group and the Controlling Shareholders" in this circular).

In order to protect the interests of the Company, each of Mr. Wang and Lin Dongliang (林棟梁) has, under the Non-Competition Deed, granted to the Company: (1) an option to acquire his interests, direct or indirect, in the Excluded Companies (as defined in the section headed "Relationship between the Restructured Group and the Controlling Shareholders" in this circular) in whole if the Company considers that the Excluded Project has become competing with the business of the Restructured Group (subject to compliance with the relevant legal and regulatory requirements); and (2) rights of first refusal to purchase the Excluded Project or his/its direct or indirect interests in the Excluded Companies in the situation where any of them or any of their nominees wish to sell the whole or any part of their direct or indirect interests in the Excluded Companies or otherwise in the Excluded Project on the same terms as they are proposing to sell.

Each of the Covenantors has also, under the Non-Competition Deed, granted the Company the rights of first refusal to invest in any potential opportunity in upstream crude oil exploration and/or production in Inner Mongolia (other than the Excluded Project) that he/it is offered or has an access and a plan to pursue ("**Opportunity**"). Each of the Covenantors has undertaken that if he/it or his/its affiliates other than the Restructured Group is offered or becomes aware of any Opportunity, he/it will and he/it shall procure that his/its affiliates will notify the Company in writing of the Opportunity and use his/its best endeavours to procure that the Opportunity is first offered to the Company on terms and conditions no less favourable than those offered to him/it or his/its affiliates. If the Company declines any such offer (which is subject to the approval of the independent non-executive Directors), the Covenantor who is offered the Opportunity shall then be allowed to acquire the interests offered on terms no more favourable than those offered to the Company.

For more details, please refer to the section headed "Relationship between the Restructured Group and the Controlling Shareholders" on pages 290 to 297 of this circular.

TOTAL TRANSACTION-RELATED EXPENSES

The total transaction-related expenses incurred in relation to the Transfer and the Transactions are estimated to be approximately HK$60 million, which will be charged to the Group's profit or loss for the year ending 31 March 2017 assuming the Transactions will be completed on or before 31 March 2017. If the Transactions do not proceed to completion, the expenses incurred by the Company in respect of the Transactions (except the CN Subscription) will be borne by the Offeror and the Company will not be responsible for any of these expenses. The transaction-related expenses mainly comprise professional fees paid to the legal advisors, the reporting accountants and the Joint Sponsors for their services rendered in relation to the Transfer and the Transactions.

THE RESTRUCTURED GROUP WILL RECORD A SUBSTANTIAL AMOUNT OF LISTING EXPENSES IN THE FINANCIAL YEAR WHEN THE TRANSFER AND THE TRANSACTIONS COMPLETE, WHICH IS EXPECTED TO BE THE FINANCIAL YEAR ENDING 31 MARCH 2017

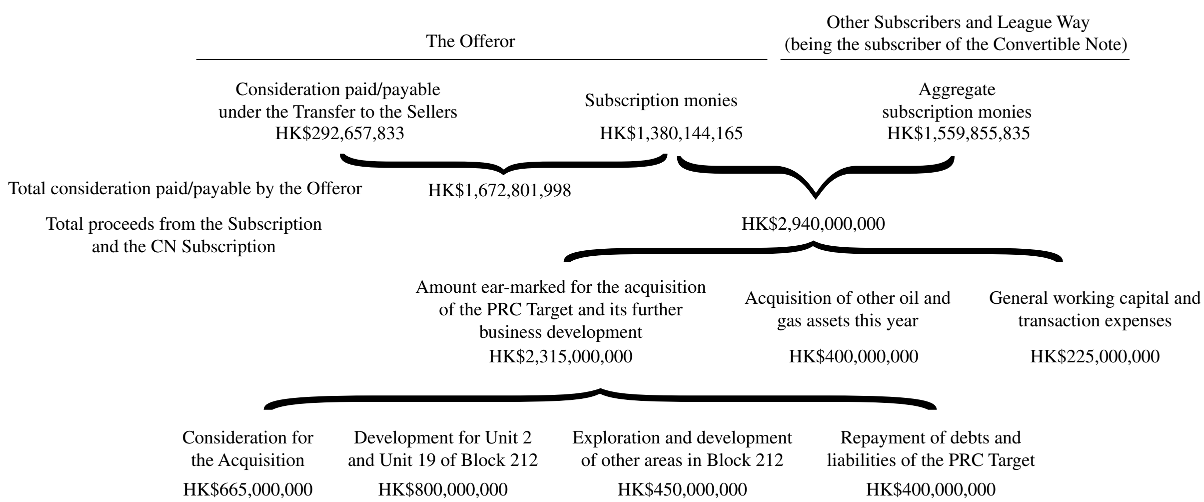
The Independent Shareholders shall pay particular attention that substantial deemed listing expenses are expected to be recognised in the consolidated income statement of the Restructured Group upon the S&P Completion and the completion of the Transactions. Details of the basis of the deemed listing expenses are set out in note 8 to the unaudited pro forma financial statements of the Restructured Group as set out in "Appendix VI — Unaudited Pro Forma Financial Information of the Restructured Group" to this circular. As set out in the unaudited pro forma financial statements of the Restructured Group, assuming that the Transfer and the Transactions were completed on 30 September 2015, the deemed listing expenses are estimated to be approximately HK$278.3 million, which represents 1.2 times of the loss attributable to the owners of the Company for the year ended 31 March 2015 and 9.5 times of the loss attributable to the owners of the PRC Target for the year ended 31 December 2015. As set out in Appendix VI to this circular, assuming the Transfer and Transactions were completed on 30 September 2015, the Restructured Group is estimated to have an unaudited pro forma loss of approximately HK$527 million.

Whilst such deemed listing expenses are notional expenses without any impact on the Restructured Group's net assets and cash flow, they would have a material adverse impact on the Restructured Group's results for the year ending 31 March 2017 (assuming that the Transfer and the Transactions will be completed that financial year based on the present estimated timetable). The Company does not consider these one-off notional non-cash accounting expenses shall have any adverse impact on the actual operations of the Restructured Group.

The Company will assess the impact of the listing expenses that the Restructured Group may record as a result of the Transactions closer to the time when the Transactions are to be completed and will make an announcement informing the Shareholders and the market an updated estimate of the listing expenses if the amount differs materially from that currently estimated as set out in the Unaudited Pro Forma Financial Information of the Restructured Group.

FUND FLOWS UNDER THE TRANSFER AND THE TRANSACTIONS

The following chart illustrates the fund flows under the Transfer and the Transactions.



USE OF PROCEEDS

The following table summarises the proposed use of the proceeds available from the Subscription, the CN Subscription and the Divestment. For more details, please refer to the section headed "Letter from the Board" on pages 61 to 154 of this circular.

Transaction	**Estimated gross proceeds (approximately)**	**Proposed use**
Subscription	HK$2,690 million	• approximately HK$60 million for the payment of expenses incurred in relation to the Transfer and the Transactions; • approximately HK$665 million for the payment of the consideration for the Acquisition; • approximately HK$400 million to finance the repayment of the PRC Target's outstanding payables and borrowings;

Transaction	Estimated gross proceeds (approximately)	Proposed use
		• approximately HK$800 million to finance the development plan of the currently explored areas in Block 212; • approximately HK$450 million for exploration and development of other areas in Block 212; • approximately HK$115 million to finance the operating expenses of the PRC Target as well as the Restructured Group; and • approximately HK$200 million for expanding the Restructured Group's business by acquiring other oil companies and the further exploration, development and production of the other newly acquired oil and gas projects.
CN Subscription	HK$250 million (being the CN Principal Amount)	• approximately HK$200 million to expand the Restructured Group's business by acquiring other oil companies and the further exploration, development and production of the other newly acquired oil and gas projects; and • approximately HK$50 million to finance the operations of the PRC Target and to be used as general working capital of the Restructured Group.
Divestment	HK$1,652,995 *(Note)*	General working capital of the Restructured Group.

Note: Based on the Initial Consideration (subject to adjustment)

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS OF THE RESTRUCTURED GROUP

As extracted from "Appendix VI — Unaudited Pro Forma Financial Information of the Restructured Group" to this circular, below is a summary showing (i) the net tangible liabilities attributable to the owners of the Company as at 30 September 2015 (including on a per share basis); and (ii) the unaudited pro forma adjusted net tangible assets attributable to the owners of the Restructured Group as at 30 September 2015 (including on a per share basis) assuming that the Convertible Bonds, the Preferred Shares and the Convertible Note have been fully converted to Ordinary Shares:

	Net tangible liabilities of the Group as at 30 September 2015	**Net tangible liabilities of the Group per share as at 30 September 2015**	**Unaudited pro forma adjusted net tangible assets of the Restructured Group as at 30 September 2015**	**Unaudited pro forma adjusted net tangible assets of the Restructured Group per share as at 30 September 2015**
	HK$'000	*HK$*	*HK$'000*	*HK$*
	Note a	*Note b*	*Note c*	*Note d*
Net tangible (liabilities)/assets attributable to the owners of the Company	(121,325)	(0.35)	2,500,834	0.38

Notes:

a. The net tangible liabilities of the Group as at 30 September 2015 is based on the consolidated net liabilities attributable to the owners of the Company of HK$121,325,000 as at 30 September 2015.

b. The number of Ordinary Shares used for the calculation of the net tangible liabilities of the Group per Ordinary Share is 347,326,000, being the number of Ordinary Shares in issue as at 30 September 2015.

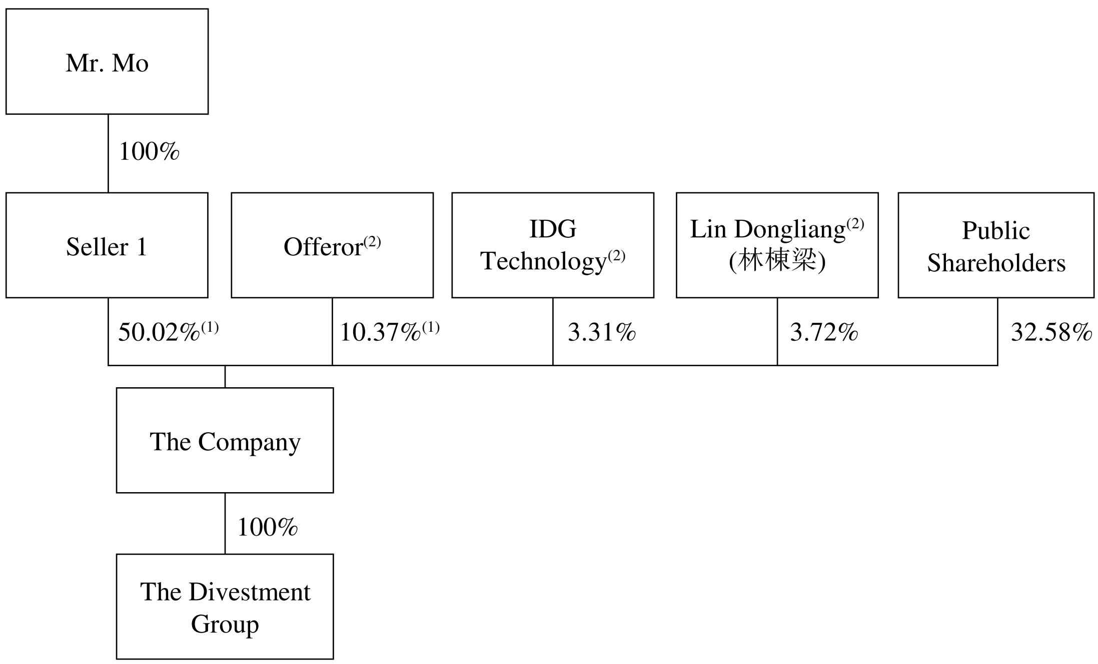
c. The unaudited pro forma adjusted net tangible assets of the Restructured Group are arrived at after the adjustments referred to in the paragraphs as detailed in Appendix VI to this circular and calculated based on the amount of the unaudited pro forma adjusted net liabilities attributable to the owners of the Company as at 30 September 2015, which is extracted from the unaudited pro forma consolidated statement of financial position of the Restructured Group, after excluding intangible assets of approximately HK$30,356,000 and liabilities of the Convertible Bonds and Convertible Note of approximately HK$322,404,000 assuming the Convertible Bonds and Convertible Note are fully converted.

d. The number of Ordinary Shares used for the calculation of the unaudited pro forma adjusted net tangible assets of the Restructured Group per Ordinary Share is 6,523,721,287, comprising (i) 347,326,000 Ordinary Shares in issue as at 30 September 2015; (ii) 1,785,714,285 CB Conversion Shares assumed to be converted from the Convertible Bonds as at 30 September 2015; (iii) 1,269,414,575 Ordinary Subscription Shares to be issued and 2,747,909,199 New Conversion Shares assumed to be converted from the Preferred Shares to be issued upon the Subscription Completion; (iv) 373,357,228 CN Conversion Shares assumed to be converted from the Convertible Note to be issued upon the CN Subscription Completion. The above assumes that each of the Subscription and the CN Subscription becomes unconditional and all the Convertible Bonds, Preferred Shares and Convertible Note have been fully converted into Ordinary Shares.

SHAREHOLDING STRUCTURE

The following charts set out the shareholding structure of the Group (i) as at the Latest Practicable Date, (ii) immediately upon completion of the Transfer and the Transactions and (iii) after conversion of the Preferred Shares, the Convertible Note and the Convertible Bonds, so as to illustrate the effects of the Transfer and the Transactions. Additional charts setting out further scenarios are provided in the section headed "Letter from the Board" in this circular.

Existing shareholding structure of the Group as at the Latest Practicable Date

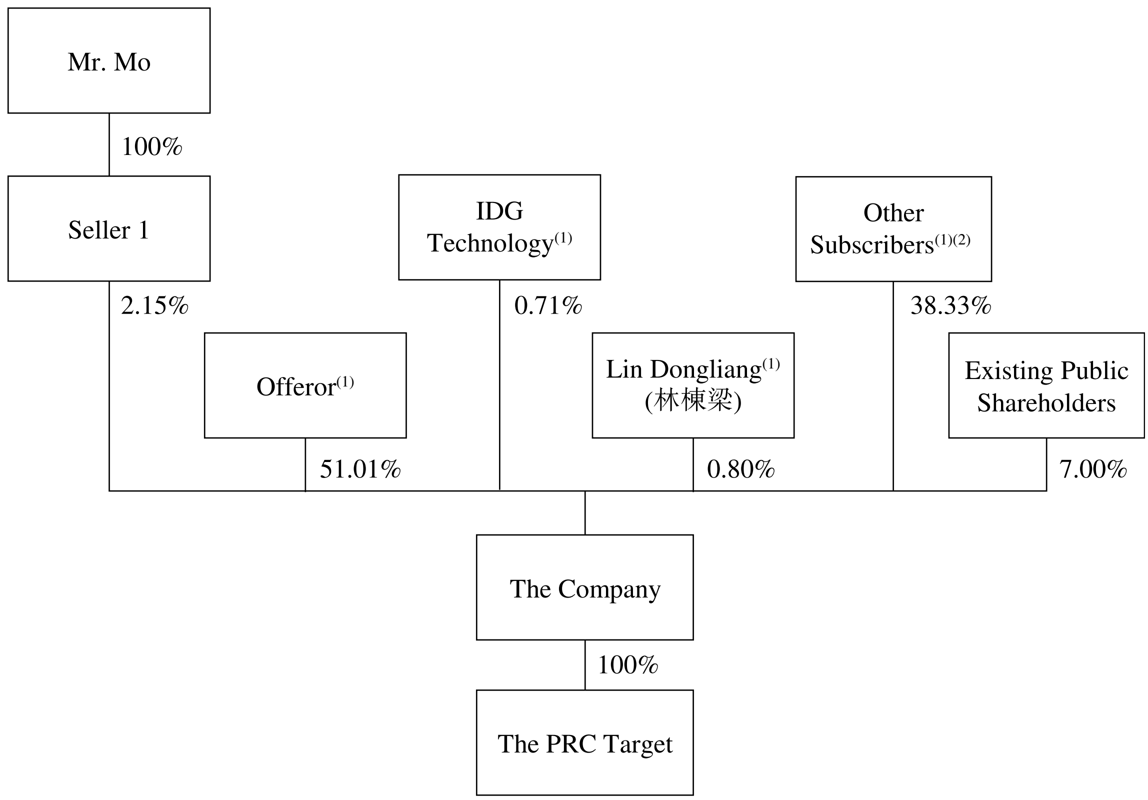


Notes:

(1) After completion of the Tranche 1 Sale Completion on 27 October 2015, Seller 1 transferred a 10.37% interest in the Company to the Offeror under the Transfer.

(2) The Offeror, IDG Technology and Lin Dongliang (林棟梁) are parties acting in concert.

Shareholding structure of the Restructured Group immediately upon completion of the Transfer and the Transactions

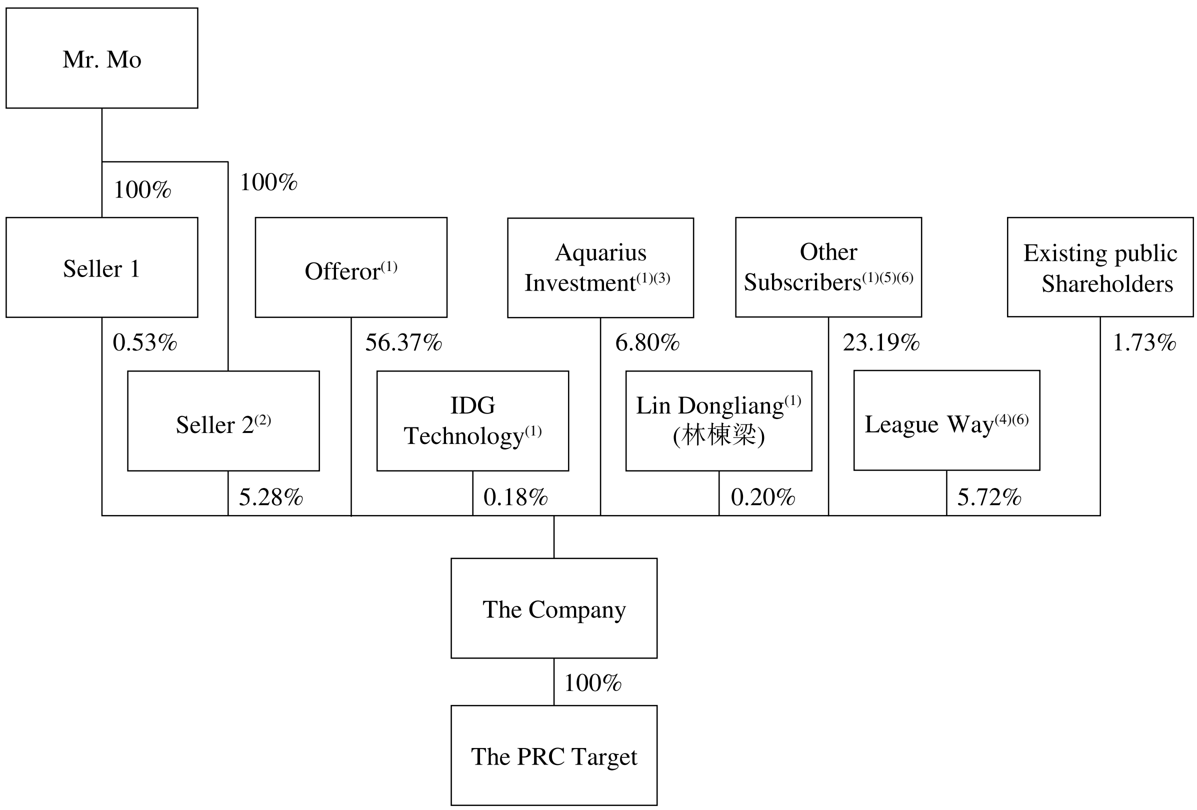


Notes:

(1) The Offeror, IDG Technology, Lin Dongliang (林棟梁) and the other Subscribers are regarded as parties acting in concert for the purpose of the Transfer and the Transactions.

(2) The other Subscribers (other than the Offeror) represent the Public Shares Subscribers that will subscribe for the Ordinary Subscription Shares and are regarded as public Shareholders as explained in detail in the paragraph headed "Shareholding structure" in the section headed "Letter from the Board" set out in this circular.

Shareholding structure of the Restructured Group after conversion of the Preferred Shares, the Convertible Note and the Convertible Bonds



Notes:

(1) The Offeror, IDG Technology, Lin Dongliang (林棟梁), Aquarius Investment and the other Subscribers are regarded as parties acting in concert for the purpose of the Transfer and the Transactions.

(2) Seller 2 is the holder of the Excluded Bonds.

(3) Aquarius Investment is one of the Subscribers subscribing for the Preferred Shares under the Subscription.

(4) League Way will subscribe for the Convertible Note under the CN Subscription.

(5) The other Subscribers represent the Public Shares Subscribers that will subscribe for the Ordinary Subscription Shares and/or the Preferred Shares (other than the Offeror and Aquarius Investment).

(6) League Way and the other Subscribers (other than the Offeror and Aquarius Investment) are regarded as public Shareholders as explained in detail in the paragraph headed "Shareholding structure" in the section headed "Letter from the Board" set out in this circular.

DIVIDENDS

The Company has not formulated any dividend policy and does not have any predetermined dividend payout ratio. After completion of the Transactions, the PRC Target will become a wholly-owned subsidiary of the Company. Any distribution which may be made by the PRC Target thereafter will belong to the Company. The payment and the amount of any dividends of the Company, if paid, would depend on the results of operations, cash flows, financial position, statutory and regulatory restrictions on the payment of dividends, future prospects and other factors that the Directors may consider relevant. Shareholders will be entitled to receive such dividends pro rata according to the amount paid up or credited as paid up on the Shares. The declaration, payment and amount of dividends will be subject to the Directors' discretion. For further details, please refer to the section headed "Financial Information of the PRC Target — Dividends" on page 372 of this circular.

RECENT DEVELOPMENTS SUBSEQUENT TO TRACK RECORD PERIOD

Subsequent to the Track Record Period and up to the end of April 2016, the oil market price continued to be volatile, while one of the PRC Target's referenced oil market prices, Brent Crude, reached the lowest price of approximately US$26 per barrel (equivalent to approximately RMB169.5 per barrel) on 20 January 2016 but gradually increased back to around US$48 per barrel (equivalent to approximately RMB313.0 per barrel) as at 30 April 2016. Accordingly, the PRC Target's average selling price dropped from approximately RMB303.8 per barrel (equivalent to approximately US$46.6 per barrel) for the year ended 31 December 2015 to approximately RMB214.6 per barrel (equivalent to approximately US$32.9 per barrel) for the four months ended 30 April 2016. This affected the PRC Target's revenue level in these four months ended 30 April 2016. Save for the above, the directors of the PRC Target confirm that there was no other material adverse change in the PRC Target's business operation and business environment in which the PRC Target is operating subsequent to the Track Record Period. Notwithstanding the above, the Directors currently expect that the Group's financial results for the year ending 31 March 2017 (assuming that the Transactions complete during this financial year) will be negatively impacted by the non-recurring transaction-related expenses and deemed listing expenses to be recognised as expenses in the income statement of the Group.

NO MATERIAL ADVERSE CHANGE

Save as disclosed in the paragraph headed "Recent Developments Subsequent to Track Record Period", the directors of the PRC Target confirm that since 31 December 2015, being the date of the latest audited financial statements of the PRC Target, and up to the date of this circular, there has been no material adverse change in the PRC Target's financial or trading position or prospects. The directors of the PRC Target also confirm that there have been no events since 31 December 2015 which would materially affect the information shown in "Appendix III — Accountants' Report on the PRC Target" to this circular.

In this circular, unless the context otherwise requires, the following terms shall have the meanings set out below.

"Acquisition"	the sale and purchase of the entire equity interest in the PRC Target as contemplated under the Acquisition Agreement
"Acquisition Agreement"	the agreement dated 22 June 2015 (as amended on 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016) and entered into among the Company, the Target Sellers and the PRC Target regarding the Acquisition
"Acquisition Completion"	completion of the Acquisition in accordance with the terms and conditions of the Acquisition Agreement
"Acquisition Conditions"	the conditions precedent to the Acquisition Agreement
"acting in concert"	has the meaning ascribed in the Takeovers Code
"Adjusted CB Conversion Price"	the adjusted conversion price at which the CB Conversion Shares will be allotted and issued upon the exercise of the conversion rights attached to the Convertible Bonds, being HK$0.0672 per CB Conversion Share as a result of the Subscription and the CN Subscription which shall become effective on the date of completion of the Transactions
"Adjustment Amount"	the sum of the following: (a) the amount (which, for the avoidance of doubt, can either be a positive amount or a negative amount) of (i) the aggregate fair market value of the Real Properties set forth in this circular, minus (ii) the aggregate book value of the Real Properties (including any related leasehold improvement) as reflected in the Company's audited accounts for the financial year ended 31 March 2015; and (b) the amount (which, for the avoidance of doubt, can either be a positive amount or a negative amount) of (i) the aggregate net amount of the Current Accounts Receivable as of the date of the Divestment Completion, minus (ii) HK$257,513,295, being the aggregate net amount of the Current Accounts Receivable as of 31 March 2015
"ADS"	American Depository Shares in respect of shares in SouFun

"Aquarius Investment"	Aquarius Growth Investment Limited, a company incorporated in the BVI, being one of the Subscribers
"Area"	Block 212 and Block 378, which consists of a total area of approximately 591 km^2 located in 中國內蒙古自治區錫林郭勒盟東烏珠穆沁旗及西烏珠穆沁旗 (East Ujimqin Banner and West Ujimqin Banner, Xilin Gol League, Inner Mongolia Autonomous Region, the PRC*)
"Block 212"	an area of approximately 212.9 km^2 which forms part of the Area
"Block 378"	an area of approximately 378.1 km^2 which forms part of the Area
"Board"	the board of Directors
"BOSC International"	BOSC International Company Limited, licensed to conduct type 1 (dealing in securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
"BVI"	British Virgin Islands
"Bye-laws"	bye-laws of the Company as may be amended from time to time
"CAPEX"	capital expenditure
"CB Conversion Share(s)"	new Ordinary Share(s) to be allotted and issued by the Company pursuant to the exercise of the conversion rights attached to the Convertible Bonds
"Claimant"	北京炅湘鈺技術開發有限公司 (Beijing Jiongxiangyu Technology Development Co. Ltd.*), a company incorporated in the PRC which is the claimant in the litigation involving, among others, the PRC Target described in the section headed "History and Business of the PRC Target — Litigation" in this circular
"CN Conditions"	the conditions precedent to the CN Subscription Agreement
"CN Conversion Share(s)"	new Ordinary Share(s) to be allotted and issued by the Company pursuant to the exercise of the conversion rights attached to the Convertible Note
"CN Principal Amount"	the principal amount of the Convertible Note of HK$250,000,000

"CN Relevant Period"	the period commencing from the date of the CN Subscription Completion and ending on the date on which the cash offer made by the Offeror to acquire the Convertible Note and all the Convertible Bonds (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) (if any) closes or lapses
"CN Subscription"	subscription of the Convertible Note under the CN Subscription Agreement
"CN Subscription Agreement"	the subscription agreement dated 22 June 2015 (as amended on 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016) entered into among the Company, League Way and the Offeror in relation to the issue of the Convertible Note
"CN Subscription Completion"	completion of the CN Subscription in accordance with the terms and conditions of the CN Subscription Agreement
"Companies Act"	the Companies Act of 1981 of Bermuda
"Company"	Shun Cheong Holdings Limited, a company incorporated in Bermuda with limited liability and the Ordinary Shares of which are listed on the Main Board of the Stock Exchange
"Competent Evaluator's Report"	the report prepared by the Competent Evaluator on Block 212 in compliance with Chapter 18 of the Listing Rules, the text of which is set forth in Appendix VIII to this circular
"Competent Person" or "Competent Evaluator"	Gaffney, Cline & Associates (Consultants) Pte. Ltd., a company incorporated in Singapore qualified under Chapter 18 of the Listing Rules as a competent person and a competent evaluator, and an independent third party of the Company
"Composite Document"	the composite offer document combining the offer document to be issued by the Offeror and the offeree board circular to be issued by the Company (together with the Form of Acceptance) in respect of the Offer to be despatched to the registered Shareholders in accordance with the Takeovers Code
"Controlling Shareholders"	the controlling shareholders of the Company after the Transfer as identified in the section headed "Relationship between the Restructured Group and the Controlling Shareholders — Controlling Shareholders" in this circular

"Convertible Bonds"	the convertible bonds with an aggregate principal amount of HK$120,000,000 issued by the Company to Seller 2 pursuant to a subscription agreement between the Company and Seller 2 dated 29 October 2007 and as amended by two separate deeds on 28 March 2013 and 3 June 2014 with the maturity date of 30 April 2018
"Convertible Note"	a convertible promissory note to be issued by the Company with a principal amount of HK$250,000,000 pursuant to the CN Subscription Agreement
"Current Accounts Receivable"	aggregate amount of (a) the net account receivable owed by Target 1 to the Company; (b) the net account receivable owed by Target 2 to the Company; and (c) the net account receivable owed by a subsidiary of Target 1 to the Company
"Customer"	東烏珠穆沁旗天浩石化有限公司 (East Ujimqin Banner Tianhao Petrochemical Limited*), the current sole customer of the PRC Target designated by Yanchang pursuant to the EPCC
"Director(s)"	the director(s) of the Company
"Divestment"	the disposal of the Divestment Shares and the assignment of the Current Accounts Receivable by the Company in accordance with the terms and conditions of the Divestment Agreement
"Divestment Agreement"	the agreement dated 22 June 2015 (as amended on 23 October 2015, 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016) and entered into between the Company and Seller 1 regarding the Divestment
"Divestment Completion"	completion of the Divestment in accordance with the terms and conditions of the Divestment Agreement
"Divestment Conditions"	the conditions precedent to the Divestment Agreement
"Divestment Group"	being Target 1, Target 2 and their respective subsidiaries
"Divestment Shares"	the 100 ordinary shares in Target 1 held by the Company, representing 100% of the issued and outstanding share capital of Target 1, and the 100 ordinary shares in Target 2 held by the Company, representing 100% of the issued and outstanding share capital of Target 2
"EIT"	enterprise income tax

"EIT Law"	PRC Enterprise Income Tax Law
"EPCC"	exploration and production cooperation contract entered into between the PRC Target and Yanchang in respect of the Area since 2010 as renewed on 1 July 2012, 23 June 2015, 2 February 2016 and from time to time thereafter
"Essence Securities"	Essence International Securities (Hong Kong) Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO, being the agent making the Offer on behalf of the Offeror
"Excluded Bonds"	the Convertible Bonds with an aggregate principal amount of HK$23,167,474 held by Seller 2, being all the Convertible Bonds held by Seller 2 as at the date of the S&P Agreement less the Sale Bonds, and of which Seller 2 has irrevocably and unconditionally undertaken in the S&P Agreement in favour of the Offeror that during the Relevant Period Seller 2 shall not: (i) directly or indirectly, (a) offer, (b) sell, transfer, give or otherwise dispose of, (c) grant any option, right or warrant to purchase in respect of, (d) charge, mortgage, pledge or otherwise create an encumbrance over, or (e) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the legal, beneficial or economic consequences of ownership of, all or any of the Sale Bonds and the Excluded Bonds or any interest therein, except other than as contemplated under the S&P Agreement; (ii) accept an offer (if any) to be made by the Offeror to acquire all the Convertible Bonds (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) in respect of the Excluded Bonds; and (iii) convert any of the Excluded Bonds into Ordinary Shares

"Excluded Shares"	34,753,409 Ordinary Shares held by Seller 1, being all of the Ordinary Shares held by Seller 1 as at the date of the S&P Agreement less the Sale Shares, and of which Seller 1 has irrevocably and unconditionally undertaken in the S&P Agreement in favour of the Offeror that during the Relevant Period that Seller 1 shall not: (i) directly or indirectly, (a) offer, (b) sell, transfer, give or otherwise dispose of, (c) grant any option, right or warrant to purchase in respect of, (d) charge, mortgage, pledge or otherwise create an encumbrance over, or (e) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the legal, beneficial or economic consequences of ownership of, all or any of the Sale Shares and the Excluded Shares or any interest therein, except other than as contemplated under the S&P Agreement; (ii) accept the Offer in respect of the Excluded Shares; and (iii) acquire any Ordinary Shares or any interest in Ordinary Shares, other the Ordinary Shares or an interest in Ordinary Shares deriving from the Excluded Shares
"Executive"	the Executive Director of the Corporate Finance Division of the SFC and any delegate of the Executive Director
"Existing CB Conversion Price"	the conversion price at which the CB Conversion Shares will be allotted and issued upon the exercise of the conversion rights attached to the Convertible Bonds, being HK$0.3695 per CB Conversion Share before any adjustment as a result of the Subscription and the CN Subscription
"First Confirmation Letter"	the confirmation letter issued by Yanchang to the PRC Target dated 26 May 2015 confirming, among other things, that it will renew the EPCC with the PRC Target equal to the term of the relevant exploration and/or production permit, as long as the PRC Target has performed its obligations under the EPCC
"Form of Acceptance"	the accompanying form of acceptance and transfer of Ordinary Shares in respect of the Offer
"GDP"	gross domestic product
"Group"	the Company and its subsidiaries
"HKFRS"	Hong Kong Financial Reporting Standards
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"Hongbo Investment"	上海宏博投資管理(集團)有限公司 (Shanghai Hongbo Investment & Management (Group) Co., Ltd*), formerly known as 上海宏博投資管理有限公司 (Shanghai Hongbo Investment & Management Co. Ltd.*), a company incorporated in the PRC with limited liability and ultimately held as to 80% by Shi Jianji (石建極) and 20% by Shi Wei (石為)
"Hongjin Engineering"	錫林郭勒盟宏錦工程技術服務有限公司 (Xilin Gol League Hongjin Engineering Technical Service Company Limited*), a company incorporated in the PRC with limited liability and held as to 60% by Hongbo Investment and 40% by Lida Investment, which (along with their respective ultimate owners), to the best knowledge, information and belief of the Directors having made all reasonable enquiries, are independent third parties and not connected with the Company or its connected persons nor the Offeror or parties acting in concert with the Offeror as at the Latest Practicable Date
"IDG-Accel Capital II"	IDG-Accel China Capital II L.P., an exempted limited partnership registered in the Cayman Islands under the Exempted Limited Partnership Law (as amended)
"IDG-Accel Investors II"	IDG-Accel China Capital II Investors L.P., an exempted limited partnership registered in the Cayman Islands under the Exempted Limited Partnership Law (as amended)
"IDG-Accel Ultimate GP"	IDG-Accel China Capital GP II Associates Ltd., an exempted company incorporated in the Cayman Islands, being the ultimate general partner of each of IDG-Accel Capital II and IDG-Accel Investors II
"IDG Capital Partners"	IDG Funds together with its affiliated funds which primarily focus on investing in PRC related venture capital and private equities projects
"IDG Funds"	collectively, IDG-Accel Capital II and IDG-Accel Investors II, which together own approximately 49.14% of the issued share capital of Titan Gas Holdings
"IDG Technology"	IDG Technology Venture Investment III, L.P., a limited partnership formed under the laws of the State of Delaware, the US, being the direct sole beneficial owner of an aggregate of 11,500,000 Ordinary Shares

"Increase of Authorised Share Capital"	the increase of the authorised share capital of the Company from HK$80,000,000 to HK$130,000,000 divided into 8,000,000,000 Ordinary Shares of HK$0.01 each and 5,000,000,000 Preferred Shares of HK$0.01 each as referred to in the Increase of Authorised Share Capital and Adoption of New Bye-laws Resolution
"Increase of Authorised Share Capital and Adoption of New Bye-laws Resolution"	the special resolution proposed to be passed by the Independent Shareholders at the SGM approving, inter alia, the increase of the authorised share capital of the Company from HK$80,000,000 to HK$130,000,000 by the creation of 5,000,000,000 Preferred Shares of HK$0.01 each, such Preferred Shares having the rights, privileges and restrictions as set out in the New Bye-laws, such that the authorised share capital of the Company shall become HK$130,000,000 divided into 8,000,000,000 Ordinary Shares of HK$0.01 each, and 5,000,000,000 Preferred Shares of HK$0.01 each, and all the existing Shares of the Company in issue shall be designated as Ordinary Shares and; (ii) the adoption of the New Bye-laws
"Independent Board Committee"	the independent board committee comprising all independent non-executive Directors and established to make recommendation to the Independent Shareholders in respect of the Offer and the Divestment
"Independent Financial Advisor"	Somerley Capital Limited, licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, the independent financial advisor to the Independent Board Committee and the Independent Shareholders in relation to the Offer and the Divestment
"Independent Shareholders"	Shareholders other than Mr. Mo, Seller 1, the Offeror, Lin Dongliang (林棟梁) and IDG Technology and their respective associates and other Shareholders who have a material interest or who are involved in or interested in any of the Transfer, the Subscription, the Acquisition, the CN Subscription and/or the Divestment
"Independent Technical Report"	the report prepared by the Competent Person on Block 212 in compliance with Chapter 18 of the Listing Rules, the text of which is set forth in Appendix VII to this circular

"Initial Announcement"	the announcement made by the Company pursuant to Rule 3.7 of the Takeovers Code dated 8 June 2015 regarding, among other things, the Company's discussion with the Offeror about various possible transactions (i.e., the Transactions) and the possible Transfer and possible Offer
"Initial Consideration"	HK$1,652,995, being the initial consideration for the Divestment
"Inner Mongolia"	the Inner Mongolia Autonomous Region in the PRC
"Internal Management Guidelines"	延長油礦管理局油氣資源合作勘查開採管理辦法 (Yanchang Oil Resources Management Bureau Oil and Gas Resources Cooperation Exploration and Extraction Management Temporary Guidelines*)
"Joint Announcement"	the joint announcement of the Company and the Offeror dated 27 October 2015 in relation to, among other things, the Transfer, the Offer, the Divestment, the Subscription, the CN Subscription and the Acquisition
"Joint Sponsors"	BOSC International and REORIENT Financial
"Kingsbury"	金世旗國際控股股份有限公司 (Kingsbury International Holdings Co., Ltd.*), a joint stock company incorporated in the PRC
"Last Trading Day"	19 June 2015, being the last day of trading in the Ordinary Shares on the Stock Exchange prior to the date of the S&P Agreement, the Subscription Agreement, the Acquisition Agreement, the CN Subscription Agreement and the Divestment Agreement
"Latest Practicable Date"	24 June 2016, being the latest practicable date prior to the bulk-printing of this circular for the purpose of ascertaining certain information contained in this circular
"League Way"	League Way Ltd., a company incorporated in the BVI, being the subscriber of the Convertible Note under the CN Subscription Agreement and is owned by Shi Jianji (石建極) as to 70% and Shi Wei (石為) as to 30%, which (along with its ultimate owners), to the best knowledge, information and belief of the Directors having made all reasonable enquiries, is an independent third party and not connected with the Company or its connected persons nor the Offeror or parties acting in concert with the Offeror as at the Latest Practicable Date

"Lida Investment"	上海立大投資管理有限公司 (Shanghai Lida Investment Management Company Limited*), a company incorporated in the PRC with limited liability and is ultimately wholly owned as to (i) 95% by Hongbo Investment (Hongbo Investment is ultimately owned as to 80% by Shi Jianji (石建極) and 20% by Shi Wei (石為)) and (ii) 5% by Shi Jianji (石建極), which (along with their respective ultimate owners), to the best knowledge, information and belief of the Directors having made all reasonable enquiries, are independent third parties and not connected with the Company or its connected persons nor the Offeror or parties acting in concert with the Offeror as at the Latest Practicable Date
"Listing Committee"	the Listing Committee of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Majors"	large integrated oil companies with business combining the exploration and production of hydrocarbons with transportation, refining and marketing activities
"Majority Subscriber(s)"	Subscriber(s) who, in aggregate, agreed to subscribe for not less than 50.1% of the Subscription Shares on an as-converted basis under the Subscription Agreement, being only the Offeror
"MOLR"	Ministry of Land and Resources of the PRC (中華人民共和國國土資源部)
"Mr. Mo"	Mo Tianquan (莫天全), a non-executive Director and the ultimate beneficial controlling Shareholder, holding approximately 50.02% of the total number of Ordinary Shares in issue immediately after the Tranche 1 Sale Completion
"Mr. Wang"	Wang Jingbo (王靜波), the chief executive officer and an executive director of Titan Gas Holdings and a director of Standard Gas and Aquarius Investment, who directly holds a 9% equity interest in Aquarius Investment and an approximately 8.05% equity interest in Titan Gas Holdings which in turns holds 100% equity interests in the Offeror
"Ms. Cao"	Cao Jing (曹晶), an executive Director, the executive chairman of the Board and the spouse of Mr. Mo

"Nanning Hotel"	Guangxi Wharton International Hotel owned by the Divestment Group located in Nanning, Guangxi Zhuang Autonomous Region, the PRC
"New Bye-laws"	the new Bye-laws proposed to be adopted by the Company at the SGM
"New Conversion Share(s)"	new Ordinary Share(s) to be allotted and issued upon exercise of the conversion rights attached to the Preferred Shares and/or the Convertible Note (as the case may be)
"NOC(s)"	national oil company(ies), oil company(ies) that are fully, or in the majority, controlled by the relevant government
"Non-Competition Deed"	the conditional non-competition deed dated 28 June 2016 entered into by among others, the Controlling Shareholders in favour of the Company, details of which are set out in the section headed "Relationship between the Restructured Group and the Controlling Shareholders" in this circular
"NPV"	net present value
"OECD"	Organisation for Economic Cooperation and Development
"Offer"	the unconditional mandatory cash offer to be made by Essence Securities for and on behalf of the Offeror for all the issued Ordinary Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) pursuant to Rule 26.1 of the Takeovers Code
"Offer Period"	the period commencing from 8 June 2015 (being the date of the Initial Announcement) to the date when the S&P Agreement lapses or terminates or when the Offer closes or lapses, whichever is earlier
"Offer Price"	the price per Offer Share at which the Offer will be made in cash, being HK$0.6696 per Offer Share
"Offer Shareholder(s)"	Shareholder(s) other than the Offeror and parties acting in concert with it
"Offer Share(s)"	all the Ordinary Share(s) in issue other than those Ordinary Shares already owned or agreed to be acquired by the Offeror and parties acting in concert with it or subject to undertakings given by Seller 1 and Seller 2 under the S&P Agreement, and League Way under the CN Subscription Agreement

"Offeror"	Titan Gas Technology Investment Limited, a company incorporated in the BVI with limited liability, being the purchaser under the S&P Agreement, a Subscriber and the guarantor under the CN Subscription Agreement
"OPEC"	Organisation of Petroleum Exporting Countries
"Ordinary Share(s)"	the ordinary share(s) of HK$0.01 each in the share capital of the Company
"Ordinary Shares Subscription"	the subscription of the Ordinary Shares under the Subscription Agreement
"Ordinary Subscription Shares"	1,269,414,575 new Ordinary Shares, in aggregate, to be subscribed for by the Subscribers
"percentage ratios"	any of the five ratios set out in Rule 14.07 of the Listing Rules
"PRC" or "China"	the People's Republic of China excluding, for the purpose of this circular, Hong Kong, Macau Special Administrative Region of the PRC and Taiwan, and "Chinese" shall be construed accordingly
"PRC Target"	錫林郭勒盟宏博礦業開發有限公司 (Xilin Gol League Hongbo Mining Development Co., Ltd.*), a company established in the PRC with limited liability, owned as to 60% by Hongbo Investment and 40% by Lida Investment
"Preferred Share(s)"	the restricted voting non-redeemable convertible preferred shares of HK$0.01 each in the share capital of the Company to be created with the rights, privileges and restrictions as set out in the New Bye-laws
"Public Shares Subscribers"	the Subscribers other than the Offeror and Aquarius Investment
"Real Properties"	all interests in land, premises, buildings and other real properties owned or leased by the Divestment Group
"Redemption Premium"	the redemption premium of HK$125,000,000 payable by the Company to the holder of the Convertible Note upon redemption
"Relevant Period"	the period commencing from the date of the S&P Agreement and ending on the date when the Offer closes or lapses, or when the S&P Agreement terminates (whichever is earlier)

"REORIENT Financial"	REORIENT Financial Markets Limited, licensed to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
"Restructured Group"	the Group and the PRC Target, excluding the Divestment Group, following completion of the Transactions
"RMB"	Renminbi, the lawful currency of the PRC
"SAT"	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
"S&P Agreement"	the conditional sale and purchase agreement dated 22 June 2015 (as amended on 27 October 2015, 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016) entered into among the Offeror, Mr. Mo and the Sellers in relation to the Transfer
"S&P Completion"	completion of the Transfer (in respect of the Sale Shares and the Sale Bonds under the Tranche 2 Sale Completion) in accordance with the terms and conditions of the S&P Agreement
"S&P Conditions"	the conditions precedent to the S&P Agreement
"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外滙管理局) or its local counterparts
"SAFE Circular"	the Circular of the SAFE on Foreign Exchange Administration of Overseas Investments and Financing and Round-Trip Investments by Domestic Residents via Special Purpose Vehicles (Hui Fa [2014] No. 37)
"Sale Bonds"	the Convertible Bonds with an aggregate principal amount of HK$96,832,526 to be acquired by the Offeror from Seller 2 pursuant to the terms of the S&P Agreement
"Sale Shares"	the 175,000,000 Ordinary Shares to be acquired by the Offeror from Seller 1 pursuant to the terms of the S&P Agreement
"Second Confirmation Letter"	the confirmation letter issued by Yanchang to the PRC Target dated 17 May 2016 confirming, among other things, that it will not terminate the EPCC as a result of the overdue amounts from the PRC Target, and that the PRC Target may sell crude oil to other customer(s) subject to its approval

"Sellers"	collectively, Seller 1 and Seller 2
"Seller 1"	Upsky Enterprises Limited, an investment holding company incorporated in the BVI with limited liability, the entire interest of which is held by Mr. Mo
"Seller 2"	Tanisca Investments Limited, an investment holding company incorporated in the BVI with limited liability, the entire interest of which is held by Mr. Mo
"Services Agreement"	the services agreement dated 19 September 2015 and entered into among the PRC Target, Hongbo Investment, Lida Investment and Hongjin Engineering in respect of the exploration and production work in Block 378
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving, among others matters, the Subscription, the Acquisition, the CN Subscription, the Divestment, the Specific Mandates, the Increase of Authorised Share Capital and the adoption of the New Bye-laws
"Shareholder(s)"	holder(s) of Ordinary Share(s)
"Shares"	the Ordinary Shares and/or the Preferred Shares
"SouFun"	SouFun Holdings Limited, the class A ordinary shares of which are listed on the New York Stock Exchange in the form of ADS
"Specific Mandates"	specific mandates to allot and issue (i) the Subscription Shares and the New Conversion Shares to be issued upon exercise of the conversion rights attached to the Preferred Shares; and (ii) the New Conversion Shares to be issued upon exercise of the conversion rights attached to the Convertible Note to be sought from the Independent Shareholders at the SGM; a "Specific Mandate" means any one of them
"Standard Gas"	Standard Gas Capital Limited, a limited liability company incorporated in the BVI, which holds more than 30% equity interests in Titan Gas Holding which in turn directly holds the 100% equity interest in the Offeror

"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscribers"	the Offeror and the other subscribers under the Subscription Agreement listed in the section headed "Letter from the Board — The Subscription Agreement" in this circular
"Subscription"	subscription of the Subscription Shares under the Subscription Agreement
"Subscription Agreement"	the subscription agreement dated 22 June 2015 (as amended on 23 October 2015, 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016) and entered into between the Company and the Subscribers regarding the Subscription
"Subscription Completion"	the completion of the Subscription in accordance with the terms and conditions of the Subscription Agreement
"Subscription Conditions"	the conditions precedent to the Subscription Agreement
"Subscription Price"	HK$0.6696 per Subscription Share
"Subscription Shares"	collectively, the Ordinary Subscription Shares, the Tranche 1 Preferred Shares and Tranche 2 Preferred Shares
"Takeovers Code"	the Code on Takeovers and Mergers
"Target 1"	Aykens Holdings Limited, a limited liability company incorporated and existing under the laws of the BVI and a wholly-owned subsidiary of the Company
"Target 2"	Hopland Enterprises Limited, a limited liability company incorporated and existing under the laws of the BVI and a wholly-owned subsidiary of the Company
"Target Completion Date"	the target completion date for the Transfer under the S&P Agreement, being 31 August 2016, or such other date as agreed to by the Offeror, the Sellers and Mr. Mo in writing
"Target Sellers"	Hongbo Investment and Lida Investment, which (along with their respective ultimate owners), to the best knowledge, information and belief of the Directors having made all reasonable enquiries, are independent third parties and not connected with the Company or its connected persons nor the Offeror or parties acting in concert with the Offeror as at the Latest Practicable Date

"Titan Gas Holdings"	Titan Gas Technology Holdings Limited, a limited liability company incorporated in the BVI, which holds 100% equity interests in the Offeror
"Track Record Period"	three years ended 31 December 2015
"Tranche 1 Preferred Shares"	1,373,954,600 Preferred Shares, in aggregate, to be subscribed for by the Subscribers under the Tranche 1 Preferred Shares Subscription
"Tranche 1 Preferred Shares Subscription"	the subscription of the Tranche 1 Preferred Shares under the Subscription Agreement
"Tranche 1 Sale Completion"	completion of the Tranche 1 Transfer which has taken place immediately following the execution of the first amendment agreement to the S&P Agreement on 27 October 2015
"Tranche 1 Transfer"	the sale and purchase of 36,024,724 Sale Shares and the Sale Bonds with an aggregate principal amount of HK$14,964,000 as contemplated under the S&P Agreement
"Tranche 2 Preferred Shares"	1,373,954,599 Preferred Shares, in aggregate, to be subscribed for by the Subscribers under the Tranche 2 Preferred Shares Subscription
"Tranche 2 Preferred Shares Subscription"	the subscription of the Tranche 2 Preferred Shares under the Subscription Agreement
"Tranche 2 Sale Completion"	completion of the Tranche 2 Transfer which shall take place on the first business day after the S&P Conditions described in the section headed "Letter from the Board — S&P Agreement — S&P Conditions" in this circular are fulfilled (or, where applicable, waived)
"Tranche 2 Transfer"	the sale and purchase of 138,975,276 Sale Shares and the Sale Bonds with an aggregate principal amount of HK$81,868,526 as contemplated under the S&P Agreement
"Transaction Documents"	the Subscription Agreement, the Acquisition Agreement, the CN Subscription Agreement and the Divestment Agreement together with all other documents or agreements as contemplated under the above agreements, entered or to be entered into or executed by the relevant parties in respect of the Transactions
"Transactions"	the Subscription, the Acquisition, the CN Subscription and the Divestment

"Transfer"	the sale and purchase of the Sale Shares and the Sale Bonds as contemplated under the S&P Agreement, which includes the Tranche 1 Transfer and the Tranche 2 Transfer
"US"	United States of America
"US$"	US dollars, the lawful currency of the US
"Wood Mackenzie"	the industry consultant, an independent third party of the Company, its connected persons and the PRC Target, commissioned by the Company to conduct an analysis of and report on the global and China oil industry
"Yanchang"	陝西延長石油(集團)有限責任公司 (延長油礦管理局) (Shaanxi Yanchang Petroleum (Group) Company Limited (Yanchang Oil Mineral Administrative Bureau)*), including its oil and gas exploration branch
"%"	per cent.
"km"	kilometre
"km^2"	square kilometre
"m^2"	square metre

The terms "associate", "connected person", "controlling shareholder", "subsidiary", "substantial shareholder" have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

In this circular, certain amounts denominated in RMB have been translated into HK$ and vice versa at an exchange rate of RMB0.84 : HK$1.

Certain other amounts denominated in RMB have been translated into US$ at the following conversion rates: (i) RMB6.29: US$1 — figures derived from the Independent Technical Report relating to capital expenditure and abandonment expenditure, (ii) RMB6.5: US$1 — figures derived from the Independent Technical Report relating to operating expenditure, (iii) RMB6.58: US$1 — estimated NPV figures derived from the Independent Technical Report and Competent Evaluator's Report, and (iv) RMB6.52: US$1 — all other translated figures in this circular.

Such conversions are for illustrative purposes only and shall not be construed as representations that amounts in RMB were or may have been converted into those currencies and vice versa at such rates or any other exchange rates.

* *For identification purposes only*

This glossary contains explanations of certain terms used in this circular in connection with the PRC Target and its business. The terms and their meanings may not correspond to the standard industry meaning or usage of these terms.

"2D"	two-dimensional
"3D"	three-dimensional
"abandonment"	the permanent plugging of a well which is no longer in use, and the removal of the associated surface facilities
"API"	an indication of the density of crude oil or other liquid hydrocarbons as measured by a system recommended by the American Petroleum Institute, measured in degrees. The lower the API, the heavier the compound
"b/d"	barrels per day
"bailing well"	an oil producer with relatively poor reservoir pressure, such that crude oil must be periodically bailed from the well instead of producing crude oil continuously
"barrel" or "bbl"	equivalent to approximately 0.1364 tonnes of crude oil (for the purpose of this circular, amounts of crude oil expressed in barrel, bbl, boe or stb are equivalent)
"best case"	in relation to the PRC Target's development plan, the drilling and workover program that the Competent Person considers to be realistic at this stage
"boe"	the barrel of oil equivalent, an energy unit based on the level of energy released by one barrel of crude oil
"Brent Crude"	a trading classification of crude oil that serves as a benchmark price for crude oil worldwide
"coalbed methane"	natural gas contained in coal deposits
"contingent resources"	those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies
"crude oil"	petroleum that exists in the liquid phase in natural underground reservoirs and remains liquid at atmospheric conditions of pressure and temperature
"Daqing crude oil"	crude oil produced from the Daqing oil field in the PRC

“delineation drilling”	the drilling of oil wells to delineate the probable outline of a crude oil reservoir
“depression”	a landform sunken below the surrounding area
“developed reserves”	expected quantities of reserves to be recovered from existing wells and facilities
“development costs”	for a given period, costs incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing oil
“dry hole”	a well found to be incapable of producing crude oil in sufficient quantities to justify completion as an oil well
“E&P”	exploration and production, the sector of the oil and gas industry involving searching for oil and gas fields, drilling wells and bringing the oil and gas to the surface
“EOR”	Enhanced Oil Recovery
“exploration costs”	for any given period, costs incurred in prospecting for undiscovered petroleum
“exploration well”	an oil well drilled with a view to locating oil reservoirs or understanding their characteristics
“fault compartment”	an underground feature bordered by fault lines that may contain crude oil
“fracturing”	the injection of fluids, primarily water, into the ground with a view to improving the flow of crude oil through a reservoir
“gross”	in relation to crude oil reserves, resources, production volumes or sales volumes, represents total reserves, resources, production or sales volume under the EPCC
“high case”	in relation to the PRC Target’s development plan, the drilling and workover program, considering more wells drilled than the best case that the Competent Person considers to be optimistic at this stage
“infill drilling”	addition of new wells in an existing field within the original well patterns to accelerate recovery or to test recovery methods
“Liaohe special crude oil”	crude oil produced from the Liaohe oil field in the PRC

"light" (in the context of describing crude oil quality)	in relation to crude oil, crude oil with a low density and high API gravity
"low case"	in relation to the PRC Target's development plan, the drilling and workover program considering fewer wells drilled than the best case that the Competent Person considers is justifiable
"MMBbl"	million barrels of oil
"MMboe"	million barrels of oil equivalent
"MMstb"	million stock tank barrels
"mD"	millidarcy, a unit of measurement for permeability
"medium"	in relation to crude oil, crude oil with a medium density and medium API gravity
"net"	in relation to crude oil reserves, resources, production volumes or sales volumes, represents the PRC Target's 80% interest in such under the EPCC
"oil producer"	an oil well drilled with a view to producing crude oil
"permeability"	a measure of the ability of a porous mass such as rocks to transmit oil or natural gas
"petroleum"	a naturally occurring mixture consisting of hydrocarbons in the gaseous, liquid or solid phase
"porosity"	a measure of the void spaces in a material and generally refers to the fraction of the total volume in which flow of oil is effectively taking place
"possible reserves"	those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than probable reserves
"PRMS"	the Petroleum Resources Management System published by the Society of Petroleum Engineers, the American Association of Petroleum Geologists, the Society of Petroleum Evaluation Engineers, and the World Petroleum Council in March 2007 and as amended, supplemented or otherwise modified from time to time

"probable reserves"	those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves
"production costs"	for a given period, costs incurred to operate and maintain wells and related equipment and facilities, including applicable operating costs of support equipment and facilities and other costs of operating and maintaining those wells and related equipment and facilities
"prospective resources"	those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations
"proved developed producing reserves"	proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery are included in proved developed producing reserves only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved
"proved reserves"	those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations
"reserves"	those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions
"reserve-to-production ratio"	for any given well or oilfield, the ratio of proved reserves to annual production of crude oil
"reservoir"	a subsurface rock formation containing an individual and separate natural accumulation of moveable petroleum that is confined by impermeable rocks/formations and is characterised by a single-pressure system

"resources"	all quantities of petroleum (recoverable and unrecoverable) naturally occurring on or within the Earth's crust, discovered and undiscovered, plus those quantities already produced. It should be noted that resources may not ultimately be extracted at a profit
"step-out off-set well"	oil wells drilled outside of, but adjacent to a known oil reservoir
"stock tank barrel" or "stb"	a barrel of crude oil at surface temperature and pressure
"tight"	in relation to oil and gas assets, refers to reservoirs with relatively low porosity and permeability, which along with shale oil and gas, and coalbed methane assets, are collectively regarded as unconventional oil and gas assets
"ton" or "tonne"	a unit of measure for weight, equal to 1,000 kilograms
"undeveloped reserves"	quantities of reserves expected to be recovered through future investments
"upstream"	see "E&P"
"VALMIN Code"	Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports, prepared by the VALMIN Committee which is a joint committee of the Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists
"water cut"	for a given production volume of crude oil, the percentage that water constitutes of all fluids extracted from wells
"water injection" or "water injector"	water injection is the process of pumping water into a reservoir in order to increase the reservoir pressure and therefore the amount of crude oil recoverable from the reservoir; water injection is performed through wells called water injectors
"workover"	work performed on an existing oil well to convert it to other uses, for example performing fracturing jobs
"working interest (WI) production"	the product of multiplying gross field production by the company's equity interest in the field
"WTI"	West Texas Intermediate, a trading classification of crude oil that serves as a benchmark price for crude oil worldwide

Registered office	Canon's Court 22 Victoria Street Hamilton HM12 Bermuda
Head office and principal place of business in Hong Kong	Suite 2302, Wing On Centre 111 Connaught Road Central Hong Kong
Company secretary as at the Latest Practicable Date	WANG Jing
Joint company secretaries after completion of the Transactions (Proposed by the Offeror)	TAN Jue KU Sau Shan Lawrence James
Authorised representatives as at the Latest Practicable Date	WANG Jing Suite 2302, Wing On Centre 111 Connaught Road Central Hong Kong CAO Jing The Regency Park #133 1833 Hua Mu Road Pudong Shanghai PRC
Authorised representatives after completion of the Transactions (Proposed by the Offeror)	WANG Jingbo Room 2708, Tower B Global Trade Center 36 Bei San Huan Dong Lu Dongcheng District Beijing PRC TAN Jue Suite 2302, Wing On Centre 111 Connaught Road Central Hong Kong
Audit Committee as at the Latest Practicable Date	PALASCHUK Derek Myles *(Chairman)* Prof. YE Jianping Prof. CHEN Zhiwu

Audit Committee after completion of the Transactions (Proposed by the Offeror, the appointment of the proposed Directors shall only take place when the Takeovers Code permits)	CHAU Shing Yim David *(Chairman)* SHI Cen LIN Dongliang
Remuneration Committee as at the Latest Practicable Date	Prof. YE Jianping *(Chairman)* CAO Jing Prof. CHEN Zhiwu
Remuneration Committee after completion of the Transactions (Proposed by the Offeror, the appointment of the proposed Directors shall only take place when the Takeovers Code permits)	CHAU Shing Yim David *(Chairman)* Prof. CHEN Zhiwu SHONG Hugo
Nomination Committee as at the Latest Practicable Date	Prof. YE Jianping *(Chairman)* PALASCHUK Derek Myles CAO Jing
Nomination Committee after completion of the Transactions (Proposed by the Offeror, the appointment of the proposed Directors shall only take place when the Takeovers Code permits)	Prof. CHEN Zhiwu *(Chairman)* SHI Cen WANG Jingbo
Principal share registrar and transfer office	Butterfield Fulcrum Group (Bermuda) Limited 26 Burnaby Street Hamilton HM11 Bermuda
Hong Kong branch share registrar	Computershare Hong Kong Investor Services Limited Shops 1712–1716 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong

Principal bankers of the Group	DBS Bank (Hong Kong) Limited 16th Floor The Centre 99 Queen's Road Central Central Hong Kong
	The Bank of East Asia, Limited 8th Floor 10 Des Voeux Road Central Hong Kong
	Bank of China Limited Nanning Shuang Yong Branch No. 38, Bin Hu Lu Nanning City Guangxi Zhuang Autonomous Region PRC
Principal bankers of the PRC Target	Industrial and Commercial Bank of China East Ujimqin Banner Branch 2 North Kulun Road Wuliyasitai Town East Ujimqin Banner Xilingol League Inner Mongolia, PRC
	Bank of China Xilinhot Business Office 6 Tuanjie Main Street Xilinhot City Inner Mongolia, PRC
Website where the Company's information will be available	http://www.irasia.com/listco/hk/shuncheong A copy of this circular is available on the aforesaid website.

DIRECTORS

As at the Latest Practicable Date, the members of the Board are as follows:

Name	Address (business or residential)	Nationality
Executive Directors:		
CAO Jing (曹晶) *(Executive Chairman)*	The Regency Park #133 1833 Hua Mu Road Pudong Shanghai PRC	American
ZHANG Shaohua (張少華) *(Managing Director)*	Room 1605, Jiahui Centre No. 6 Jiqingli Chaowai Da Jie Chaoyang District Beijing PRC	Chinese
Non-executive Director:		
MO Tianquan (莫天全)	#5 Floor 9M Zone E HanWei International Plaza Feng Mao Nan Lu Feng Tai District Beijing PRC	Chinese
Independent non-executive Directors:		
YE Jianping (葉劍平)	No. 1501 Gate 9 Tower 2 Epoch Homeland Wanliu Middle Road Haidian District Beijing PRC	Chinese
PALASCHUK Derek Myles	531#1 Longdong Avenue Shanghai PRC	Canadian
CHEN Zhiwu (陳志武)	Yale School of Management 135 Prospect Street New Haven CT 06520 US	American

Cao Jing, Zhang Shaohua, Mr. Mo, Prof. Ye Jianping and Palaschuk Derek Myles have indicated to the Board their respective intention to resign with effect from the closing date of the Offer (being the earliest time permitted under the Takeovers Code). The Offeror intends that the Board, after completion of the Transactions, will comprise the following members who (with the exception of Prof. Chen Zhiwu who is an existing Director) will be appointed to the Board with effect from the date of despatch of the Composite Document (being the earliest time permitted under the Takeovers Code):

Name	Address (business or residential)	Nationality
Executive Directors:		
WANG Jingbo (王靜波) *(Executive Director and Chief Executive Officer)*	Room 2708, Tower B Global Trade Center 36 Bei San Huan Dong Lu Dongcheng District Beijing PRC	Chinese
LEE Khay Kok	Room D1002, Tian'an Hao Yuan No. 17 Chaoyang West Road Chaoyang District Beijing PRC	Malaysian
Non-executive Directors:		
LIN Dongliang (林棟梁)	Room 616 Tower A COFCO Plaza 8 Jianguomennei Dajie Beijing PRC	Chinese
SHONG Hugo (熊曉鴿), alias Hugo Hsiung	Room 616 Tower A COFCO Plaza 8 Jianguomennei Dajie Beijing PRC	American

Name	Address (business or residential)	Nationality
Independent non-executive Directors:		
SHI Cen (石岑)	Suite 1609, 16/F Jardine House 1 Connaught Place Central Hong Kong	Chinese
CHEN Zhiwu (陳志武)	Yale School of Management 135 Prospect Street New Haven CT 06520 US	American
CHAU Shing Yim David (周承炎)	Flat I, 15/F Hoi Kung Court 268 Gloucester Road Causeway Bay Hong Kong	Chinese

For information about the members of the Board after completion of the Transactions as proposed by the Offeror (and as soon as the appointment the Directors nominated by the Offeror is permitted under the Takeovers Code), please refer to the section headed "Directors and Senior Management of the Restructured Group" in this circular.

PARTIES INVOLVED

Offeror	**Titan Gas Technology Investment Limited** Room 2708, Tower B Global Trade Center 36 Bei San Huan Dong Lu Dongcheng District Beijing PRC
Joint Sponsors to the Company	**BOSC International Company Limited** 34/F, Champion Tower 3 Garden Road Central Hong Kong

	REORIENT Financial Markets Limited Suites 3201–3204 32/F, One Exchange Square 8 Connaught Place Central Hong Kong
Financial advisor to the Company	**REORIENT Financial Markets Limited** Suites 3201–3204 32/F, One Exchange Square 8 Connaught Place Central Hong Kong
Independent financial advisor to the Independent Board Committee and the Independent Shareholders in respect of the Offer and the Divestment	**Somerley Capital Limited** 20th Floor China Building 29 Queen's Road Central Hong Kong
Legal advisors to the Company	*As to Hong Kong laws* **Minter Ellison** Level 25 One Pacific Place 88 Queensway Hong Kong *As to PRC laws* **Haiwen & Partners** 20th Floor Fortune Financial Centre 5 Dong San Huan Central Road Chaoyang District Beijing PRC *As to Bermuda laws* **Conyers Dill & Pearman** 2901 One Exchange Square 8 Connaught Place Central Hong Kong
Legal advisors to the Joint Sponsors	*As to Hong Kong laws* **Robertsons** 57th Floor The Centre 99 Queen's Road Central Central Hong Kong

	As to PRC laws **Jingtian Gongcheng** Suite 1202–1204 K.Wah Centre 1010 Huaihai Road (M) Xuhui District Shanghai PRC
Reporting accountants of the PRC Target and reporting accountants for the unaudited pro forma financial information of the Restructured Group	**KPMG** 8th Floor Prince's Building 10 Chater Road Central Hong Kong
Auditors of the Company	**SHINEWING (HK) CPA Limited** 43rd Floor Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong
Property valuer	**LCH (Asia-Pacific) Surveyors Limited** 17th Floor Champion Building Nos. 287–291 Des Voeux Road Central Hong Kong
Independent industry consultant	**Wood Mackenzie Asia Pacific Pte Ltd** 3 Church Street #29–01 Samsung Hub Singapore 049483 Singapore
Competent Person and Competent Evaluator	**Gaffney Cline & Associates** 80 Anson Road #31-01C Fuji Xerox Towers Singapore 079907
Compliance advisor*	**REORIENT Financial Markets Limited** Suites 3201–3204 32/F, One Exchange Square 8 Connaught Place Central Hong Kong

* the appointment of which is subject to the Acquisition Completion

SHUN CHEONG HOLDINGS LIMITED
順 昌 集 團 有 限 公 司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 650)

Executive Directors:
Cao Jing *(Executive Chairman)*
Zhang Shaohua *(Managing Director)*

Non-executive Director:
Mo Tianquan

Independent Non-executive Directors:
Ye Jianping
Palaschuk Derek Myles
Chen Zhiwu

Registered Office:
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Head Office and Principal Place of Business:
Suite 2302, Wing On Centre
111 Connaught Road Central
Hong Kong

29 June 2016

To Shareholders

Dear Sir or Madam,

(1) ISSUE OF ORDINARY SHARES AND PREFERRED SHARES PURSUANT TO SPECIFIC MANDATE;
(2) VERY SUBSTANTIAL ACQUISITION AND REVERSE TAKEOVER IN RELATION TO THE ACQUISITION OF THE ENTIRE EQUITY CAPITAL OF 錫林郭勒盟宏博礦業開發有限公司 (XILIN GOL LEAGUE HONGBO MINING DEVELOPMENT CO., LTD.*);
(3) ISSUE OF CONVERTIBLE NOTE PURSUANT TO SPECIFIC MANDATE;
(4) SPECIAL DEAL, CONNECTED TRANSACTION AND VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE DIVESTMENT OF 100% OF THE SHARES IN AYKENS HOLDINGS LIMITED AND HOPLAND ENTERPRISES LIMITED;
(5) INCREASE OF AUTHORISED SHARE CAPITAL;
(6) ADOPTION OF NEW BYE-LAWS;
AND
(7) NOTICE OF SPECIAL GENERAL MEETING

* *For identification purposes only*

INTRODUCTION

As set out in the Joint Announcement, the Company's announcement dated 20 November 2015 and the announcements dated 28 January 2016, 23 March 2016 and 28 June 2016 jointly issued by the Company and the Offeror, the Company and the Offeror jointly announced, among other things, that on 22 June 2015:

(a) the Sellers, Mr. Mo (being the ultimate controlling shareholder of the Sellers) and the Offeror, entered into the S&P Agreement (as amended on 27 October 2015, 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016) pursuant to which the Offeror conditionally agreed to acquire and (i) Seller 1 conditionally agreed to sell the Sale Shares, representing approximately 50.38% of the total number of Ordinary Shares in issue as at the Latest Practicable Date; and (ii) Seller 2 conditionally agreed to sell the Sale Bonds, being part of the Convertible Bonds, with an aggregate principal amount of HK$96,832,526;

(b) the Company and the Subscribers entered into the Subscription Agreement (as amended on 23 October 2015, 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016) pursuant to which, the Subscribers conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, a total of 4,017,323,774 Subscription Shares, comprising (i) 1,269,414,575 Ordinary Subscription Shares under the Ordinary Shares Subscription; (ii) 1,373,954,600 Preferred Shares under the Tranche 1 Preferred Shares Subscription; and (iii) 1,373,954,599 Preferred Shares under the Tranche 2 Preferred Shares Subscription, at the Subscription Price of HK$0.6696 per Subscription Share;

(c) the Target Sellers (as sellers), the Company (as purchaser) and the PRC Target entered into the Acquisition Agreement (as amended on 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016), pursuant to which, the Company conditionally agreed to acquire from the Target Sellers the entire equity interests in the PRC Target at a consideration of RMB558,880,000 (equivalent to approximately HK$665 million);

(d) the Company (as issuer), League Way (as subscriber) and the Offeror (as guarantor) entered into the CN Subscription Agreement (as amended on 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016) pursuant to which League Way conditionally agreed to subscribe for, and the Company conditionally agreed to issue, the Convertible Note with an aggregate principal amount of HK$250,000,000; and

(e) the Company (as vendor) and Seller 1 (as purchaser) entered into the Divestment Agreement (as amended on 23 October 2015, 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016), pursuant to which the Company conditionally agreed to sell, and Seller 1 conditionally agreed to purchase, the Divestment Shares, the Current Accounts Receivable (being shareholder's loans/advance receivable by the Company from the Divestment Group) and the shares of SouFun held by the Company (which, as a condition precedent to completion of the Divestment

Agreement, will be transferred by the Company to Target 1 at the market price effective at the time of such transfer) at the Initial Consideration of HK$1,652,995 which shall be subject to adjustment as set out in the Divestment Agreement.

The Transfer will be completed in two tranches. Immediately after the Tranche 1 Sale Completion (which took place immediately following the execution of the first amendment agreement to the S&P Agreement on 27 October 2015), the Offeror and parties acting in concert with it were interested in an aggregate of 60,434,724 Ordinary Shares, representing approximately 17.40% of the total number of Ordinary Shares in issue as at the Latest Practicable Date. Subject to fulfilment (or where applicable, waiver) of the S&P Conditions and immediately following the Tranche 2 Sale Completion (i.e. the S&P Completion), the Offeror and parties acting in concert with it will be interested in an aggregate of 199,410,000 Ordinary Shares, representing approximately 57.41% of the total number of Ordinary Shares in issue as at the Latest Practicable Date, and the Offeror will be required to make an unconditional mandatory general offer in cash for all the issued Ordinary Shares (other than those already owned by or agreed to be acquired by the Offeror and parties acting in concert with it) pursuant to Rule 26.1 of the Takeovers Code.

The Ordinary Subscription Shares and any New Conversion Shares which may fall to be issued by the Company upon conversion of the Preferred Shares and the Convertible Note will be issued under the Specific Mandates which are subject to the Independent Shareholders' approval at the SGM.

To make available sufficient number of unissued shares in the authorised share capital of the Company for the allotment and issue of the Subscription Shares and the New Conversion Shares, the Company proposes to increase its authorised share capital from HK$80,000,000 to HK$130,000,000 by the creation of 5,000,000,000 Preferred Shares, such that the authorised share capital of the Company shall become HK$130,000,000 divided into 8,000,000,000 Ordinary Shares and 5,000,000,000 Preferred Shares, and all the existing shares of the Company in issue shall be designated as Ordinary Shares; and to adopt the New Bye-laws, which shall, amongst other things, (a) reflect the aforesaid increase of the authorised share capital and the creation and issue of the Preferred Shares, and (b) generally bring the bye-laws of the Company in line with the current laws and practices in Bermuda and the Listing Rules.

The Acquisition constitutes (a) a very substantial acquisition for the Company under Rule 14.06(5) of the Listing Rules as one or more of the relevant percentage ratios under Rule 14.07 of the Listing Rules are over 100% for the Company in relation to the Acquisition; and (b) a reverse takeover of the Company under Rule 14.06(6)(a) of the Listing Rules on the basis that (i) the Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules; and (ii) the Acquisition will take place in connection with the Transfer. Accordingly, the Acquisition is subject to the approval of the Independent Shareholders at the SGM.

As the Acquisition constitutes a reverse takeover of the Company, the Company is being treated as if it were a new listing applicant under Rule 14.54 of the Listing Rules. The Company has submitted a new listing application to the Stock Exchange and the Acquisition will be subject to the approval of the Listing Committee. As the PRC Target's principal business relates to exploration and extraction of natural resources, the deemed new listing application of the Company is required to comply with all the applicable requirements under the Listing Rules, in particular the applicable requirements under Chapters 8, 9 and 18 of the Listing Rules. Based on the audited financial information on the PRC Target set out in "Appendix III — Accountants' Report on the PRC Target" to this circular, the PRC Target is not able to satisfy the financial requirements under Rule 8.05 of the Listing Rules. The PRC Target is a mineral company under Chapter 18 of the Listing Rules and has been in the exploration and development stage in respect of its upstream crude oil business. The Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.05 of the Listing Rules. For further information on the relevant waiver from strict compliance with Rule 8.05 of the Listing Rules, please refer to the section headed "Waivers from Strict Compliance with the Listing Rules" in this circular.

As one or more of the applicable percentage ratios in respect of the Divestment are 75% or more, the Divestment constitutes a very substantial disposal for the Company under Chapter 14 of the Listing Rules. Seller 1 is wholly owned by, and is an associate of, Mr. Mo, a non-executive Director. Accordingly, the Divestment also constitutes a connected transaction for the Company. Pursuant to Chapter 14 and Chapter 14A of the Listing Rules, the Divestment Agreement and the transactions contemplated thereunder are therefore subject to the disclosure and the Independent Shareholders' approval requirements. Since the Divestment is an arrangement made between the Company and Seller 1, the majority Shareholder, which is not capable of being extended to all Shareholders, the Divestment constitutes a special deal of the Company under Rule 25 of the Takeovers Code and requires the consent of the Executive. Such consent, if granted, will be subject to (i) an independent financial advisor publicly stating that in its opinion the terms of the Divestment are fair and reasonable; and (ii) the approval of the Divestment by the Independent Shareholders by way of poll at the SGM.

The purpose of this circular is to provide you with (i) further details of the Subscription Agreement, the Acquisition Agreement, the CN Subscription Agreement and the Divestment Agreement; (ii) financial information of the Group; (iii) audited financial information of the PRC Target; (iv) the Independent Technical Report; (v) the Competent Evaluator's Report; (vi) unaudited financial information of the Divestment Group as reviewed by the Company's auditors; (vii) the reports by the auditors of and the financial advisor to the Company on the unaudited net losses of the Divestment Group and the reports by the reporting accountants of and the financial advisor to the Company on the estimated gain from the Divestment in accordance with the Takeovers Code; (viii) the unaudited pro forma financial information of the Restructured Group; (ix) a letter from the Independent Board Committee advising the Independent Shareholders on the Divestment Agreement; (x) a letter from the Independent Financial Advisor advising the Independent Board Committee and the Independent Shareholders on the Divestment Agreement; and (xi) the notice of the SGM.

S&P AGREEMENT

Date

22 June 2015 (as amended on 27 October 2015, 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016)

Parties

(i) The Sellers (as sellers) comprising:

(1) Upsky Enterprises Limited (being Seller 1), which as at the date of the S&P Agreement was beneficially interested in 209,753,409 Ordinary Shares (representing approximately 60.39% of the total number of issued Ordinary Shares); and

(2) Tanisca Investments Limited (being Seller 2), which as at the date of the S&P Agreement was beneficially interested in the Convertible Bonds with an aggregate principal amount of HK$120,000,000

(ii) Mr. Mo (being the 100% beneficial owner of the Sellers and is jointly and severally liable for certain obligations of the Sellers under the S&P Agreement); Mr. Mo is a non-executive Director

As at the Latest Practicable Date, Mr. Mo was beneficially interested in approximately 6.65% of the issued class A ordinary shares in SouFun and approximately 88.70% of the issued class B ordinary shares in SouFun (not including Mr. Mo's interest in options and convertible instruments over shares of SouFun). Each class A ordinary share of SouFun is entitled to one vote in the general meeting of SouFun and each class B ordinary share of SouFun is entitled to 10 votes. In aggregate, Mr. Mo held approximately 70.02% of the outstanding voting rights in SouFun as at the Latest Practicable Date. Mr. Mo is also the executive chairman of the board of directors and the chief executive officer of SouFun.

(iii) The Offeror (as purchaser)

Immediately prior to the entering into of the S&P Agreement, the Offeror and parties acting in concert with it, were interested in an aggregate of 24,410,000 Ordinary Shares, representing approximately 7.03% of the total number of Ordinary Shares in issue as at the Latest Practicable Date.

Save as disclosed in this circular, the Offeror has confirmed that immediately before entering into the S&P Agreement, each of the Offeror, its beneficial owners and parties acting in concert with it is a third party independent of and not connected with the Company and its connected persons.

Subject matters of the S&P Agreement

Pursuant to the S&P Agreement, each of the Sellers has conditionally agreed to sell and transfer to the Offeror and the Offeror has conditionally agreed to purchase and acquire from the Sellers:

1. 175,000,000 Sale Shares beneficially owned by Seller 1, representing approximately 50.38% of the total number of Ordinary Shares in issue as at the Latest Practicable Date; and

2. the Sale Bonds beneficially owned by Seller 2, with an aggregate principal amount of HK$96,832,526 which is convertible into 262,063,670 CB Conversion Shares based on the Existing CB Conversion Price of HK$0.3695 per CB Conversion Share, representing:

   (i) approximately 75.45% of the total number of Ordinary Shares in issue as at the Latest Practicable Date;

   (ii) approximately 43.00% of the total number of Ordinary Shares in issue as enlarged by the allotment and issue of 262,063,670 CB Conversion Shares to the Offeror upon exercise of the conversion rights attached to the Sale Bonds in full based on the Existing CB Conversion Price of HK$0.3695 per CB Conversion Share; and

   (iii) approximately 38.99% of the total number of Ordinary Shares in issue as enlarged by the allotment and issue of all 324,763,193 CB Conversion Shares upon exercise of the conversion rights attached to all the Convertible Bonds in full based on the Existing CB Conversion Price of HK$0.3695 per CB Conversion Share.

Completion of the Transfer shall take place in two tranches:

(a) the Tranche 1 Sale Completion, in respect of the 36,024,724 Sale Shares and the Sale Bonds with an aggregate principal amount of HK$14,964,000 (convertible into 40,497,970 CB Conversion Shares based on the Existing CB Conversion Price), which has taken place immediately following the execution of the first amendment agreement to the S&P Agreement on 27 October 2015; and

(b) the Tranche 2 Sale Completion (i.e. the S&P Completion), in respect of the remaining 138,975,276 Sale Shares and the remaining Sale Bonds with an aggregate principal amount of HK$81,868,526 (convertible into 221,565,700 CB Conversion Shares based on the Existing CB Conversion Price) shall take place on the first business day after the Conditions as further set out below under the sub-section headed "S&P Agreements — S&P Conditions" in this section are fulfilled (or, where applicable, waived).

As further detailed below, as a result of the Subscription and the CN Subscription, the Existing CB Conversion Price (which is applicable at the time to signing of the S&P Agreement) will be adjusted from HK$0.3695 to HK$0.0672 per CB Conversion Share pursuant to the terms and conditions of the Convertible Bonds upon the Subscription Completion and the CN Subscription Completion (which are expected to take place simultaneously, but in any event after the S&P Completion). Based on the Adjusted CB Conversion Price of HK$0.0672 per CB Conversion Share, the Sale Bonds with an aggregate principal amount of HK$96,832,526 may be converted into a total of 1,440,960,208 CB Conversion Shares.

Immediately prior to the entering into of the S&P Agreement (as amended on 27 October 2015, 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016), Seller 1 held 209,753,409 Ordinary Shares representing approximately 60.39% of the total number of Ordinary Shares in issue as at the Latest Practicable Date and Seller 2 held the Convertible Bonds with an aggregate principal amount of HK$120,000,000 which are convertible into 324,763,193 CB Conversion Shares at the Existing CB Conversion Price of HK$0.3695 per CB Conversion Share.

Immediately after the Tranche 1 Sale Completion:

(a) Seller 1 continues to hold 173,728,685 Ordinary Shares representing:

(i) approximately 50.02% of the total number of Ordinary Shares in issue as at the Latest Practicable Date;

(ii) approximately 27.51% of the total number of Ordinary Shares in issue as enlarged by the allotment and issue of 284,265,223 CB Conversion Shares to Seller 2 upon exercise of the conversion rights attached to the Convertible Bonds with an aggregate principal amount of HK$105,036,000 held by Seller 2 (immediately after the Tranche 1 Sale Completion) in full at the Existing CB Conversion Price of HK$0.3695 per CB Conversion Share; and

(iii) approximately 25.85% of the total number of Ordinary Shares in issue as enlarged by the allotment and issue of 324,763,193 CB Conversion Shares upon exercise of the conversion rights attached to all the Convertible Bonds in full at the Existing CB Conversion Price of HK$0.3695 per CB Conversion Share; and

(b) Seller 2 continues to hold the Convertible Bonds with an aggregate principal amount of HK$105,036,000 which are convertible into 284,265,223 CB Conversion Shares at the Existing CB Conversion Price of HK$0.3695 per CB Conversion Share, representing:

(i) approximately 81.84% of the total number of Ordinary Shares in issue as at the Latest Practicable Date;

(ii) approximately 45.01% of the total number of Ordinary Shares in issue as enlarged by the allotment and issue of 284,265,223 CB Conversion Shares to Seller 2 upon exercise of the conversion rights attached to the Convertible Bonds with an aggregate principal amount of HK$105,036,000 held by Seller 2 (immediately after the Tranche 1 Sale Completion) in full at the Existing CB Conversion Price of HK$0.3695 per CB Conversion Share; and

(iii) approximately 42.30% of the total number of Ordinary Shares in issue as enlarged by the allotment and issue of 324,763,193 CB Conversion Shares upon exercise of the conversion rights attached to all the Convertible Bonds in full at the Existing CB Conversion Price of HK$0.3695 per CB Conversion Share.

Subject to fulfilment (or where applicable, waiver) of the S&P Conditions and immediately after the Tranche 2 Sale Completion (i.e. the S&P Completion):

(a) Seller 1 will continue to hold 34,753,409 Excluded Shares representing:

(i) approximately 10.01% of the total number of Ordinary Shares in issue as at the date of the Latest Practicable Date;

(ii) approximately 8.48% of the total number of Ordinary Shares in issue as enlarged by the allotment and issue of 62,699,523 CB Conversion Shares to Seller 2 upon exercise of the conversion rights attached to the Excluded Bonds in full at the Existing CB Conversion Price of HK$0.3695 per CB Conversion Share; and

(iii) approximately 5.17% of the total number of Ordinary Shares in issue as enlarged by the allotment and issue of 324,763,193 CB Conversion Shares upon exercise of the conversion rights attached to all the Convertible Bonds in full at the Existing CB Conversion Price of HK$0.3695 per CB Conversion Share; and

(b) Seller 2 will continue to hold the Excluded Bonds with an aggregate principal amount of HK$23,167,474 which are convertible into 62,699,523 CB Conversion Shares at the Existing CB Conversion Price of HK$0.3695 per CB Conversion Share, representing:

(i) approximately 18.05% of the total number of Ordinary Shares in issue as at the Latest Practicable Date;

(ii) approximately 15.29% of the total number of Ordinary Shares in issue as enlarged by the allotment and issue of 62,699,523 CB Conversion Shares to Seller 2 upon exercise of the conversion rights attached to the Excluded Bonds in full at the Existing CB Conversion Price of HK$0.3695 per CB Conversion Share; and

(iii) approximately 9.33% of the total number of Ordinary Shares in issue as enlarged by the allotment and issue of 324,763,193 CB Conversion Shares upon exercise of the conversion rights attached to all the Convertible Bonds in full at the Existing CB Conversion Price of HK$0.3695 per CB Conversion Share.

Based on the Adjusted CB Conversion Price of HK$0.0672 per CB Conversion Share (which shall become effective upon the Subscription Completion and the CN Subscription Completion), the Excluded Bonds with an aggregate principal amount of HK$23,167,474 may be converted into a total of 344,754,077 CB Conversion Shares and all the Convertible Bonds with an aggregate principal amount of HK$120,000,000 may be converted into a total of 1,785,714,285 CB Conversion Shares.

Consideration

The consideration for the Sale Shares is HK$117,180,000, being equivalent to HK$0.6696 per Sale Share and the consideration for the Sale Bonds is HK$175,477,833, being equivalent to HK$0.6696 per underlying CB Conversion Share, which may fall to be issued upon exercise of the conversion rights attached to the Sale Bonds at the Existing CB Conversion Price of HK$0.3695 per CB Conversion Share.

The total consideration for the Transfer was arrived at after arm's length negotiations among the Sellers, Mr. Mo and the Offeror and shall be payable by the Offeror by wire transfer of immediately available funds in HK$ in the following manner:

(a) upon the Tranche 1 Sale Completion, (i) an amount of HK$24,122,155 has been paid by the Offeror to Seller 1; and (ii) an amount of HK$27,117,441 has been paid by the Offeror to Seller 2; and

(b) upon the Tranche 2 Sale Completion (i.e. the S&P Completion), (i) an amount of HK$93,057,845 shall be payable to Seller 1; and (ii) an amount of HK$148,360,392 shall be payable to Seller 2.

Accordingly, the aggregate considerations under the Tranche 1 Transfer and the Tranche 2 Transfer were HK$51,239,596 and HK$241,418,327, respectively.

S&P Conditions

The following Conditions shall only be applicable to the Tranche 2 Sale Completion.

1. Conditions precedent to the obligation of the Offeror to complete the S&P Agreement

The obligation of the Offeror to complete the Tranche 2 Transfer is conditional upon satisfaction of all the following conditions, any one or more of which may be waived by the Offeror in writing:

(a) the representations and warranties of Mr. Mo and the Sellers as set out in the S&P Agreement remaining true and correct in all material respects;

(b) each of Mr. Mo and the Sellers having performed and complied in all material respects with all covenants, obligations and agreements required by the S&P Agreement to be performed or complied with by such party on or prior to the date of the S&P Completion;

(c) the Sale Shares remaining listed and traded on the main board of the Stock Exchange at all times from the date of the S&P Agreement to the date of the S&P Completion, and no indication having been received on or before the date of the S&P Completion from the SFC and/or the Stock Exchange to the effect that the listing of the Sale Shares on the Stock Exchange will or may be withdrawn or objected to (or conditions will or may be attached thereto) as a result of the S&P Completion or in connection with the terms of the S&P Agreement save for any temporary suspension that may be ordered or imposed by any governmental authority in relation to the S&P Agreement;

(d) all consents, authorisations, approvals, exemptions and waivers required by Mr. Mo and the Sellers from the Board or the Shareholders or any governmental authority for the consummation of the transactions contemplated by the S&P Agreement having been obtained and all necessary filings, notifications and other regulatory requirements to which Mr. Mo or any Seller is subject having been made or satisfied, including:

(i) the passing of resolutions by the Independent Shareholders in the SGM approving, among other things, the execution of the Transaction Documents and consummation and completion of the transactions thereunder; and

(ii) the Company having obtained the approval in principle for the consummation and completion of the reverse takeover contemplated under the Transaction Documents from the Listing Committee of the Stock Exchange;

(e) Mr. Mo and the Sellers having delivered a certificate, dated the date of the S&P Completion and signed by Mr. Mo and a director of each Seller, confirming the satisfaction of the conditions 1(a) and 1(b) set out above.

2. *Conditions precedent to the obligation of the Sellers to complete the S&P Agreement*

The obligation of each of the Sellers to complete the Tranche 2 Transfer is conditional upon satisfaction of all the following conditions, any one or more of which may be waived by such Seller in writing:

(a) the representations and warranties of the Offeror as set out in the S&P Agreement remaining true and correct in all material respects;

(b) the Offeror having performed and complied in all material respects with all covenants, obligations and agreements required by the S&P Agreement to be performed or complied with by the Offeror on or prior to the date of the S&P Completion;

(c) all consents, authorisations, approvals, exemptions and waivers required by the Offeror from any governmental authority for the consummation of the transactions contemplated by the S&P Agreement having been obtained and all necessary filings, notifications and other regulatory requirements to which the Offeror is subject having been made or satisfied;

(d) the Offeror having delivered a certificate, dated the date of the S&P Completion and signed by a director of the Offeror, confirming the satisfaction of the conditions 2(a) and 2(c) set out above;

(e) the passing of resolutions by the Independent Shareholders in the SGM approving, among other things, the execution of the Transaction Documents and consummation and completion of the transactions thereunder; and

(f) the Company having obtained the approval in principle for the consummation and completion of the reverse takeover contemplated under the Transaction Documents from the Listing Committee of the Stock Exchange.

As at the Latest Practicable Date, none of the above S&P Conditions had been fulfilled, the Offeror had no intention to waive any of the S&P Conditions; and according to the Sellers and Mr. Mo, they also had no intention to waive any of the S&P Conditions.

If the S&P Conditions set out above are not fulfilled by the Target Completion Date, being 31 August 2016 (or any other date agreed upon in writing by the Offeror, Mr. Mo and the Sellers), the S&P Agreement (in respect of the Sale Shares and the Sale Bonds under the Tranche 2 Transfer) shall become null and void and have no further force or effect, except that any such termination shall be without prejudice to the rights of any party to the S&P Agreement in respect of any breach of the S&P Agreement prior to such termination.

S&P Completion

The S&P Conditions 1(d)(i), 1(d)(ii), 2(e) and 2(f) as set out above under the sub-section headed "S&P Agreement — S&P Conditions" in this section shall not be construed in any way to mean or imply that the S&P Completion is subject to the completion of any transaction under any of the Transaction Documents and in particular, the S&P Completion is not subject to the Subscription Completion. The Transfer is not required to be made conditional on any special deal and thus is not conditional on the completion of the Divestment. The S&P Completion shall take place on the first business day after the S&P Conditions as set out above have been satisfied or waived (other than those conditions that by their terms cannot be fulfilled until the S&P Completion).

The Sellers, Mr. Mo and the Offeror shall use their respective best efforts to ensure that the S&P Conditions are fulfilled by the Target Completion Date, being 31 August 2016, or such other date agreed to by the parties to the S&P Agreement in writing.

The Tranche 1 Sale Completion took place on 27 October 2015.

Mr. Mo and the Sellers' covenants

Mr. Mo and the Sellers have covenanted to the Offeror as follows:

1. Subject to the S&P Completion, Mr. Mo and the Sellers shall cause Mr. Mo, Ms. Cao and Zhang Shaohua not to resign as Directors until the first closing date of the Offer.

2. Mr. Mo and the Sellers shall, and shall cause the Company to, each use their best endeavours to ensure the satisfaction of S&P Conditions 1(c) to 1(d)(ii) and 2(c) to 2(f) as set out above under the sub-section headed "S&P Agreement — S&P Conditions" in this section above as soon as reasonably practicable.

POSSIBLE UNCONDITIONAL MANDATORY CASH OFFER

Shareholding interests of the Offeror and its concert parties in the Company

Prior to the entering into of the S&P Agreement (as amended on 27 October 2015, 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016), the Offeror did not hold any Ordinary Shares, or any other relevant securities in the Company, and whilst (i) IDG Technology (which is managed by its general partner IDG Technology Venture Investment III, LLC ("**IDG Technology GP**"), and Ho Chi Sing (何志成) and Zhou Quan (周全) (who are the directors of IDG-Accel Ultimate GP, the ultimate general partner of the IDG Funds which in turn own approximately 49.14% of the issued share capital of Titan Gas Holdings, the sole shareholder of the Offeror) are the only two managing members of IDG Technology GP, who manage IDG Technology GP pursuant to an operating agreement); and (ii) Lin Dongliang (林棟梁) (a director of Titan Gas Holdings which is interested in 100% of the issued shares of the Offeror and also a director of Standard Gas which held approximately 35.13% of Titan Gas Holdings) held 11,500,000 Ordinary Shares and 12,910,000 Ordinary Shares, representing approximately 3.31% and 3.72% of the total number of Ordinary Shares in issue as at the Latest Practicable Date respectively. Given the above, IDG Technology and Lin Dongliang (林棟梁) are therefore parties acting in concert with the Offeror under the Takeovers Code. Accordingly, prior to the entering into of the S&P Agreement (as amended on 27 October 2015, 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016), the Offeror and parties acting in concert with it, were interested in an aggregate of 24,410,000 Ordinary Shares, representing approximately 7.03% of the total number of Ordinary Shares in issue as at the Latest Practicable Date. Immediately after the Tranche 1 Sale Completion and as at the Latest Practicable Date, the Offeror and parties acting in concert with it were interested in an aggregate of 60,434,724 Ordinary Shares, representing approximately 17.40% of the total number of Ordinary Shares in issue as at the Latest Practicable Date.

Subject to fulfilment (or where applicable, waiver) of the S&P Conditions and immediately following the Tranche 2 Sale Completion (i.e. the S&P Completion), the Offeror and parties acting in concert with it will be interested in an aggregate of 199,410,000 Ordinary Shares, representing approximately 57.41% of the total number of Ordinary Shares in issue as at the Latest Practicable Date, and the Offeror will be required to make an unconditional mandatory general offer in cash for all the issued Ordinary Shares (other than those already owned by or agreed to be acquired by the Offeror and parties acting in concert with it) pursuant to Rule 26.1 of the Takeovers Code.

Pursuant to the S&P Agreement and the CN Subscription Agreement, Mr. Mo, Seller 1, Seller 2 and League Way have irrevocably and unconditionally undertaken in favour of the Offeror, that, amongst others, (i) Seller 1 will not accept the Offer in respect of the 34,753,409 Excluded Shares during the Relevant Period; (ii) Seller 1 will not transfer the Excluded Shares during the Relevant Period; (iii) Seller 2 will not transfer the Excluded Bonds during the

Relevant Period; (iv) Seller 2 will not accept an offer (if any) to be made by the Offeror to acquire all the Convertible Bonds (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) in respect of the Excluded Bonds with a principal amount of HK$23,167,474 during the Relevant Period; (v) Seller 2 will not convert any of the Excluded Bonds into Ordinary Shares during the Relevant Period; (vi) League Way will not accept an offer (if any) to be made by the Offeror to acquire the Convertible Note (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) during the CN Relevant Period; and (vii) League Way will not convert the Convertible Note during the CN Relevant Period.

As such, subject to and upon the S&P Completion, Essence Securities, will on behalf of the Offeror, make the Offer for all the issued Ordinary Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) pursuant to Rule 26.1 of the Takeovers Code. Details of the terms and information related to the Offer are set out in the Joint Announcement under the sub-section headed "Possible Unconditional Mandatory Cash Offer".

It is the intention of the sole director of the Offeror and the Board to combine the offer document and the offeree board circular in the Composite Document. In accordance with Rule 8.2 of the Takeovers Code, the Composite Document containing, among other things; (i) details of the Offer (including the expected timetable); (ii) a letter of advice from the Independent Board Committee to the Independent Shareholders in relation to the Offer; and (iii) a letter of advice from the Independent Financial Advisor to the Independent Board Committee in relation to the Offer, is required to be despatched to the Shareholders within 21 days of the date of the Joint Announcement or such later date as the Executive may approve. As the making of the Offer by the Offeror is subject to the prior fulfilment of pre-conditions and the pre-conditions cannot be fulfilled within the time period contemplated by Rule 8.2 of the Takeovers Code, consent has been obtained by the Offeror from the Executive under Note 2 to Rule 8.2 of the Takeovers Code to extend the deadline for the despatch of the Composite Document to 7 September 2016.

THE SUBSCRIPTION AGREEMENT

Date

22 June 2015 (as amended on 23 October 2015, 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016)

Parties

Issuer: The Company

Subscribers:

	Subscribers	Ordinary Subscription Shares to be subscribed		Tranche 1 and Tranche 2 Preferred Shares to be subscribed	
		Number of Ordinary Shares	*Aggregate Subscription Monies (HK$)*	*Number of Preferred Shares*	*Aggregate Subscription Monies (HK$)*
(1)	The Offeror	649,641,578	435,000,001	1,411,505,622	945,144,164
(2)	Lu Xi	14,934,289	10,000,000	—	—
(3)	Fang Chao	14,934,289	10,000,000	—	—
(4)	華寶●境外市場投資2號系列20–6期QDII單一資金信托 (Hwabao.Overseas Investment Series 2 No. 20–6 QDII Single Money Trust*)	93,588,212	62,666,667	—	—
(5)	華寶●境外市場投資2號系列20–7期QDII單一資金信托 (Hwabao.Overseas Investment Series 2 No. 20–7 QDII Single Money Trust*)	46,794,106	31,333,333	—	—
(6)	New Fast Investments Limited	124,701,315	83,500,001	116,736,360	78,166,667
(7)	Real Smart Holdings Limited	50,029,870	33,500,001	116,736,360	78,166,667
(8)	Grand Empire Global Limited	50,029,870	33,500,001	116,736,360	78,166,667
(9)	True Success Global Limited	75,044,800	50,249,998	175,104,540	117,250,000
(10)	Sonic Gain Limited	149,716,246	100,249,998	175,104,540	117,250,000
(11)	Aquarius Investment	—	—	443,369,176	296,880,000
(12)	Haitong International Securities Company Limited	—	—	50,000,000	33,480,000
(13)	ExaByte Capital Fund L.P.	—	—	14,934,289	10,000,000
(14)	Rich Harvest Worldwide Ltd.	—	—	127,681,952	85,495,835
		1,269,414,575	850,000,000	2,747,909,199	1,840,000,000

Please refer to the sections headed "Information on the Offeror" and "Information on the Public Shares Subscribers" below for further information on the Subscribers.

Subscription Shares

The Subscription comprises (i) the Ordinary Shares Subscription of 1,269,414,575 Ordinary Subscription Shares; (ii) the Tranche 1 Preferred Shares Subscription of 1,373,954,600 Preferred Shares; and (iii) the Tranche 2 Preferred Shares Subscription of 1,373,954,599 Preferred Shares.

The 1,269,414,575 Ordinary Subscription Shares represent:

(i) approximately 365.48% of the total number of Ordinary Shares in issue as at the Latest Practicable Date;

(ii) approximately 78.52% of the total number of Ordinary Shares in issue as enlarged by the allotment and issue of the Ordinary Subscription Shares; and

(iii) approximately 19.46% of the total number of Ordinary Shares in issue as enlarged by the allotment and issue of:

  (a) the Ordinary Subscription Shares;

  (b) all the New Conversion Shares to be issued upon conversion of the 1,373,954,600 Tranche 1 Preferred Shares and 1,373,954,599 Tranche 2 Preferred Shares (based on the initial conversion price of HK$0.6696 per Ordinary Share);

  (c) 1,785,714,285 CB Conversion Shares to be issued upon exercise of the conversion rights attached to the Convertible Bonds in full (based on the Adjusted CB Conversion Price of HK$0.0672 per CB Conversion Share); and

  (d) 373,357,228 New Conversion Shares to be issued upon exercise of the conversion rights attached to the Convertible Note in full (based on the initial conversion price of HK$0.6696 per Ordinary Share).

The aggregate nominal value of the Ordinary Subscription Shares is HK$12,694,145.75.

Upon conversion of the Tranche 1 Preferred Shares in full at the initial conversion price of HK$0.6696 per Ordinary Share, 1,373,954,600 New Conversion Shares will be allotted and issued, representing:

(i) approximately 395.58% of the total number of Ordinary Shares in issue as at the Latest Practicable Date;

(ii) approximately 45.94% of the total number of Ordinary Shares in issue as enlarged by the allotment and issue of the Ordinary Subscription Shares and the New Conversion Shares to be issued upon conversion of the Tranche 1 Preferred Shares in full (assuming that no Tranche 2 Preferred Shares are converted into Ordinary Shares and there is no other change in the number of issued Ordinary Shares);

(iii) approximately 26.68% of the total number of Ordinary Shares in issue as enlarged by the allotment and issue of:

  (a) the Ordinary Subscription Shares;

(b) the New Conversion Shares to be issued upon conversion in full of the 1,373,954,600 Tranche 1 Preferred Shares (assuming that no Tranche 2 Preferred Shares are converted into Ordinary Shares and there is no other change in the number of issued Ordinary Shares);

(c) 1,785,714,285 CB Conversion Shares to be issued upon exercise of the conversion rights attached to the Convertible Bonds in full (based on the Adjusted CB Conversion Price of HK$0.0672 per CB Conversion Share); and

(d) 373,357,228 New Conversion Shares to be issued upon exercise of the conversion rights attached to the Convertible Note in full (based on the initial conversion price of HK$0.6696 per Ordinary Share); and

(iv) approximately 21.06% of the total number of Ordinary Shares in issue as enlarged by the allotment and issue of:

(a) the Ordinary Subscription Shares;

(b) the New Conversion Shares to be issued upon conversion in full of the 1,373,954,600 Tranche 1 Preferred Shares and the 1,373,954,599 Tranche 2 Preferred Shares (at the initial conversion price of HK$0.6696 per Ordinary Share and assuming there is no other change in the number of issued Ordinary Shares);

(c) 1,785,714,285 CB Conversion Shares to be issued upon exercise of the conversion rights attached to the Convertible Bonds in full (based on the Adjusted CB Conversion Price of HK$0.0672 per CB Conversion Share); and

(d) 373,357,228 New Conversion Shares to be issued upon exercise of the conversion rights attached to the Convertible Note in full (based on the initial conversion price of HK$0.6696 per Ordinary Share).

The aggregate nominal value of the 1,373,954,600 New Conversion Shares which may be issued upon the conversion of the Tranche 1 Preferred Shares in full based on the initial conversion price of HK$0.6696 per Ordinary Share is HK$13,739,546.00.

Upon conversion of the Tranche 2 Preferred Shares in full at the initial conversion price of HK$0.6696 per Ordinary Share, 1,373,954,599 New Conversion Shares will be allotted and issued, representing:

(i) approximately 395.58% of the total number of Ordinary Shares in issue as at the Latest Practicable Date;

(ii) approximately 31.48% of the total number of Ordinary Shares in issue as enlarged by the allotment and issue of the Ordinary Subscription Shares and the New Conversion Shares to be issued upon conversion of both the Tranche 1 Preferred Shares and the

Tranche 2 Preferred Shares in full (based on the initial conversion price of HK$0.6696 per Ordinary Share and assuming that there is no other change in the number of issued Ordinary Shares); and

(iii) approximately 21.06% of the total number of Ordinary Shares in issue as enlarged by the allotment and issue of:

(a) the Ordinary Subscription Shares;

(b) the New Conversion Shares to be issued upon conversion of both the Tranche 1 Preferred Shares and the Tranche 2 Preferred Shares in full (based on the initial conversion price of HK$0.6696 per Ordinary Share and assuming that there is no other change in the number of issued Ordinary Shares);

(c) 1,785,714,285 CB Conversion Shares to be issued upon exercise of the conversion rights attached to the Convertible Bonds in full (based on the Adjusted CB Conversion Price of HK$0.0672 per CB Conversion Share); and

(d) 373,357,228 New Conversion Shares to be issued upon exercise of the conversion rights attached to the Convertible Note in full (based on the initial conversion price of HK$0.6696 per Ordinary Share).

The aggregate nominal value of the 1,373,954,599 New Conversion Shares which may be issued upon the conversion of the Tranche 2 Preferred Shares in full based on the initial conversion price of HK$0.6696 per Ordinary Share is HK$13,739,545.99.

Subscription Price

The Subscription Price of HK$0.6696 per Subscription Share represents:

(i) a discount of approximately 88.65% to the closing price of HK$5.90 per Ordinary Share as quoted on the Stock Exchange on 19 June 2015, being the Last Trading Day;

(ii) a discount of approximately 88.29% to the average closing price of approximately HK$5.72 per Ordinary Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day (when trading in the Ordinary Shares was not suspended);

(iii) a discount of approximately 85.03% to the average closing price of approximately HK$4.474 per Ordinary Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day (when trading in the Ordinary Shares was not suspended);

(iv) a premium of approximately HK$0.9720 over the audited net liabilities of the Group as at 31 March 2015 as represented by each Ordinary Share (before any conversion of the Convertible Bonds) of approximately HK$0.3024; and

(v) a premium of approximately 76.21% over the unaudited pro forma adjusted net tangible assets of the Restructured Group as at 30 September 2015 as represented by each Ordinary Share in issue upon completion of the Transactions (assuming conversion in full of the Convertible Bonds (at the Adjusted CB Conversion Price), the Convertible Note and the Preferred Shares) of approximately HK$0.38.

The Subscription Price is the same as the purchase price per Sale Share under the S&P Agreement and was arrived at after arm's length negotiations between the Company and the Subscribers (including the Offeror) after taking into account the prevailing market price of the Ordinary Shares, the trading volume of the Ordinary Shares and the financial position of the Group as at 31 March 2015.

Subscription Conditions

Subscription Completion by each Subscriber is conditional upon the fulfilment (or waiver by the Majority Subscriber(s), as the case may be) of the following conditions precedent:

(a) each of the S&P Agreement and the Transaction Documents having been duly executed;

(b) the current listing of the Ordinary Shares not having been cancelled or withdrawn, the Ordinary Shares continuing to be traded on the Stock Exchange at all times from the date of the Subscription Agreement to the date of the Subscription Completion (save for any temporary suspension pending publication of the Joint Announcement (or such other period as the Majority Subscriber(s) may agree)), and neither the Stock Exchange nor the SFC having indicated that either one of them will qualify, object to, cancel or withdraw such listing and/or dealings in the Ordinary Shares (including the Ordinary Subscription Shares) for reasons related to or arising from the transactions contemplated under the Subscription Agreement;

(c) the passing of resolutions by the Independent Shareholders at the SGM approving, among other things:

   (i) the execution of the Transaction Documents and consummation and completion of the transactions thereunder;

   (ii) the Increase of Authorised Share Capital and Adoption of New Bye-laws Resolution; and

   (iii) the Specific Mandate (in respect of the Ordinary Subscription Shares and the New Conversion Shares arising from conversion of the Preferred Shares);

(d) the Listing Committee of the Stock Exchange having granted the listing of and permission to deal in the Ordinary Subscription Shares and the New Conversion Shares which may be issued upon exercise of the conversion rights attached to the Preferred Shares and such approval and granting of permission not having been withdrawn or revoked;

(e) the S&P Completion having occurred in accordance with the terms and conditions and timetable pursuant to the S&P Agreement and on such terms and conditions to the satisfaction of the Majority Subscriber(s);

(f) the Acquisition Completion having occurred in accordance with the terms and conditions and timetable pursuant to the Acquisition Agreement and on such terms and conditions to the satisfaction of the Majority Subscriber(s);

(g) the Divestment Completion having occurred in accordance with the terms and conditions and timetable pursuant to the Divestment Agreement and on such terms and conditions to the satisfaction of the Majority Subscriber(s);

(h) the Group having obtained all consents from other relevant approval authority which are necessary to be obtained for the execution and performance of the S&P Agreement and the Transaction Documents and any of the transactions contemplated under the S&P Agreement and the Transaction Documents;

(i) the Group having obtained all consents from third parties which are necessary to be obtained for the execution and performance of the S&P Agreement and the Transaction Documents and any of the transactions contemplated under the S&P Agreement and the Transaction Documents;

(j) there being no relevant approval authority or any other natural or legal person that has:

  (i) instituted or threatened any action or investigation to restrain, prohibit or otherwise challenge the issuance of the Subscription Shares or any of the transactions contemplated under the S&P Agreement and the Transaction Documents;

  (ii) threatened to take any action as a result of or in anticipation of the implementation of the transactions contemplated under the S&P Agreement and the Transaction Documents; or

  (iii) instituted or threatened any action for the delisting of or suspension of trading of the Ordinary Shares on the Stock Exchange;

(k) there having been no statute, regulation or decision which would prohibit or restrict the execution, delivery or performance of the S&P Agreement and the Transaction Documents or the consummation of the transactions contemplated under the S&P Agreement and the Transaction Documents having been enacted or taken by any approval authority whether in Hong Kong, the PRC or elsewhere;

(l) there having been no material adverse change (as defined in the Subscription Agreement);

(m) representations, warranties and undertakings given by the Company in the Subscription Agreement being true, accurate and correct in all material respects at Subscription Completion and the Company having performed all its obligations under the S&P Agreement and the Transaction Documents to be performed before the Subscription Completion;

(n) the Subscribers or such custodian(s) as designated by the Majority Subscriber(s) receiving on or prior to the Subscription Completion: (i) the audited consolidated accounts of the Group (including notes to and auditors' report on those accounts) for the financial year ended 31 March 2014; (ii) legal opinions from the Company's Bermuda lawyers dated the date of the Subscription Completion substantially in the form and substance to the satisfaction of the Subscribers; and (iii) such other documents relating to the transactions contemplated under the Subscription Agreement as the Majority Subscriber(s) may reasonably require;

(o) the Company having complied fully with the pre-completion obligations set out in the Subscription Agreement and otherwise having performed in all material respects all of the covenants and agreements required to be performed by it under the S&P Agreement and the Transaction Documents simultaneously;

(p) there having been delivered to the Subscribers a completion certificate from the Company confirming that all the conditions precedent (other than the conditions (f), (g), (n) and (o) set out above, this condition and condition (q) below) have been met; and

(q) completion of the due diligence investigation on the assets, liabilities, business, financial and legal matters relating to the Group and the results being satisfactory to the Majority Subscriber(s) in their absolute discretion.

The Subscribers may, at any time, acting through the Majority Subscriber(s), waive in whole or in part any of the Subscription Conditions (other than the Subscription Conditions set out in paragraphs (c) and (d) above) by giving written notice to the Company.

In the event that any of the above Subscription Conditions are not fulfilled or waived (as applicable) prior to the long stop date on 31 August 2016 (or such later date as the Company and the Majority Subscriber(s) may agree), then none of the Company nor the Subscribers shall be bound to proceed with the transactions contemplated under the Subscription Agreement and the Subscription Agreement shall lapse and none of the parties to the Subscription Agreement shall have any claim against other parties save as to any antecedent rights of the Subscription Agreement.

As at the Latest Practicable Date, none of the above Subscription Conditions had been fulfilled and the Subscribers had no intention to waive any of the above conditions.

Registration under SAFE regulations

Under the terms of the Subscription Agreement, each Subscriber who is a PRC national or an entity incorporated under PRC law, or directly or indirectly owned by one or more PRC nationals, shall consult with SAFE regarding any registration with respect to his/its investment in the Company and the transactions contemplated under the Subscription Agreement pursuant to the SAFE Circular on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents to Engage in Overseas Investment and Financing and Round Trip Investment via Special Purpose Companies (Hui Fa [2014] No. 37) (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知(匯發[2014]37號)》) (the "**Circular 37 Registration**") would be required by SAFE and, to the extent any Circular 37 Registration is required for such Subscriber or its direct or indirect shareholders/investors, shall use his/its best endeavours to complete, or cause the relevant persons to complete the relevant Circular 37 Registration. If the Majority Subscriber(s) or the Company deem it reasonably foreseeable that a Subscriber will not be able to complete his/its Circular 37 Registration and such failure shall cause a negative impact on completion of the transactions contemplated under the Subscription Agreement, the Majority Subscriber(s) and the Company shall have the right, by giving written notice to such Subscriber and the other parties to the Subscription Agreement, to request such Subscriber not to participate in the Subscription and the Subscriber shall comply with such request.

Subscription Completion

Subject to fulfillment or waiver (as applicable) of the Subscription Conditions, the Subscription Completion shall take place on or before the 10th business day following the satisfaction or waiver of the Subscription Conditions (other than those conditions precedent that by their terms cannot be fulfilled until the Subscription Completion) or on such other date as may be agreed in writing by the Company and the Majority Subscriber(s). The Subscription Completion is conditional on the S&P Completion, the Acquisition Completion and the Divestment Completion.

The Subscription Completion shall take place after the S&P Completion and shall take place simultaneously with the Acquisition Completion, the CN Subscription Completion and the Divestment Completion.

At the Subscription Completion, the Subscribers shall subscribe for, and the Company shall allot and issue to such Subscribers, their respective number of the Ordinary Subscription Shares, and/or the Tranche 1 Preferred Shares and the Tranche 2 Preferred Shares.

Payment of Subscription monies

The aggregate Subscription Price amounts to approximately HK$2,690 million which shall be payable in cash by the Subscribers in the following manner:

(i) at Subscription Completion, an amount of approximately HK$983.4 million, being the sum of (a) the aggregate Subscription Price of the Ordinary Shares Subscription of HK$850 million; and (b) 5% of the aggregate Subscription Price of the Tranche 1 Preferred Shares Subscription and the Tranche 2 Preferred Shares Subscription (save for Haitong International Securities Company Limited and ExaByte Capital Fund L.P., the entire amount of the Subscription Price for their respective Preferred Shares will be paid on Subscription Completion) in an aggregate amount of approximately HK$133.4 million;

(ii) on a date falling within 180 days after the Subscription Completion, an amount of approximately HK$853.3 million, being 95% of the aggregate Subscription Price of the Tranche 1 Preferred Shares Subscription (excluding those Tranche 1 Preferred Shares subscribed for by Haitong International Securities Company Limited and ExaByte Capital Fund L.P.); and

(iii) on a date falling within one year after the Subscription Completion, an amount of approximately HK$853.3 million, being 95% of the aggregate Subscription Price of the Tranche 2 Preferred Shares Subscription (excluding those Tranche 2 Preferred Shares subscribed for by Haitong International Securities Company Limited and ExaByte Capital Fund L.P.).

Upon Subscription Completion, the Company will issue share certificates to the Subscribers for the fully paid and partly paid Subscription Shares. Share certificates for the Ordinary Subscription Shares, the Make-Up Preferred Shares (as defined under the sub-section headed "The Subscription Agreement — Subscription Completion — Public Float Allocation Adjustment" in this section below), the Additional Make-Up Preferred Shares (as defined under the sub-section headed "The Subscription Agreement — Subscription Completion — Public Float Allocation Adjustment" in this section below) and the Preferred Shares subscribed by Haitong International Securities Company Limited and ExaByte Capital Fund L.P. will be issued to the relevant Subscribers as fully-paid up Ordinary Shares and fully-paid up Preferred Shares (as the case may be) whilst the share certificates for the rest of the Preferred Shares under the Tranche 1 Preferred Shares Subscription and the Tranche 2 Preferred Shares Subscription will be issued as partly paid Preferred Shares at the Subscription Completion upon payment of 5% of the aggregate Subscription Price of the Tranche 1 Preferred Shares Subscription and the Tranche 2 Preferred Shares Subscription respectively.

A Subscriber can pay the full Subscription Price for such Preferred Shares it subscribed for on or before the agreed last payment dates under the Subscription Agreement (i.e., on or before the 180th day after the Subscription Completion in respect of the Tranche 1 Preferred Shares and on or before the first anniversary of the Subscription Completion in respect of the Tranche 2 Preferred Shares). Holders of fully-paid Preferred Shares will be entitled to all rights and privileges of the Preferred Shares (the principal terms of the Preferred Shares are set out in the sub-section headed "The Subscription Agreement — Information on the Preferred Shares" in this section below); while holders of partly paid Preferred Shares will not be entitled to transfer the partly paid Preferred Shares, exercise the restricted voting rights and conversion rights attached to the Preferred Shares.

For illustrative purposes only, subject to final audit and possible audit adjustments, in respect of the Subscription Price received upon Subscription Completion, it would be recognised as bank balances and cash with the remaining Subscription Price to be received on a date falling within 180 days or one year after the Subscription Completion being recognised under prepayments, deposits and other receivables, whilst the Preferred Shares would be credited to the share capital and reserves of the Company assuming that the Preferred Share is a non-derivative for which the Company is not obligated to deliver a variable number of the Company's own equity instruments.

Public float allocation adjustment

No Subscriber is responsible for the obligations of any other Subscriber under the Subscription Agreement. If any Subscriber (other than the Offeror) fails to comply with his/its subscription obligation or is requested not to participate in the Subscription as a result of his/its failure to complete the Circular 37 Registration (the "**Default Subscriber(s)**"), by the Majority Subscribers (i.e., the Offeror) giving written notice to the Company:

(a) all the other Subscribers which comply with their respective subscription obligations (the "**Non-Default Subscribers**") shall be entitled but not obliged to effect the Subscription Completion so far as practicable in respect of the Subscription Shares subscribed by the Non-Default Subscriber(s) respectively thereunder; or

(b) in addition to the Non-Default Subscribers' right under (a) above to subscribe for their respective Subscription Shares, the Offeror shall be entitled but not obliged to fix a new date for the Subscription Completion (being no more than 10 business days after the original date of the Subscription Completion), and subscribe for (in addition to the Offeror's Subscription Shares) all or part of the Subscription Shares not subscribed for by the Default Subscriber(s) (the "**Default Subscription Shares**"). If the Offeror elects to subscribe for the Default Subscription Shares, subject to the allocation adjustment set out in the two paragraphs below, the Offeror shall pay the Subscription Price for the Default Subscription Shares in accordance with the terms of the Subscription Agreement i.e.:

(i) in respect of Default Subscription Shares which are Ordinary Shares or the Preferred Shares agreed to be subscribed for by Haitong International Securities Company Limited and ExaByte Capital Fund L.P., payment shall be made in full upon Subscription Completion;

(ii) in respect of Default Subscription Shares which are Tranche 1 Preferred Shares (other than the Tranche 1 Preferred Shares agreed to be subscribed for by Haitong International Securities Company Limited and ExaByte Capital Fund L.P.), payment shall be made as to 5% of the aggregate Subscription Price for such Tranche 1 Preferred Shares upon Subscription Completion and as to the remaining 95% on a date falling within 180 days after the Subscription Completion; and

(iii) in respect of Default Subscription Shares which are Tranche 2 Preferred Shares (other than the Tranche 2 Preferred Shares agreed to be subscribed for by Haitong International Securities Company Limited and ExaByte Capital Fund L.P.), payment shall be made as to 5% of the aggregate Subscription Price for such Tranche 2 Preferred Shares upon Subscription Completion and as to the remaining 95% on a date falling within one year after the Subscription Completion.

In the case of (a) above, as the aggregate number of Ordinary Subscription Shares would have been reduced by the number of Ordinary Subscription Shares initially agreed to be subscribed for by the Default Subscriber(s), the issue of the Ordinary Subscription Shares initially agreed to be subscribed for by the Offeror may lead to the Company failing to satisfy the minimum public float requirements under the Listing Rules. In such case:

(i) the number of Ordinary Subscription Shares to be issued by the Company to the Offeror under the Subscription Agreement will be reduced by such number of Ordinary Subscription Shares which would result in the minimum public float requirement not being satisfied (the "**Exceeding Ordinary Subscription Shares**"), and such number of Preferred Shares equal to the number of Exceeding Ordinary Subscription Shares shall be issued by the Company to the Offeror (the "**Make-up Preferred Shares**") in addition to the Preferred Shares that the Offeror has initially agreed to subscribe for under the Subscription Agreement; and the Offeror shall pay to the Company the full amount of the Subscription Price for the Make-up Preferred Shares so subscribed by it upon Subscription Completion; or

(ii) the Non-Default Subscribers and the Company may, alternatively, use their best endeavours to (x) discuss and re-negotiate the number of the Ordinary Subscription Shares and the Preferred Shares (as long as the total number of Subscription Shares subscribed by the Non-Default Subscribers shall not increase) to be issued to the Non-Default Subscribers to ensure the fulfillment of the minimum public float requirements following the Subscription Completion; and (y) adjust the payment terms in respect of the Subscription Price for the Preferred Shares if required for satisfaction of the capital requirement of the Company.

In the case of (b) above, if the Offeror chooses to subscribe for the Default Subscription Shares which are Ordinary Shares, and the issue of such Ordinary Subscription Shares (the "**Unsubscribed Ordinary Shares**") to the Offeror shall lead to the Company failing to satisfy the minimum public float requirements under the Listing Rules, in addition to the adjustment to the number of Ordinary Subscription Shares to be issued to the Offeror that may be required under (a) above, the Company will not be obliged to issue the Unsubscribed Ordinary Subscription Shares to the Offeror. Instead, the Offeror shall be entitled but not obliged, by giving written notice to the Company, to subscribe for (in addition to its Subscription Shares) up to such number of Preferred Shares that is equal to the number of Unsubscribed Ordinary Shares (the "**Additional Make-Up Preferred Shares**") on the condition that the Offeror shall pay to the Company the full amount of the Subscription Price for the Additional Make-Up Preferred Shares so subscribed by it on Subscription Completion.

In both of the above cases, if following Subscription Completion, the Board resolves to accelerate the payment of the Subscription Price for the Preferred Shares that remains outstanding then for the purpose of satisfying the actual requirement for working capital of the Company, each Non-Default Subscriber (including the Offeror) has agreed to pay the Subscription Price for its/his respective Preferred Shares pursuant to the new payment schedule adopted by the Board.

In circumstances other than (a) and (b) above whereby the issue of any Ordinary Subscription Shares will lead to the Company failing to satisfy the minimum public float requirements under the Listing Rules, the parties to the Subscription Agreement shall use their best endeavours to (i) discuss and re-negotiate the number of the Ordinary Subscription Shares and the Preferred Shares (as long as the total number of Subscription Shares shall not increase) to be issued to the Subscribers to ensure the fulfillment of the minimum public float requirements following the Subscription Completion, and (ii) adjust the payment terms in respect of the Subscription Price if required for satisfaction of the capital requirement of the Company. No Ordinary Subscription Shares will be issued if the Company fails to satisfy the minimum public float requirements under the Listing Rules.

Forfeiture

If a Subscriber fails to satisfy the payment obligations under (ii) or (iii) above under the sub-section headed "The Subscription Agreement — Subscription Completion — Payment of Subscription Monies" in this section, the related partly paid Preferred Shares issued to such Subscriber may be forfeited in accordance with the Bye-laws, and no part of the subscription money paid will be refunded to such Subscriber. The forfeiture procedure is set out in the New Bye-laws, which provides amongst other things that if a call to pay up the shares of the Company (including the Preferred Shares) remains unpaid after it has become due and payable, the Board may give to the person from whom it is due not less than fourteen (14) clear days' notice (the "**Forfeiture Notice**"): (a) requiring payment of the amount unpaid together with any interest which may have accrued and which may still accrue up to the date of actual payment; and (b) stating that if the Forfeiture Notice is not complied with the shares of the Company on which the call was made will be liable to be forfeited. Subject to compliance with the provisions of the New Bye-laws, the Board may resolve to have such Preferred Shares forfeited and cancel the forfeited shares. The holder(s) of those Preferred Shares will then be removed from the Company's register of members. There is no need for the relevant Subscriber to surrender the share certificate(s) for the Subscription Shares to effect the cancellation and forfeiture.

Pre-completion obligations

Pursuant to the pre-completion obligations mentioned in Subscription Condition set out in paragraph (o) under the sub-section headed "The Subscription Agreement — Subscription Conditions" in this section above, the Company undertakes to procure that between the date of the Subscription Agreement and the Subscription Completion, each of the Company and any other subsidiaries of the Company:

(i) shall carry on its business as a going concern in the ordinary and usual course as carried on prior to the date of the Subscription Agreement; and

(ii) shall not carry out any of the reserved matters as set out in the Subscription Agreement or take any action in relation thereto, unless prior written approval from the Majority Subscriber(s) has been obtained.

As set out in the Subscription Agreement, the reserved matters in item (ii) above refer to:

(a) any adoption, approval of or amendment to the annual operation plan, business plan and financial budget (including capital expenditure budget);

(b) save and except as otherwise contemplated under any Transaction Documents or agreed to by the Majority Subscriber(s), any transfer, sale or disposal of, or the creation of any charge, pledge, mortgage, security or any other encumbrance over, any shares or equity interest of the Company and of its subsidiaries (the "**Group Company(ies)**") or any business, or, except for in the ordinary course of business, any assets or undertaking of any Group Company (including merger and acquisition);

(c) save and except for such changes or alterations contemplated under the S&P Agreement and the Transaction Documents or otherwise required under the applicable laws and regulations, any adoption, alteration, modification or waiver of any provisions (including the alteration of any rights attaching to the Shares or the Convertible Bonds or any other security of the Company) of the Company's constitutional documents or the Bye-laws;

(d) save and except otherwise contemplated under any Transaction Documents or agreed to by the Majority Subscriber(s), any Group Company entering into or varying the terms of (including without limitation waiver of terms or non-enforcement of rights available to the Group Company thereunder) or terminating any material contracts, which exclude contracts entered into in the usual and ordinary course of business of the Group with a total consideration not exceeding HK$5 million within any twelve-month period;

(e) any Group Company entering into, varying the terms of (including without limitation waiver of terms or non-enforcement of rights available to the Group Company thereunder) or terminating any connected transaction within the meaning of the Listing Rules;

(f) any transaction between the Company and Target 1, Target 2 or any of their respective subsidiaries and affiliates, except for those in the ordinary course of business involving an aggregate amount of no more than HK$5 million;

(g) the appointment (including an appointment of directors of the Company to fill causal vacancy), re-designation or removal of any key management (including without limitation the Chairman, Chief Executive Officer, Chief Financial Officer of the Company or any Director, legal representatives, directors and other senior management of any Group Company), or change of their terms of appointment;

(h) save and except as required under the applicable laws and regulations, the commencement of any proceeding or other action relating to bankruptcy, insolvency, winding-up, liquidation or dissolution of any Group Company;

(i) save and except otherwise contemplated under any Transaction Documents or agreed to by the Majority Subscriber(s), any change to the shareholding structure or dilution of the equity interest of any shareholder of any Group Company, including without limitation the creation, issuance, purchase, redemption, repurchase, reclassification or other reorganisation of the share capital or any securities convertible into shares of any Group Company; and

(j) any commencement, settlement or making of major decisions in relation to any material legal proceedings, litigations, claims or disputes involving any Group Company.

The above reserved matters were agreed among the Company and the Subscribers after arm's length negotiation. The Company is of the view that the arrangement in respect of the reserved matters is a common practice in sizeable fund raising exercises which those rights granted to the Subscribers (in the capacity of new investors but not Shareholders) will immediately discontinue upon the Subscription Completion. Accordingly, the Board is of the view that the arrangement in respect of the reserved matters as part of the terms of the Subscription Agreement, given the terms of the Subscription Agreement as a whole, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

At any time between the date of the Subscription Agreement and the Subscription Completion, the Majority Subscriber(s) shall, be entitled to second a reasonable number of representatives to the Group to facilitate and manage the preparation and completion of, inter alia, the Subscription, the Acquisition, the Divestment, the Transfer, and related interim operation and business transition and the Company shall agree to such secondment arrangement as permitted under the Takeovers Code (in particular Rule 26.4 of the Takeovers Code pursuant to which except with the consent of the Executive, no nominee of an offeror or persons acting in concert with it may be appointed to the board of the offeree company or any of its subsidiaries, nor may an offeror and persons acting in concert with it exercise offeree company voting rights, until the offer document has been posted).

Information on the Preferred Shares

A summary of the principal terms of the Preferred Shares is set out below:

Issue price:	HK$0.6696 per Preferred Share.
Dividends:	None of the Preferred Shares shall confer on the holders thereof the right to receive out of the funds of the Company available for distribution.
Return on capital:	The Preferred Shares shall rank *pari passu* in all respects for return of capital on liquidation, winding up or dissolution of the Company and participation in the distribution of surplus assets of the Company with all other shares in the capital of the Company for the time being in issue.

Transferability:	Any Preferred Share, subject to it having been fully paid up, shall be freely transferable subject to compliance with the New Bye-laws and all applicable laws and regulations. No partly paid Preferred Shares can be transferred.
Listing:	The Preferred Shares will not be listed on any stock exchanges.
Voting:	Save as otherwise provided by all applicable laws, the holder(s) of the Preferred Shares will not be entitled to attend or vote at any general meeting of the Company, unless a resolution is proposed at a general meeting for winding-up the Company or a resolution is proposed which if passed would vary or abrogate the rights or privileges of the holder(s) of the Preferred Shares, in which event the Preferred Shares shall confer on the holder(s) thereof the right to receive notice of, and to attend and vote at, the general meeting, save that such holder(s) may not vote upon any business dealt with at such general meeting except the election of a chairman, any motion for adjournment or relating to the proceedings of the general meeting and the resolution for winding-up or the resolution which if passed would (subject to any consents required for such purpose being obtained) vary or abrogate the rights and privileges of the holder(s) of the Preferred Shares. In such event, the votes of holders of Preferred Shares shall be counted on an as converted basis provided that only such Preferred Shares that have been fully paid up shall be so counted.
Conversion:	Subject to the Listing Rules (including the minimum public float requirement) being met and the payment in full of the Subscription Price for the Preferred Shares, the Preferred Shares may be convertible by the holder of the Preferred Shares, without the payment of any additional consideration therefor, into such number of fully-paid New Conversion Shares obtained by multiplying the conversion rate then in effect by the number of Preferred Shares being converted.
Conversion period:	An indefinite period commencing on the date of the Subscription Completion.
Conversion price:	Initially HK$0.6696, subject to customary adjustment for, among other matters, subdivision or consolidation of Ordinary Shares, capitalisation of profits or reserves and capital distributions.
Redemption:	The Preferred Shares shall be non-redeemable.

Lock-up arrangement under the Subscription Agreement

Each Subscriber undertakes to the Company that, in the period commencing from the date of the Subscription Completion and ending on the date which is 6 months from the date after the related Subscription Shares have been fully paid up (the "**Lock-up Period**"), it shall not dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of such Subscription Shares, which, for the avoidance of doubt, shall include any and all Ordinary Shares into which his/its Preferred Shares may be converted during the Lock-up Period.

Proposed use of proceeds

The aggregate gross proceeds from the Subscription amount to approximately HK$2,690 million. The Company has discussed the proposed use of proceeds with the Offeror. The aggregate net proceeds from the Subscription amounts to approximately HK$2,630 million after taking into account estimated total expenses of approximately HK$60 million in relation to the Transfer and the Transactions (representing a net subscription price of HK$0.6547 per Subscription Share (assuming full conversion of the Preferred Shares at the initial conversion price)). Such net proceeds are proposed to be applied as follows:

- as to approximately HK$665 million for the payment of the consideration for the Acquisition;
- as to approximately HK$400 million to finance the repayment of the PRC Target's outstanding payables and borrowings;
- as to approximately HK$800 million to finance the development plan of the currently explored areas in Block 212;
- as to approximately HK$450 million for exploration and development of other areas in Block 212;
- as to approximately HK$115 million to finance the operating expenses of the PRC Target as well as the Restructured Group; and
- as to approximately HK$200 million for expanding the Restructured Group's business by acquiring other oil companies and the further exploration, development and production of the other newly acquired oil and gas projects.

Upstream petroleum business is very capital intensive and requires substantial investments to fuel the development of a single project as well as the continuous growth of an oil and gas company.

The above proposed use of proceeds from the Subscription was arrived at after discussions among the Offeror, the PRC Target and the Company as to the proposed business strategy of the Restructured Group.

The Offeror has proposed the appointment of new Directors and senior management team members to lead the future development of the Restructured Group. The appointment of new Directors is expected to be made after the completion of the Transactions and the date of despatch of the Composite Document (being the earliest time permitted under the Takeovers Code). Details of their respective background and experience are set out in the section headed "Directors and Senior Management of the Restructured Group" in this circular. The Offeror and the Company are of the view that the currently relatively low commodity price offers an attractive risk/return profile for asset acquisitions.

The Offeror is actively evaluating a number of projects in Canada and the US, which the Offeror considers to have a meaningful production and steady cash flow with further exploration upsides, and can be appropriate potential acquisition targets after completion of the Transactions, such as light oil and liquids-rich gas in the Bluesky, Rock Creek, and Wilrich formations in Canada which is showing early stage positive results. The Offeror is also studying Cardium formation in western Canada where there are positive results from some wells drilled, especially in the Lochend, Harmattan/Garrington, Ferrier and Northeast sub-play regions. In the US, the Offeror is considering a focus on Eagle Ford Basin where liquids-rich tight oil assets are attractive. The Offeror would advise the Company to consider the following major criteria when selecting and evaluating future acquisition targets.

1. An asset value in the range of US$250 million to US$500 million (equivalent to approximately RMB1,630 million to RMB3,260 million);

2. a total proved and probable reserves in the range of 30 million to 60 million barrels;

3. a working interest net production in the range of 2,500 boe/d to 5,000 boe/d (barrels of oil equivalent per day, a commonly used measure of oil production) with an oil to gas ratio greater than 60%;

4. in production phase with significant future development inventory;

5. an aggregate yearly production decline rate of less than 30%; and

6. approved source rock with a production history and potential exploration upside.

In addition, the Offeror and the PRC Target also consider that there will be more opportunities in the PRC. The PRC Target plans to leverage on the ongoing oil and gas industry reform in the PRC to expand its operations by selectively engaging in more upstream exploration projects in the PRC in future. Although historically the oil and gas resources have long been dominated by state-owned companies, the PRC government has been issuing favorable policies to let non-state-owned companies participate in exploration and development projects in the PRC. Based on the Several Opinions of the State Council on Encouraging and Guiding the Healthy Development of Private Investment (國務院關於鼓勵和引導民間投資健康發展的若干意見), a policy issued by the State Council in 2010, the PRC government encourages private capital to (1) engage in oil and gas investments in the PRC, (2) support private capital entering oil and gas exploration and development in the PRC, and (3) cooperate with state-owned petroleum companies. This policy also promotes private capital to participate in the development of infrastructure projects in respect of oil and gas storage, transportation and pipelines. Furthermore, based on the "Energy Development Twelfth Five-year Plan" (能源發展「十二五」規劃) issued by the State Council in 2013, the PRC government encourages foreign capital to enter local complex oil and gas exploration in the PRC. The oil and gas industry in the PRC will be more open to foreign investments from non-state-owned companies. As a result, the Restructured Group may be able to benefit from such welcoming policy.

Depending on the size of a future acquisition, the Offeror considers that it may propose to the Company to raise additional funding to finance such acquisition, including debt or equity.

As at the Latest Practicable Date, the Company had not reached any agreement with the Offeror or any other party (other than the Acquisition) in respect of any possible acquisition.

The Company was approached by the Offeror in respect of the proposal for the Transactions. The Offeror proposes that it, and the other Subscribers, will subscribe for the Subscription Shares in order to provide necessary funding for the capital investment and growth requirements of the Restructured Group. Sufficient working capital is required to ensure the continuing development of the PRC Target whose upstream petroleum business is capital intensive. Furthermore under Rule 18.03(5) of the Listing Rules, a listing applicant which is principally engaged in the exploration and/or extraction of natural resources is required to have available working capital for 1.25 times of its present requirements in the 12 months from the date of the related listing document.

Whilst a substantial amount of money is needed to finance the future development of the PRC Target as well as the Restructured Group as a whole after completion of the Transactions, not all the proceeds from the Subscription are expected to be utilised in the 12 months after completion of the Transactions. Save for the HK$665 million which will be used to finance the payment of the consideration for Acquisition upon Acquisition Completion, a majority of the expected net proceeds from the Subscription will be used for the continuing exploration and development of the PRC Target's current upstream petroleum project. The further exploration and development work of Block 212 is expected to be gradually carried out over the next few years. Nevertheless it is important for the Company to have a secured source of funding which the Subscription will be able to provide. The Company therefore agreed to the payment schedule in respect of the subscription of the Preferred Shares as suggested by the Offeror and the other Subscribers as described above. As the Company is not allowed to issue partly-paid Ordinary Shares, the Offeror and the Company expect that the issue of the Preferred Shares which allow the agreed deferred payment arrangement will enable the Company to secure a source of funding now and equip the Company with the financial ability to fuel its future development and growth. If the Company does not issue the Preferred Shares, it will face the risk of not being able to raise sufficient funding for its future development. The proportion of the Ordinary Subscription Shares and Preferred Shares is suggested by the Offeror and agreed with the other Subscribers. The Company understands from the Offeror that it proposes such deferred payment schedule after taking into consideration of various factors, including, among other things, the timing of the funding needs of the PRC Target after completion of the Transactions, the ability of the Offeror to maintain a majority interest in the Company after completion of the Transfer and the individual investment preference of each other Subscribers. The Company considers that the division of the Subscription for the Ordinary Subscription

Shares and the Preferred Shares as suggested by the Offeror acceptable as under this proposed payment terms, the Restructured Group will still be able to meet its expected future cash requirements based on the current expected development timetable.

Given the proposed business development plan of the PRC Target and the benefits of the Transactions, the Company considers that the size of the Subscription and the related payment terms are in the interests of the Company and the Shareholders as a whole.

THE ACQUISITION AGREEMENT

Date

22 June 2015 (as amended on 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016)

Parties

(i) The Company (as purchaser)

(ii) The Target Sellers (as sellers)

(iii) The PRC Target

Hongbo Investment holds 60% of the equity interests in the PRC Target and Lida Investment owns 40% of the equity interests in the PRC Target.

Subject matter

The Company has conditionally agreed to acquire from the Target Sellers, the entire equity interests in the PRC Target. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Target Sellers and their respective ultimate owners were independent third parties and not connected with the Company or its connected persons nor the Offeror or parties acting in concert with the Offeror as at the Latest Practicable Date.

Consideration

The consideration shall be RMB558,880,000 which shall be satisfied in cash upon the Acquisition Completion by a payment of RMB335,330,000 to Hongbo Investment and a payment of RMB223,550,000 to Lida Investment.

The consideration was determined with reference to the estimated value of the PRC Target's working interest in Block 212 based on the reserves in Unit 2 and Unit 19 of Block 212, recent oil price and price of comparable transactions. Save for certain seismic survey, no material exploration work has been done in respect of Block 378. Apart from the indemnity in respect of litigation, details of which are in the sub-section headed "History and Business of the PRC Target — Litigation" in this circular, the Target Sellers have not offered any indemnity in respect of the Acquisition. When agreeing to the consideration for the Acquisition, the Company has considered and taken into account the various risks faced by the

PRC Target as summarized in the section headed "Risk factors — risks relating to the proposed investment in the PRC Target and to business and industry of the Restructured Group" and the section headed "History and business of the PRC Target — Key risks relating to the operations of the PRC Target".

According to the Independent Technical Report, the text of which is set out in Appendix VII to this circular, Block 212 had gross proved plus probable reserves of approximately 14.2 million barrels, gross possible reserves of approximately 4.7 million barrels, gross contingent resources ranging from 0.49 million barrels to 1.67 million barrels and gross prospective resources of approximately 9.7 million barrels under the best case, as at 31 December 2015.

In the Independent Technical Report and the Competent Evaluator's Report, the Competent Person/Competent Evaluator has also made various estimates of the post-tax NPV as at 31 December 2015 of the PRC Target's share in Unit 2 and Unit 19 of Block 212. The Company understands from the Competent Person/Competent Evaluator that the base assessment of the value of the reserves centres around the proved plus probable reserves. The following table sets out various post-tax NPV estimates for the proved and probable reserves (i.e. the best case for production) based on discount rates of 8%, 10% and 12% and the major oil price and development timetable assumptions as stated. Further details, particularly regarding the various oil price scenarios, can be found in Appendix VII and/or Appendix VIII to this circular.

	Major assumptions		NPV *US$ million*			NPV *RMB million*		
Source	**Price scenario**	**Timetable**	**8%**	**10%**	**12%**	**8%**	**10%**	**12%**
Base case								
Independent Technical Report	GCA 1Q 2016[Note 1]	As scheduled (as detailed in the paragraph headed "Future Plans for commercial production" in the "Letter from the Board" section set out in this circular)	133	115	100	875	757	658
Sensitivity analysis cases								
Competent Evaluator's Report	US$90/Bbl Brent Case[Note 2]	As scheduled	194	169	149	1,277	1,112	980
Competent Evaluator's Report	GCA 1Q 2016 (10% Cost Reduction Case)[Notes 1, 3]	Drilling scheduled for commencement in 2016 delayed to 2018	141	121	105	928	796	691
Competent Evaluator's Report	GCA 1Q 2016[Note 1]	Drilling scheduled for commencement in 2016 delayed to 2018	126	108	93	829	711	612
Competent Evaluator's Report	US$32/Bbl Escalated Price and Costs (10% Cost Reduction Case)[Notes 3, 4, 6]	Drilling scheduled for commencement in 2016 delayed to 2018	96	82	71	632	540	467
Competent Evaluator's Report	US$32/Bbl Escalated Price and Costs[Notes 4, 6]	Drilling scheduled for commencement in 2016 delayed to 2018	81	69	58	533	454	382
Independent Technical Report/Competent Evaluator's Report	US$26/Bbl Constant Price Case (10% Cost Reduction Case)[Notes 3, 5, 6]	As scheduled	(22)	(22)	(22)	(145)	(145)	(145)

Note 1: GCA 1Q 2016 is an oil price scenario compiled by the Competent Person that it uses for reserves evaluation which mainly assumes an average Brent Crude price of US$40.90 per barrel (equivalent to approximately RMB266.7 per barrel) in 2016, US$47.58 per barrel (equivalent to approximately RMB310.2 per barrel) in 2017, US$60.00 per barrel (equivalent to approximately RMB391.2 per barrel) in 2018, and US$70.00 per barrel (equivalent to approximately RMB456.4 per barrel) in 2019.

Note 2: This case assumes a Brent Crude price of US$45 per barrel (equivalent to approximately RMB293.4 per barrel) in 2016, and then escalates and reaches US$90 per barrel (equivalent to approximately RMB586.8 per barrel) by 2019.

Note 3: The 10% Cost Reduction Case takes into account a further 10% reduction in both capital and operating expenditure that the PRC Target believes can be achieved in an extended low oil price environment (which the Competent Person considers to be reasonable).

Note 4: This case assumes an average oil price of US$32 per barrel (based on the selling price adjusted down in January 2016, and the lowest selling price of the PRC Target's crude oil since 1 January 2013 of RMB208.7, which represents the actual selling price per barrel received from the Customer), and rising in line with the Brent forward future prices from 2017 to 2020 and escalating 2% per annum thereafter.

Note 5: This case assumes constant oil price of US$26 per barrel (equivalent to approximately RMB169.5 per barrel) throughout the production life, being the lowest Brent Crude since 1 January 2016.

Note 6: The sensitivity case with an assumed constant oil price of US$26 per barrel (equivalent to approximately RMB169.5 per barrel) recorded substantial negative NPVs. Although in this case costs were also held constant, this oil price is insufficient to cover operating costs beyond 2019. It is also insufficient to justify drilling additional development wells. Both the Competent Person and the Company consider that, notwithstanding that this case reflects the lowest price that Brent Crude has traded at this year, it does not represent a valuation case and no fair market transaction would take place assuming such a future outcome. While the US$32 (approximately RMB208.7) oil price case has assumed a 2016 price which is not significantly higher than US$26, such oil price in this case is assumed to escalate after 2016 in line with the Brent futures market to the point where production would continue to be economic beyond 2030. Accordingly, the above factors principally contributed to the higher NPVs in the US$32 per barrel cases than in the US$26 per barrel cases.

Note 7: Please refer to the paragraph headed "Impairment analysis" below for the effect of oil price which may affect future impairment assessment.

According to the Competent Evaluator's Report set out in Appendix VIII to this circular, the Competent Evaluator is of the opinion that the oil reserves pertaining to the PRC Target's working interest in Block 212 under the EPCC had a fair market value in the range of US$120 million to US$130 million (equivalent to approximately RMB790 million to RMB855 million) as at 31 December 2015 (the "**Estimated FMV**") based on VALMIN Code. The Company understands that when determining the Estimated FMV, the Competent Evaluator has considered various risks, including the PRC Target's (as operator) capability, facility and environmental liabilities, risk of securing production permit, development risks, costs, oil price, timetable for the development plan and litigation. Shareholders may refer to the Competent Evaluator's Report for details of the Competent Evaluator's assessment of those risks.

Apart from the oil price, cost and timing assumptions as stated in the table above, other major assumptions underlying the reserves volume estimates, the related NPV estimates and the Estimated FMV include, among others, (1) Yanchang will be able to obtain a production permit for Unit 2 and Unit 19 of Block 212 and the PRC Target will continue to be the operator of the oil operation in the Area under the EPCC, (2) the production forecast based on the successful implementation of the PRC Target's development and production plan, (3) there will not be any unexpected material increase in the production and operating costs, and (4) there will not be any material change to the legal, political and economic environments.

The post-tax NPV estimates and the Estimated FMV are prepared by the Competent Person/Competent Evaluator in US$. Independent Shareholders should note that all sales and operations of the PRC Target are made/conducted in the PRC, and denominated and settled in RMB. The selling price of the PRC Target's crude oil is materially affected by international oil market price denominated in US$. Devaluation of RMB against US$ will have a positive effect on the selling price of the PRC Target's crude oil in RMB without directly affecting its production and operating cost and expenses, and thus will have a positive impact on the post-tax NPV estimates and the Estimated FMV.

The Independent Shareholders may also refer to the various NPV analyses as set out in the Independent Technical Report and in the Competent Evaluator's Report in Appendices VII and VIII respectively and as summarised above. The Independent Shareholders shall note that those post-tax NPV estimates do not represent any estimated fair market value. The Company understands from the Competent Evaluator that the valuation is a process involving an iterative approach based on both quantitative and qualitative analysis, including evaluation of different NPV sensitivity scenarios. The Estimated FMV also is a result of the Competent Evaluator's judgment of a number of different factors, including perceptions of nature of competition and market conditions/sentiment. The Company understands from the Competent Evaluator that it is of the view that ascribing a single-number value to the proved and probable reserves in Block 212 under the Estimated FMV would imply a degree of precision that is not reflective of market conditions.

The Company understands from the Competent Evaluator that for the purposes of estimating the Estimated FMV, the Competent Evaluator has considered many different price scenarios as summarised in the post-tax NPV table above. The Company understands that the price assumptions used by the Competent Evaluator in the GCA 1Q 2016 case are generally consistent with other market expectations that the Company is aware of. During the Track Record Period, Brent Crude stayed over US$90 per barrel (equivalent to approximately RMB586.8 per barrel) for a significant period of time in 2013 and 2014 and fell below US$90 per barrel in late 2014 and 2015. The average Brent Crude in 2015 was approximately US$53.6 per barrel (equivalent to approximately RMB349.5 per barrel). After 2015, Brent Crude fell once to as low as US$26 per barrel (equivalent to approximately RMB169.5 per barrel) on 20 January 2016 and then gradually increased back to about US$48.41 per barrel (equivalent to approximately RMB315.63 per barrel) as at the Latest Practicable Date. As explained by the Competent Evaluator it has viewed the reserves value of Block 212 at a wide range of oil prices in its sensitivity analysis including the lower oil price cases of US$32 per barrel (the PRC's Target's lowest selling price of crude oil since 2013 was RMB208.7 per barrel (equivalent to US$32 per barrel)) and US$26 per barrel (equivalent to approximately RMB169.5 per barrel), as well as US$90 per barrel (as a representative of a higher oil price scenario).

The Company understands from the Competent Evaluator that when determining the Estimated FMV, it has substantively weighted its opinion to an assumption that future oil prices will be more reflective of the GCA 1Q 2016 price assumption. It has also recognised the potential upside value of the reserves in a higher oil price environment, as illustrated by the US$90 per barrel case by adjusting upwards its opinion to reflect possibility that such a scenario could occur. Should such a higher oil price scenario be realised in practice, the post-tax NPV realisable could approach US$149 million (equivalent to RMB980 million) or higher. The portion of the Estimated FMV attributable to the estimated post-tax NPV in the case of a higher oil price environment (as represented by the US$90 per barrel case) is based on the Competent Evaluator's professional judgment.

As explained in the Competent Evaluator's Report, the Competent Evaluator does not consider the US$32 per barrel (the PRC's Target's lowest selling price of crude oil since 2013 was RMB208.7 per barrel (equivalent to US$32 per barrel)) and US$26 per barrel (equivalent to approximately RMB169.5 per barrel) cases to represent fair market value cases as the Competent Evaluator considers that market generally assume higher future oil prices than in these scenarios. The Company understands that this is consistent generally with the other recent market forecasts that it observed. After a significant further decrease in Brent Crude in January and February 2016, it increased back to around US$48.41 per barrel as at the Latest Practicable Date. In particular, it should be noted that the US$26 per barrel case analysis was conducted in part to intentionally show an illustrative oil price case under which the PRC Target's undeveloped reserves will become economically unviable, and such case does not represent the Competent Evaluator's forecast of likely oil prices. The actual selling price of the PRC Target's crude oil did not fall to such low price in January and February 2016 when Brent Crude fell to such low price level. Nevertheless, Independent Shareholders should note that if the selling price falls back to US$32 per barrel or below, the value of the reserves in Block 212 will decrease significantly as compared to the range of Estimated FMV. If the selling price falls to US$26 per barrel and holds constant at US$26 per barrel for the whole production life, the estimated post-tax NPV would be negative and all undeveloped reserves would become economically unviable.

Discount rate is another key in determining the Estimated FMV. The Company understands from the Competent Evaluator that given the PRC Target's experience in operating and managing drilling activities in Block 212, it sees no reason why the PRC Target should not be able to carry out the planned development plan. In assessing the various development risks, apart from oil price, the relatively more significant risk would be the development timing as affected by the oil price. The development risk is relatively low. The Company understands from the Competent Evaluator that when determining the Estimated FMV, the Competent Evaluator considers it appropriate to place an emphasis on the post-tax NPV range at discount rates ranging from 8% to 12% in the case of the PRC Target as developing oil assets.

As summarised in the table set out above in this subsection of this letter from the Board, the post-tax NPVs in respect of proved plus probable reserves in the GCA 1Q 2016 case without delay and the one delayed ranges from US$93 million (equivalent to RMB612 million) to US$141 million (equivalent to RMB928 million) at discount rates ranging from 8% to 12%; and from US$108 million (equivalent to RMB711 million) to US$121 million (equivalent to RMB796 million) at a discount rate of 10% (being the mid-point of the above discount rates).

The Company notes that the Estimated FMV range lies closer to the upper end of the above post-tax NPV range. The Company considers, and the Joint Sponsors concur, that (1) the use of the oil price assumptions in the GCA 1Q 2016 case and the US$90 Brent case for the purpose of determining the Estimated FMV, and (2) the Estimated FMV are reasonable given (a) the 2 sets of price assumptions are consistent and in line with the general market forecasts as observed by the Company; (b) the historical oil price trend; (c) the Estimated FMV falls within the above range of post-tax NPV in the base case; and (d) their understanding of the valuation methodology used by the Competent Evaluator.

Based on the above Estimated FMV and the audited net assets of the PRC Target as at 31 December 2015, the adjusted net assets value of the PRC Target (by revaluing the oil and gas properties and the intangible asset (which together represent the PRC Target's capitalised investment in the exploration and development in the Area) with an aggregate book value of RMB377.7 million based on the Estimated FMV) would range from approximately RMB682.1 million to RMB747.9 million, which respectively represents a premium of approximately 22.0% to 33.8% over the consideration for the Acquisition. Accordingly, the Directors consider that the consideration for the Acquisition is fair and reasonable. For details of the development plans of the PRC Target, please refer to the section headed "History and Business of the PRC Target — Future Plans for Commercial Production" in this circular.

The Independent Shareholders should review the Independent Technical Report and the Competent Evaluator's Report carefully and thoroughly. Independent Shareholders should also refer to the risk that the crude oil reserve data in this circular are only estimates and the actual production, revenue and expenditures with respect to the PRC Target's net reserves under the EPCC may differ materially from these estimates, as further explained in the "Risk Factors" section in this circular. Subsequent to the publication of this circular and up to the SGM, if there are any subsequent material changes in the view of the Competent Person/Competent Evaluator in the Independent Technical Report and/or the Competent Evaluator's Report and/or changes to the market conditions, including among other things, the general market view on oil price forecasts which may be material to the Independent Shareholders' assessment of the Transactions, the Company shall issue an announcement and/or a supplementary circular (where appropriate) accordingly.

Impairment analysis

For accounting purposes, the PRC Target's investment in Block 212 comprising oil and gas properties (including those related construction in progress) and the intangible assets will impair if the estimated value of the related reserves in Block 212 falls below the aggregate carrying value of those assets which amounted to approximately RMB378 million as at 31 December 2015 based on the accountants' report as set out in Appendix III to this circular.

If the estimated value of the reserves in the Area (which may be estimated in terms of the estimated post-tax NPV of the proved plus probable reserves) falls below the aggregate carrying value of the PRC Target's oil and gas related assets, an impairment provision may then be required. The estimated value of reserves in Block 212 will be affected by many different factors from time to time, including among other things, the exploration and development activities and results in the Area, the spot and forecast oil market prices, the actual and estimated development and production costs and expenses, and the general market sentiment. For illustrative purposes, set out below are the 2016 average price scenarios at which the post-tax NPVs of the proved plus probable reserves of Unit 2 and Unit 19 in Block 212 (1) equals to the aggregate carrying value of the PRC Target's investment in the oil and gas related assets of approximately RMB378 million in the Area as at 31 December 2015 and (2) becomes zero.

Major assumptions *Note 1*		**NPV** *RMB million*		
Price scenario	**Timetable**	**8%**	**10%**	**12%**
2016 — US$27/Bbl Escalated Price and Costs (10% Cost Reduction) *Note 2*	As scheduled	443	378	321
2016 — US$30/Bbl Escalated Price and Costs (without 10% Cost Reduction) *Note 2*	As scheduled	445	378	320
2016 — US$20/Bbl Escalated Price and Costs (10% Cost Reduction) *Note 3*	As scheduled	18	0	(16)
2016 — US$22/Bbl Escalated Price and Costs (without 10% Cost Reduction) *Note 3*	As scheduled	21	0	(19)

Note 1: Given the long-term nature of the PRC Target's investment in the Area, the current general market forecasts on oil price and the historical long-term oil price trend, if an impairment assessment has to be performed now, the Company considers that it will be appropriate to consider a price assumption with an escalation rather than a flat oil price assumption.

Note 2: These cases assume an average oil price of approximately US$27 per barrel (equivalent to approximately RMB176.0 per barrel) and approximately US$30 per barrel (equivalent to approximately RMB195.6 per barrel) in 2016 respectively and rising in line with the Brent forward future prices from 2017 to 2020 and escalating 2% per annum thereafter so that the NPV at a 10% discount rate equals RMB378 million (being the aggregate carrying value of the PRC Target's oil and gas related assets (including those related to construction in progress) and intangible assets as at 31 December 2015).

Note 3: This case assumes an average oil price of approximately US$20 per barrel (equivalent to approximately RMB130.4 per barrel) and approximately US$22 per barrel (equivalent to approximately RMB143.4 per barrel) in 2016 respectively and rising in line with the Brent forward future prices from 2017 to 2020 and escalating 2% per annum thereafter so that the NPV at a 10% discount rate becomes zero.

Acquisition Conditions

The Acquisition Completion is subject to the satisfaction or waiver (as applicable) of the following conditions (other than those which have been satisfied as at the Latest Practicable Date):

(a) the respective representations and warranties of the Target Sellers and the Company set forth in the Acquisition Agreement remain true, accurate, complete and not misleading in all respects at the date of the Acquisition Agreement, and as at the date of the Acquisition Completion, except for those representations and warranties which are explicitly stated to be true and accurate as at a particular date specified only;

(b) the Target Sellers and the Company having fulfilled and complied with all the material terms, undertakings, and conditions as set out in the Acquisition Agreement at or before the Acquisition Completion;

(c) there is no prohibition, writ, temporary restriction or any form of order issued by any competent governmental authorities that impedes the Acquisition Completion or make the Acquisition Completion illegal;

(d) the completion of the capitalisation of the loans owed by the PRC Target to the Target Sellers;

(e) the renewal of the EPCC to the satisfaction of the Company;

(f) the approvals being obtained from the National Development and Reform Commission (if applicable) and Ministry of Commerce of the PRC;

(g) the completion of a change of business registration at the relevant Industrial and Commercial Bureau in the PRC registering the Company as the new holder of the PRC Target's equity interests;

(h) the completion of necessary registration with the State Administration of Foreign Exchange;

(i) the approvals of the Independent Shareholders, the Stock Exchange and the SFC (if applicable) for the transactions contemplated under the Acquisition Agreement having been obtained (for the avoidance of doubt, the SFC's approval is not required for the Acquisition);

(j) the entering into of the Subscription Agreement on the date when the Acquisition Agreement was entered into, and the simultaneous completion of the Subscription Agreement and the Acquisition Agreement; and

(k) the entering into of the Divestment Agreement on the date when the Acquisition Agreement was entered into and the simultaneous completion of the Divestment Agreement and the Acquisition Agreement.

As at the Latest Practicable Date, the Acquisition Conditions (d) and (e) had been fulfilled. The Target Sellers may, in writing, waive any of the above Acquisition Conditions (other than conditions (a) and (b) in respect of their own obligations and conditions (f), (g), (h), (i), (j) and (k)); whilst the Company may, in writing, waive any of the above conditions (other than conditions (a) and (b) in respect of its own obligations and conditions (f), (g), (h), (i), (j) and (k)).

The Acquisition has been approved by the Bureau of Commerce of Inner Mongolia of the PRC.

As at the Latest Practicable Date, the Company had no intention to waive any of the above conditions which are capable of being waived and it is not aware of any intention of the Target Sellers to waive such conditions. The Company will consider the seriousness and any adverse impact to the Group in respect of any condition which cannot be satisfied before it decides to waive any of the conditions that it is entitled to waive.

Acquisition Completion

The Acquisition Completion is expected to take place within five business days (or such other date as the parties to the Acquisition Agreement shall agree) after the parties to the Acquisition Agreement having confirmed in writing all the Acquisition Conditions have either been fulfilled or (as the case may be) waived or such other date as may be agreed between the parties to the Acquisition Agreement.

If Acquisition Completion does not take place by 31 August 2016 (or such other date as may be agreed between the parties to the Acquisition Agreement), each of the parties to the Acquisition Agreement may choose to terminate the Acquisition Agreement; provided a party shall not be entitled to terminate the Acquisition if its default is the major cause of the Acquisition Completion failing to take place on or before 31 August 2016.

The Acquisition Completion is conditional on the Subscription Completion and the Divestment Completion, all of which shall take place simultaneously.

Grant of option

Pursuant to an option deed dated 28 June 2016, the Offeror granted to the Company an option (the "**Option**") to sell its entire equity interest in the PRC Target to the Offeror. The Option is exercisable on the occurrence of certain triggering events in the two years after completion of the Acquisition. Additional details of the Option are set out in the section headed "History and Business of the PRC Target" in this circular.

THE CN SUBSCRIPTION AGREEMENT

Date

22 June 2015 (as amended on 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016)

Parties

(i) The Company (as issuer)

(ii) League Way, which (along with its respective ultimate owners), to the best knowledge, information and belief of the Directors having made all reasonable enquiries, is an independent third party and not connected with the Company or its connected persons nor the Offeror or parties acting in concert with the Offeror as at the Latest Practicable Date (as subscriber)

(iii) The Offeror[Note]

Note: Under the original CN Subscription Agreement, the Offeror agreed to act as guarantor in respect of certain obligations of the Company. Pursuant to an amendment agreement dated 28 June 2016, the Offeror was removed as guarantor.

CN Conditions

The CN Subscription Completion is conditional on the satisfaction or waiver (or the case may be) of the following conditions precedent:

(a) the Group having obtained all consent from approval authorities which are necessary to be obtained for the execution and performance of the CN Subscription Agreement and consummation of any of the transactions contemplated under the CN Subscription Agreement;

(b) the Company having obtained all consent from third parties which are necessary to be obtained for the execution and performance of the CN Subscription Agreement and consummation of any of the transactions contemplated under the CN Subscription Agreement;

(c) the passing of resolutions by the Independent Shareholders in the SGM approving the CN Subscription;

(d) the Listing Committee of the Stock Exchange having granted listing of and permission to deal in the New Conversion Shares issuable upon the conversion of the Convertible Note and such approval and granting of permission not having been withdrawn or revoked;

(e) each of the transaction documents in relation to the CN Subscription having been duly executed by the parties thereto;

(f) the Acquisition Completion having occurred pursuant to the Acquisition Agreement;

(g) there being no approval authority or any other person that has:

(i) instituted or threatened any action or investigation to restrain, prohibit or otherwise challenge the issuance of the Convertible Note or any of the transactions contemplated under the CN Subscription Agreement;

(ii) threatened to take any action as a result of or in anticipation of the implementation of the transactions contemplated under the CN Subscription Agreement; or

(iii) instituted or threatened any action for the delisting of or suspension of trading of the Ordinary Shares on the Stock Exchange;

(h) there having been no statute, regulation or decision which would prohibit or restrict the execution, delivery or performance of the transaction documents in relation to the CN Subscription or the consummation of the transactions contemplated under the transaction documents in relation to the CN Subscription having been enacted or taken by any approval authority whether in Hong Kong, the PRC or elsewhere;

(i) there having been no material adverse change (as defined in the CN Subscription Agreement);

(j) the warranties of the Company set forth in the CN Subscription Agreement being true, accurate and correct in all material respects at the CN Subscription Completion and the Company having performed all its obligations under the CN Subscription Agreement or other documents entered into in respect of the CN Subscription to be performed before the CN Subscription Completion;

(k) the Company having complied fully with the pre-completion obligations set out in the CN Subscription Agreement and otherwise having performed in all material respects all of the covenants and agreements required to be performed by it under other documents entered into in respect of the CN Subscription to be performed simultaneously; and

(l) there having been delivered to League Way a completion certificate from the Company confirming that the conditions precedent (other than those that cannot be satisfied until the CN Subscription Completion) set out in the CN Subscription Agreement have been met.

League Way may, at any time, waive in whole or in part any of the conditions precedent (other than conditions (a) to (h)) by written notice to the Company. Such waiver may or may not be accompanied with conditions and shall not prejudice the rights of League Way to claim for compensation or damages under the CN Subscription Agreement.

If the CN Conditions are not satisfied or waived on or before 31 August 2016, the CN Subscription Agreement shall lapse and none of the parties shall have any claim against any other under the CN Subscription Agreement, save with respect to any antecedent rights arising under the CN Subscription Agreement.

As at the Latest Practicable Date, none of the above CN Conditions had been fulfilled, and the Company was not aware of any intention of League Way to waive any of such conditions.

CN Subscription Completion

The CN Subscription Completion is conditional on the Acquisition Completion and shall take place on or before the 10th business day following the satisfaction or waiver of the conditions precedent (other than those conditions precedent that by their terms cannot be fulfilled until the CN Subscription Completion) or on such other date as may be agreed in writing by the Company and League Way. The CN Subscription Completion shall take place simultaneously with the Subscription Completion, the Acquisition Completion and the Divestment Completion.

Payment of CN Subscription money

The entire principal amount of the Convertible Note shall be payable by League Way to the Company by telegraphic transfer by instalments as follows:

(a) HK$12,500,000, being 5% of the principal amount of the Convertible Note, shall be payable by League Way upon the CN Subscription Completion; and

(b) HK$237,500,000, being 95% of the principal amount of the Convertible Note, shall be payable by League Way within 120 days after the CN Subscription Completion.

The Convertible Note will be issued by the Company to League Way on the CN Subscription Completion date after League Way has paid the required 5% of the principal amount of the Convertible Note. Nevertheless, the holder of the Convertible Note will not be entitled to any of the redemption, conversion or other rights under the Convertible Note prior to the full payment of the remaining subscription money in the manner set out in (b) above (save for the rights to which an unsecured creditor is entitled upon liquidation of the Company).

For illustrative purposes only, subject to final audit and possible audit adjustments, in respect of the principal amount of the Convertible Note received upon the CN Subscription Completion, it would be recognised as bank balances and cash with the remaining principal amount to be received within 120 days after CN Subscription Completion being recognised under prepayments, deposits and other receivables, whilst the Convertible Note would be recorded in non-current liabilities and reserves of the Company assuming that the Convertible Note will meet the fixed-for-fixed requirements, i.e. to be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's ordinary shares, subject to the adjustment of the conversion ratio to compensate the holder for changes in the number of ordinary shares outstanding that relate to share issuances or redemption not at fair value.

CN forfeiture

If League Way fails to meet its payment obligation in (b) above under the sub-section headed "The CN Subscription Agreement — CN Subscription Completion — Payment of CN Subscription Money" in this section and fails to rectify the default within 60 days after the payment becomes due, the Convertible Note will be forfeited in accordance with the terms of the Convertible Note and the CN Subscription Agreement. Under the CN Subscription Agreement, no-refund of part payment of the subscription money made by League Way is provided. There is no procedure that the Company will need to carry out before it forfeits the Convertible Note and forfeits the part of the subscription money received by it. The aforesaid forfeiture mechanism of the Convertible Note is a contractual arrangement agreed between the parties to the CN Subscription Agreement. The Company does not require League Way to surrender the Convertible Note for the purposes of forfeiture. The Board may, at its sole discretion, resolve to have such Convertible Note forfeited. The Company may send a forfeiture notice to League Way after the forfeiture. However, there is no legal or contractual requirement for the Company to carry out such procedure and failure to do that will not render the forfeiture invalid.

The above deferred payment arrangement described under the sub-section headed "The CN Subscription Agreement — CN Subscription Completion — Payment of CN Subscription Money" in this section was agreed between League Way and the Company after arm's length negotiation having considered the procedures that League Way may need to take for transmitting funds in the PRC to Hong Kong to satisfy the payment obligation, the development plan and funding needs of the PRC Target after the Acquisition Completion, and the terms of the Convertible Note allowing the Company to forfeit all payments made by League Way to the Company if League Way fails to pay the remaining amount by the deadline and fails to rectify the default within 60 days after the payment becomes due (as described above under the sub-section headed "The CN Subscription Agreement — CN Subscription Completion — CN Forfeiture" in this section), and that the holder of the Convertible Note will not be entitled to any of the redemption and conversion rights under the Convertible Note prior to the full payment of the remaining subscription money.

Principal terms of the Convertible Note

Principal amount:

HK$250,000,000

Maturity date:

The third anniversary of the date of the CN Subscription Completion

Interest:

No interest shall be payable on the entire CN Principal Amount

Conversion:

Upon full payment of the principal amount of the Convertible Note under the CN Subscription Agreement, League Way shall have the right, at its option and by delivering a conversion notice to the Company, to convert all (but no less than all) of the CN Principal Amount into such number of CN Conversion Shares as is equal to the quotient of (x) the CN Principal Amount, divided by (y) the conversion price per CN Conversion Share of HK$0.6696, subject to adjustment in respect of any stock split, stock combination, stock bonus dividends or similar events affecting the share capital of the Company after the issue of the Convertible Note.

Notwithstanding the foregoing, the Company shall not be obliged to issue any CN Conversion Share if to the extent such issuance will result in breach of the Listing Rules (including but not limited to the minimum public float requirement of the Listing Rules), provided that the Company shall use its commercially reasonable efforts to ensure the CN Conversion Shares can be allotted without resulting in a breach of the Listing Rules as soon as practicable.

Redemption:

Upon full payment of the principal amount of the Convertible Note under the CN Subscription Agreement, during the period starting from the first day of the 31st month following the CN Subscription Completion and ending on the maturity date, the holder of the Convertible Note shall have the right to request the Company to redeem the then outstanding

Convertible Note by paying the holder of the Convertible Note the CN Principal Amount and the Redemption Premium of HK$125,000,000 within 30 days after receiving the relevant redemption notice from League Way.

Upon full payment of the Subscription Price for the Convertible Note under the CN Subscription Agreement, upon the maturity date, if the Convertible Note is not converted into CN Conversion Shares or redeemed by then, the Company shall redeem the Convertible Note by paying the holder of the Convertible Note the CN Principal Amount and the Redemption Premium within 30 days after the maturity date.

Transfer of the Convertible Note:

Except as required by law or pursuant to a general offer for the Convertible Note in accordance with the Takeovers Code, the Convertible Note may not be transferred.

Listing:

The Convertible Note will not be listed on the Stock Exchange or any other stock exchanges.

Conversion price:

The initial conversion price of HK$0.6696 per CN Conversion Share represents:

(i) a discount of approximately 88.65% to the closing price of HK$5.90 per Ordinary Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 88.29% to the average closing price of HK$5.72 per Ordinary Share as quoted on the Stock Exchange over the last five consecutive trading days prior to the Last Trading Day (when trading in the Ordinary Shares was not suspended);

(iii) a discount of approximately 85.03% to the average closing price of approximately HK$4.47 per Ordinary Share as quoted on the Stock Exchange over the last 10 consecutive trading days prior to the Last Trading Day (when trading in the Ordinary Shares was not suspended);

(iv) a premium of approximately HK$0.972 over the audited net liabilities of the Group as at 31 March 2015 as represented by each Ordinary Share (before any conversion of the Convertible Bonds) of approximately HK$0.3024; and

(v) a premium of approximately 76.21% over the unaudited pro forma adjusted net tangible assets of the Restructured Group as at 30 September 2015 as represented by each Ordinary Share in issue upon completion of the Transactions (assuming conversion in full of the Convertible Bonds (at the Adjusted CB Conversion Price), the Convertible Note and the Preferred Shares) of approximately HK$0.38.

The initial conversion price was arrived at after arm's length negotiation among the Company, the Offeror and League Way taking into account the prevailing market price of the Ordinary Shares, the trading volume of the Ordinary Shares, the audited consolidated net liabilities of the Group as at 31 March 2015 and the Subscription Price.

Based on the initial conversion price, the Convertible Note can be converted into 373,357,228 CN Conversion Shares, which have an aggregate nominal value of HK$3,733,572.28. Such CN Conversion Shares represent:

(i) approximately 107.49% of the total number of Ordinary Shares in issue as at the Latest Practicable Date;

(ii) approximately 51.81% of the total number of Ordinary Shares in issue as enlarged by the allotment and issue of such CN Conversion Shares upon exercise of the conversion rights attached to the Convertible Note (assuming that there is no other issue or repurchase of the issued Ordinary Shares);

(iii) approximately 18.76% of the total number of Ordinary Shares in issue as enlarged by the allotment and issue of:

   (a) such CN Conversion Shares upon exercise of the conversion rights attached to the Convertible Note; and

   (b) the Ordinary Subscription Shares (assuming that there is no other issue or repurchase of the issued Ordinary Shares);

(iv) approximately 5.72% of the total number of Ordinary Shares in issue as enlarged by the allotment and issue of:

   (a) such CN Conversion Shares upon exercise of the conversion rights attached to the Convertible Note;

   (b) the Ordinary Subscription Shares (assuming that there is no other issue or repurchase of the issued Ordinary Shares);

   (c) 2,747,909,199 New Conversion Shares to be issued upon exercise of the conversion rights attached to the Preferred Shares (based on the initial conversion price); and

   (d) 1,785,714,285 CB Conversion Shares to be issued upon exercise of the conversion rights attached to the Convertible Bonds in full (assuming that there is no other issue or repurchase of the issued Ordinary Shares) (based on the Adjusted CB Conversion Price of HK$0.0672 per CB Conversion Share).

Undertaking of League Way

During the CN Relevant Period (being the period commencing on the date of the CN Subscription Completion and ending on the date on which a cash offer to be made by the Offeror to acquire the Convertible Note and all the Convertible Bonds (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) (if any) closes or lapses), League Way irrevocably and unconditionally undertakes in favour of the Offeror under the CN Subscription Agreement that it shall:

(a) not accept such offer (if any) which may be made by the Offeror to acquire all the Convertible Note (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it);

(b) not convert the Convertible Note;

(c) not enter into any agreement, arrangement or understanding with a view to effecting any of the acts prohibited by the foregoing paragraph; and

(d) in the event that it should fail to comply with the undertakings given above, indemnify to the Offeror for any loss, damages, costs and expenses which may be incurred.

Use of proceeds

As the issue of the Convertible Note is being executed as part of the Transactions, it will be difficult to carve out those expenses incurred in relation to the Transactions which are solely related to the issue of the Convertible Note. For convenience, the Company has decided to pay all expenses in relation to the Transactions out of the proceeds from the Subscription. Accordingly, the net proceeds from the issue of the Convertible Note equal the gross proceeds and the net price per CN Conversion Share is approximately HK$0.6696, calculated by dividing the net proceeds from the issue of the Convertible Note over the number of New Conversion Shares which may fall to be issued upon full conversion of the Convertible Note at the initial conversion price.

It is intended that the Company shall use the net proceeds from the CN Subscription as follows:

- as to approximately HK$200 million to expand the Restructured Group's business by acquiring other oil companies and the further exploration, development and production of the other newly acquired oil and gas projects; and

- as to approximately HK$50 million to finance the operations of the PRC Target and to be used as general working capital of the Restructured Group.

THE DIVESTMENT AGREEMENT

Date

22 June 2015 (as amended on 23 October 2015, 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016)

Parties

(i) The Company (as vendor)

(ii) Seller 1 (as purchaser)

Assets to be disposed of/assigned

The Divestment Shares, the Current Accounts Receivable and a total number of 125,000 ADS (equivalent to 25,000 class A ordinary shares) of SouFun held by the Company as of the date of the Divestment Agreement (which, as a condition precedent to completion of the Divestment Agreement, will be transferred by the Company to Target 1 at the market price effective at the time of such transfer).

Consideration

The Initial Consideration for the Divestment is approximately HK$1,652,995, which was agreed with reference to the aggregate value of (i) the unaudited amount of Current Accounts Receivable as at 31 March 2015 and (ii) the unaudited combined net liabilities of the Divestment Group attributable to owners of the Divestment Group (i.e. the Company) as at 31 March 2015.

The Current Accounts Receivable, represents the amount due to holding company (i.e. the Company) by the Divestment Group, which forms part of the Divestment consideration and accordingly will be settled upon Divestment Completion. The Company will not be liable for any of the liabilities of the Divestment Group upon Divestment Completion.

The Initial Consideration was calculated based on the unaudited management accounts of the Divestment Group as of 31 March 2015 before the management accounts were reviewed by the Company's auditors. The related numbers are unaudited but have now been reviewed by the Company's auditors. The difference between the net liabilities of the Divestment Group as per the unaudited management accounts and the reviewed accounts of about HK$12.4 million represents mainly the provision of losses made in respect of the Divestment Group's investment in the joint venture companies as at 31 March 2015 which is not reflected in the unaudited management accounts used by the Company in calculating the Initial Consideration.

The Initial Consideration shall be subject to the following adjustments:

(a) the amount (which, for the avoidance of doubt, can either be a positive amount or a negative amount) of (i) the aggregate fair market value of the Real Properties set forth in the Circular, minus (ii) the aggregate book value of the Real Properties (including any related leasehold improvement) as reflected in the Company's audited accounts for the financial year ended 31 March 2015; and

(b) the amount (which, for the avoidance of doubt, can either be a positive amount or a negative amount) of (i) the aggregate net amount of the Current Accounts Receivable as of the date of the Divestment Completion, minus (ii) HK$257,513,000, being the aggregate net amount of the Current Accounts Receivable as of 31 March 2015,

provided that, in any event, if the aggregate amount of the Initial Consideration and the Adjustment Amount is less than HK$1, the adjusted consideration for the Divestment shall be deemed to be HK$1.

The Company has confirmed that, and the Joint Sponsors have confirmed that they have reviewed the financial information of the Divestment Group, the Divestment Agreement and other related documents (i.e. the loan documents of the Divestment Group) as provided by the Company to ensure that, the Company will not be liable for any of the liabilities of the Divestment Group, including bank loans or amounts due to related companies, after completion of the Divestment.

For illustrative purposes, the adjustment to the Initial Consideration based on the valuation of the Real Properties as at 31 March 2016 is as follows:

	HK$
Fair market value of the Real Properties as at 31 March 2016 (based on the valuation report on the Real Properties set forth in Appendix X to this circular)*(Note 1)*	
Held by members of the Divestment Group	308,567,000
Held by a 26.7%-owned joint venture of the Divestment Group*(Note 2)*	102,697,000
	411,264,000
Less: Aggregate carrying value of the Real Properties as at 31 March 2015 as per the audited accounts of the Group	
Held by members of the Divestment Group	312,230,000
Held by a 26.7%-owned joint venture of the Divestment Group*(Note 2)*	121,986,834
	434,216,834
Decrease in value of the Real Properties	22,952,834

The corresponding increase in the Current Accounts Receivable assuming that the class A ordinary shares of SouFun will be transferred by the Company to the Divestment Group at US$25.55 per share (based on the closing price of each ADS as at the Latest Practicable Date of US$5.11 and the ratio of five ADS for one class A ordinary share of SouFun) is as follows:

	US$	*HK$*(Note 3)
Closing price of a class A ordinary share of SouFun	25.55	198.01
Number of class A ordinary shares of SouFun held	25,000	25,000
	638,750	4,950,250

	HK$
Current Accounts Receivable as at 31 December 2015	256,710,000
Add: Increase in Current Accounts Receivable arising from the class A ordinary share of SouFun to be transferred to the Divestment Group (as calculated above)	4,950,250
Less: Current Accounts Receivable as at 31 March 2015	(257,513,000)
Increase in Current Accounts Receivable	4,147,250

Therefore, the total adjustment to the Initial Consideration is as follows:

	HK$
Increase in the Current Accounts Receivable(Note 4)	4,147,250
Decrease in value of the Real Properties	(22,952,834)
Adjustment Amount	(18,805,584)
Initial Consideration	1,652,995
Aggregate of the Adjustment Amount and the Initial Consideration	(17,152,589)
Adjusted consideration for the Divestment	1(Note 5)

Notes:

1. Calculated based on the exchange rate of RMB1.00 = HK$1.19.

2. Target 1, through its indirect wholly-owned subsidiary, 廣西沃頓國際大酒店有限公司 (Guangxi Wharton International Hotel Limited), holds an approximately 26.7% equity interest in a joint venture, 廣西普凱興業酒店投資有限公司 (Guangxi Pukai Xingye Hotel Investment Company Limited), which in turn holds some property interests forming part of the Real Properties.

3. Calculated based on the exchange rate of US$1 = HK$7.75.

4. Assuming that there is no change to the Current Accounts Receivable as at 31 December 2015 other than that arising from the transfer of the shares in SouFun from the Company to the Divestment Group as described in the table above.

5. Pursuant to the Divestment Agreement, if the aggregate of the Initial Consideration and the Adjustment Amount is less than HK$1, the adjusted consideration for the Divestment shall be deemed to be HK$1.

Any actual adjustment will also depend on the actual balance of the Current Accounts Receivable as at the date of the Divestment Completion. Any Adjustment Amount shall be certified by the Company's external auditors.

The consideration shall be paid by Seller 1 to the Company by telegraphic transfer on the date of the Divestment Completion.

Divestment Conditions

The Company's obligation to complete the Divestment is conditional upon the fulfilment (or waiver by the Company of any one or more) of the following conditions precedent:

(a) the passing of resolutions by the Independent Shareholders in the SGM approving, among other things, the execution of the Divestment Agreement and consummation and completion of the Divestment and related transactions under the Divestment Agreement;

(b) there being no notification from the Stock Exchange stating that the Divestment is prohibited under the Rule 14.92 of the Listing Rules on the part of the Company;

(c) the Executive having consented to the Divestment as a special deal under Note 4 of Rule 25 of the Takeovers Code;

(d) the Company (and the relevant members of the Divestment Group) having obtained all consent from the other approval authorities which are necessary to be obtained for the execution and performance of the S&P Agreement and the Transaction Documents and any of the transactions contemplated under the S&P Agreement and the Transaction Documents;

(e) the Company (and the relevant members of the Divestment Group) having obtained all consent from third parties which are necessary to be obtained for the execution and performance of the S&P Agreement and the Transaction Documents and any of the transactions contemplated under the S&P Agreement and the Transaction Documents;

(f) there being no approval authority or any other person that has:

   (i) instituted or threatened any action or investigation to restrain, prohibit or otherwise challenge any of the transactions contemplated under the S&P Agreement and the Transaction Documents; or

(ii) threatened to take any action as a result of or in anticipation of the implementation of the transactions contemplated under the S&P Agreement and the Transaction Documents;

(g) there having been no statute, regulation or decision which would prohibit or restrict the execution, delivery or performance of the S&P Agreement and the Transaction Documents or the consummation of the transactions contemplated under the S&P Agreement and the Transaction Documents enacted or taken by any approval authority whether in Hong Kong, the PRC or elsewhere;

(h) the Company, Seller 1 and the relevant members of the Divestment Group having entered into an assignment deed pursuant to which the Company shall assign to Seller 1, at Divestment Completion and for nil consideration, the rights and obligations of the Company with respect to all its rights to the entire net amount of the Current Accounts Receivable as of the date of the Divestment Completion;

(i) the warranties given by Seller 1 under the Divestment Agreement being true, accurate and correct in all material respects at Divestment Completion and Seller 1 having performed all its obligations under the S&P Agreement and the Transaction Documents to be performed before Divestment Completion;

(j) there having been delivered to the Company a certificate from Seller 1 confirming that all the conditions precedent (other than the conditions (a), (b), (c), (d) and (e) set out above, this condition and condition (k) below) having been met; and

(k) each of the S&P Agreement and the Transaction Documents having been duly executed by the parties thereto and the transactions contemplated under the S&P Agreement and the Transaction Documents (including the Subscription, the Transfer, the Acquisition and the Divestment) being completed prior to or simultaneously at Divestment Completion.

Seller 1's obligation to complete the Divestment is conditional upon the fulfilment (or waiver by Seller 1 of any one or more) of the following conditions precedent:

(a) the warranties given by the Company under the Divestment Agreement being true, accurate and correct in all material respects at Completion and Seller 1 having performed all its obligations under the S&P Agreement and the Transaction Documents to be performed before Divestment Completion;

(b) all the shares of SouFun held by the Company as of the date of the Divestment Agreement having been transferred, at market price effective at the time of transfer, from the Company to Target 1;

(c) Seller 1 receiving the following documents on or prior to Divestment Completion:

(i) the books and records (including without limitation statutory books, minute books, company chops, contract chops and finance chops, etc.) of each member company of the Divestment Group; and

(ii) resignation letters issued by all the relevant directors (as designated by Seller 1) of the member companies of the Divestment Group; and

(d) there having been delivered to Seller 1 a certificate from the Company confirming that all the conditions precedent (other than condition (c) above) have been met.

If the Divestment Completion fails to take place on or before 31 August 2016 or such later date the Company and Seller 1 may agree, the Divestment Agreement shall lapse and none of the parties shall have any claim against any other under the Divestment Agreement, save with respect to any antecedent rights arising under the Divestment Agreement. However, Seller 1 shall not, by relying on any failure by the Company to satisfy any of the conditions precedent refuse to complete the Divestment if such failure to satisfy such conditions precedent is within the control of Seller 1.

As at the Latest Practicable Date, none of the above Divestment Conditions had been fulfilled, the Company had no intention to waive any of the Divestment Conditions (a) to (k) set out on pages 111 and 112 which it is entitled to waive any one or more, and the Company was not aware of any intention of Seller 1 to waive any of the Divestment Conditions (a) to (d) set out on pages 112 and 113 which it is entitled to waive any one or more. The Company will consider the seriousness and any adverse impact to the Group in respect of any condition which cannot be satisfied before it decides to waive any of the conditions that it is entitled to waive.

Divestment Completion

The Divestment Completion shall take place on or before the 10th business day following the satisfaction or waiver of the conditions precedent (other than those conditions precedent that by their terms cannot be fulfilled until Divestment Completion) or on such other date as may be agreed in writing by the parties. The Divestment Completion is conditional on the S&P Completion, the Subscription Completion, the Acquisition Completion and the CN Subscription Completion. The Divestment Completion, the Subscription Completion, the Acquisition Completion and the CN Subscription Completion shall take place simultaneously.

Use of proceeds

Based on the Initial Consideration, the aggregate gross proceeds from the Divestment amount to HK$1,652,995. However, the actual amount of the proceeds from the Divestment will be subject to the adjustment to the Initial Consideration as illustrated above. The Company has discussed with the Offeror and proposes to use the proceeds (including the aggregate of the Initial Consideration and the Adjustment Amount) for general working capital of the Restructured Group.

ESTIMATED FINANCIAL EFFECT OF THE TRANSACTIONS

Upon completion of the Transactions, (i) the PRC Target will become a wholly-owned subsidiary of the Company and its results and assets and liabilities will be consolidated into the consolidated financial statements of the Company; and (ii) the Company will not hold any equity interest in the Divestment Group, and member companies of the Divestment Group will cease to be subsidiaries of the Company and their respective results and assets and liabilities will no longer be consolidated into the consolidated financial statements of the Company.

As set out in Appendix VI to this circular, on the basis of (i) the assets and liabilities of the Group as at 30 September 2015; (ii) the assets and liabilities of the PRC Target as at 31 December 2015; and (iii) assuming that the Transfer and the Transactions had been completed as at 30 September 2015, the Group's total assets as at 30 September 2015 of approximately HK$439,430,000 would increase to approximately HK$3,011,670,000 for the Restructured Group while the Group's total liabilities as at 30 September 2015 of approximately HK$553,787,000 would increase to approximately HK$802,884,000 for the Restructured Group. Further details in respect of the impacts of the Transactions on the Group's assets and liabilities are set out in Appendix VI to this circular.

On the assumption that the Divestment had completed on 30 September 2015, it is estimated that the Group would record a gain of approximately HK$42.2 million from the Divestment representing the Initial Consideration of HK$1,652,995 and adding back the unaudited combined net liabilities of the Divestment Group attributable to owners of the Divestment Group as at 30 September 2015 of HK$271,938,000 (as per the unaudited financial statements of the Divestment Group as at 30 September 2015 as reviewed by the Company's auditors as set out in Appendix V to this circular), less the unaudited aggregate amount of the Current Accounts Receivable due from the Divestment Group as at 30 September 2015 of HK$256,755,000, and adding the release of exchange fluctuation reserve of HK$25,357,000. The estimated gain from the Divestment as disclosed in the Joint Announcement had amounted to approximately HK$36.3 million, which was calculated on the assumption that the Divestment had completed on 31 March 2015. The increase in the estimated gain from HK$36.3 million to HK$42.2 million (which was calculated on the assumption that the Divestment had completed on 30 September 2015) is primarily due to (i) the increase in the combined net liabilities of the Divestment Group attributable to owners of the Divestment Group of approximately HK$3.7 million from approximately HK$268,279,000 as at 31 March 2015 to approximately HK$271,938,000 as at 30 September 2015 as a result of losses recorded by the Divestment Group during the six months period ended 30 September 2015 of approximately HK$5.2 million, which was offset by gains from exchange differences arising on translation of foreign operations of approximately HK$1.5 million for the reason that the Divestment Group was in net liabilities position as at 31 March 2015 and 30 September 2015, and RMB depreciated against the Hong Kong dollar during the six months period ended 30 September 2015; and (ii) the decrease in net amounts due from the Divestment Group to the Company of approximately HK$758,000 from approximately HK$257,513,000 as at 31 March 2015 to HK$256,755,000 as at 30 September 2015 which was mainly due to repayment of the amount due to the Company during the six months ended 30 September 2015. The unaudited estimated gain from the Divestment is regarded as profit forecast for the purposes of the Takeovers Code. In this regard, please refer to "Appendix V — Unaudited Financial

Information of the Divestment Group" for the report of the financial advisor to the Company and "Appendix VI — Unaudited Pro Forma Financial Information of the Restructured Group" for the report of the reporting accountants in compliance with Rule 10 of the Takeovers Code.

SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company (i) immediately prior to the Tranche 1 Sale Completion; (ii) immediately after the Tranche 1 Sale Completion (assuming no conversion of the Convertible Bonds); (iii) immediately after the Tranche 1 Sale Completion and the Tranche 2 Sale Completion (i.e. the S&P Completion) (assuming no conversion of the Convertible Bonds); (iv) immediately after the S&P Completion and before the Subscription Completion and the CN Subscription Completion (assuming conversion in full of the Convertible Bonds); (v) immediately after the S&P Completion, the Subscription Completion and the CN Subscription Completion (assuming no conversion of the Convertible Bonds, the Convertible Note and the Preferred Shares); (vi) immediately after the S&P Completion, the Subscription Completion and the CN Subscription Completion (assuming conversion in full of the Convertible Bonds (taking into account of the adjustment of CB Conversion Price as detailed in the sub-section headed "Adjustment to the CB Conversion Price of the Convertible Bonds" in this section), the Convertible Note and the Preferred Shares):

Shareholding and capital structures

	Immediately prior to the Tranche 1 Sale Completion		Immediately after the Tranche 1 Sale Completion (assuming no conversion of the Convertible Bonds)		Immediately after the Tranche 1 Sale Completion and the Tranche 2 Sale Completion (i.e. the S&P Completion) (assuming no conversion of the Convertible Bonds)		Immediately after the S&P Completion and before the Subscription Completion and the CN Subscription Completion (assuming conversion in full of the Convertible Bonds) *(Note 1)*		Immediately after the S&P Completion, the Subscription Completion and the CN Subscription Completion (assuming no conversion of the Convertible Bonds, the Convertible Note, and Preferred Shares)		Immediately after the S&P Completion, the Subscription Completion and the CN Subscription Completion (assuming conversion in full of the Convertible Bonds, the Convertible Note and Preferred Shares) *(Note 2)*	
	Number of Ordinary Shares	*%*	*Number of Ordinary Shares*	*%*	*Number of Ordinary Shares*	*%*	*Number of Ordinary Shares*	*%*	*Number of Ordinary Shares*	*%*	*Number of Ordinary Shares*	*%*
Seller 1	209,753,409	60.39%	173,728,685	50.02%	34,753,409	10.01%	34,753,409	5.17%	34,753,409	2.15%	34,753,409	0.53%
Seller 2	—	—	—	—	—	—	62,699,523	9.33%	—	—	344,754,077	5.28%
The Sellers	209,753,409	60.39%	173,728,685	50.02%	34,753,409	10.01%	97,452,932	14.50%	34,753,409	2.15%	379,507,486	5.82%
The Offeror	—	—	36,024,724	10.37%	175,000,000	50.38%	437,063,670	65.03%	824,641,578	51.01%	3,677,107,408	56.37%
IDG Technology	11,500,000	3.31%	11,500,000	3.31%	11,500,000	3.31%	11,500,000	1.71%	11,500,000	0.71%	11,500,000	0.18%
Lin Dongliang (林棟梁)	12,910,000	3.72%	12,910,000	3.72%	12,910,000	3.72%	12,910,000	1.92%	12,910,000	0.80%	12,910,000	0.20%
Aquarius Investment *(Note 4)*	—	—	—	—	—	—	—	—	—	—	443,369,176	6.80%
Lu Xi *(Note 3)*	—	—	—	—	—	—	—	—	14,934,289	0.92%	14,934,289	0.23%
Fang Chao *(Note 3)*	—	—	—	—	—	—	—	—	14,934,289	0.92%	14,934,289	0.23%
華寶●境外市場投資2號系列20–6期 QDII 單一資金信托 (Hwabao.Overseas Investment Series 2 No 20-6 QDII Single Money Trust*) *(Note 3)*	—	—	—	—	—	—	—	—	93,588,212	5.79%	93,588,212	1.43%
華寶●境外市場投資2號系列20–7期 QDII 單一資金信托 (Hwabao.Overseas Investment Series 2 No 20-7 QDII Single Money Trust*) *(Note 3)*	—	—	—	—	—	—	—	—	46,794,106	2.89%	46,794,106	0.72%
New Fast Investments Limited *(Note 3)*	—	—	—	—	—	—	—	—	124,701,315	7.71%	241,437,675	3.70%
Real Smart Holdings Limited *(Note 3)*	—	—	—	—	—	—	—	—	50,029,870	3.09%	166,766,230	2.56%
Grand Empire Global Limited *(Note 3)*	—	—	—	—	—	—	—	—	50,029,870	3.09%	166,766,230	2.56%
True Success Global Limited *(Note 3)*	—	—	—	—	—	—	—	—	75,044,800	4.64%	250,149,340	3.83%
Sonic Gain Limited *(Note 3)*	—	—	—	—	—	—	—	—	149,716,246	9.26%	324,820,786	4.98%
Haitong International Securities Company Limited *(Note 3)*	—	—	—	—	—	—	—	—	—	—	50,000,000	0.77%
ExaByte Capital Fund L.P. *(Note 3)*	—	—	—	—	—	—	—	—	—	—	14,934,289	0.23%
Rich Harvest Worldwide Ltd. *(Note 3)*	—	—	—	—	—	—	—	—	—	—	127,681,952	1.96%
Public Shares Subscribers *(Note 3)*	—	—	—	—	—	—	—	—	619,772,997	38.33%	1,512,807,398	23.19%
The Offeror and parties acting in concert with it	24,410,000	7.03%	60,434,724	17.40%	199,410,000	57.41%	461,473,670	68.66%	1,468,824,575	90.85%	5,657,693,982	86.72%
League Way *(Note 5)*	—	—	—	—	—	—	—	—	—	—	373,357,228	5.72%
Other existing public Shareholders	113,162,591	32.58%	113,162,591	32.58%	113,162,591	32.58%	113,162,591	16.84%	113,162,591	7.00%	113,162,591	1.73%
Total	347,326,000	100.00%	347,326,000	100.00%	347,326,000	100.00%	672,089,193	100.00%	1,616,740,575	100.00%	6,523,721,287	100.00%
Total public Shareholders *(Note 6)*	137,572,591	39.61%	113,162,591	32.58%	113,162,591	32.58%	113,162,591	16.84%	767,688,997	47.48%	2,378,834,703	36.46%

	Immediately prior to the Tranche 1 Sale Completion	Immediately after the Tranche 1 Sale Completion (assuming no conversion of the Convertible Bonds)	Immediately after the Tranche 1 Sale Completion and the Tranche 2 Sale Completion (i.e. the S&P Completion) (assuming no conversion of the Convertible Bonds)	Immediately after the S&P Completion and before the Subscription Completion and the CN Subscription Completion (assuming conversion in full of the Convertible Bonds)	Immediately after the S&P Completion, the Subscription Completion and the CN Subscription Completion (assuming no conversion of the Convertible Bonds, the Convertible Note, and Preferred Shares)	Immediately after the S&P Completion, the Subscription Completion and the CN Subscription Completion (assuming conversion in full of the Convertible Bonds, the Convertible Note and Preferred Shares)
Shares in issue						
Ordinary Shares	347,326,000	347,326,000	347,326,000	672,089,193	1,616,740,575	6,523,721,287
Ordinary Shares in issue immediately prior to the Tranche 1 Sale Completion	347,326,000	347,326,000	347,326,000	347,326,000	347,326,000	347,326,000
Ordinary Subscription Shares	—	—	—	—	1,269,414,575	1,269,414,575
New Conversion Shares arising from conversion of the Preferred Shares	—	—	—	—	—	2,747,909,199
CB Conversion Shares	—	—	—	324,763,193 *(Note 1)*	—	1,785,714,285 *(Note 2)*
CN Conversion Shares	—	—	—	—	—	373,357,228
Preferred Shares	—	—	—	—	2,747,909,199	—
Other unissued underlying Shares pursuant to convertible debt securities	324,763,193	324,763,193	324,763,193	—	2,159,071,513	—
Convertible Bonds	324,763,193	324,763,193	324,763,193	—	1,785,714,285	—
Convertible Note	—	—	—	—	373,357,228	—

Notes:

(1) The calculation of the total number of CB Conversion Shares is based on the Existing CB Conversion Price of HK$0.3695 per CB Conversion Share.

The above situation is for illustrative purposes only. Each of the Company, the Offeror and Seller 2 have unconditionally and irrevocably undertaken to ensure that no less than 25% of the Ordinary Shares will be held by the public at all times in compliance with the minimum public float requirement of the Listing Rules in particular immediately following any conversion of the Convertible Bonds (i.e. the Sale Bonds under the Tranche 1 Transfer, the Sale Bonds under the Tranche 2 Transfer and the Excluded Bonds).

(2) The calculation of the total number of CB Conversion Shares is based on the Adjusted CB Conversion Price of HK$0.0672 per CB Conversion Share, details of which are set out in the sub-section headed "Adjustment to the CB Conversion Price of the Convertible Bonds" in this section below.

(3) Given that the Public Shares Subscribers are not connected persons to the Offeror, their subscription of the Ordinary Subscription Shares and Preferred Shares are not financed by any connected persons of the Company and they will not become connected persons of the Company as a result of the Subscription or after full conversion of the Preferred Shares/Convertible Note, the interests of the Public Shares Subscribers in the Company upon the Subscription Completion and/or conversion of the Preferred Shares/Convertible Note shall form part of the Company's public shareholding. The Public Shares Subscribers are parties acting in concert with the Offeror as the Public Shares Subscribers were introduced by the Offeror and the terms of the Subscription Agreement were negotiated between the Company and the Offeror (for itself and on behalf of the other Subscribers) and all the Subscribers entered into the Subscription Agreement (being one single agreement) together with the Company.

(4) Aquarius Investment is held as to 9% by Mr. Wang, who is the chief executive officer and an executive director of Titan Gas Holdings, and a director of Standard Gas and Aquarius Investment. Further, Mr. Wang holds an approximately 8.05% equity interest in Titan Gas Holdings.

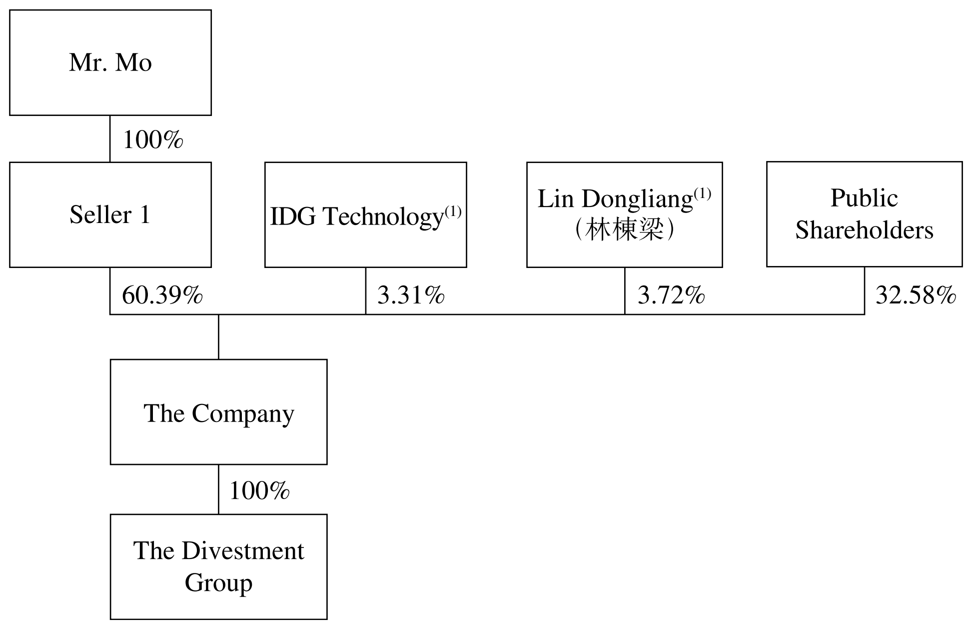
(5) Given League Way is independent of the Offeror, its subscription of the Convertible Note is not financed by any connected persons of the Company and it will not become a connected person of the Company as a result of the CN Subscription or conversion of the Convertible Note, the interests of League Way in the Company upon the Subscription Completion and/or after conversion of the Convertible Note shall form part of the Company's public shareholding.

(6) In the above shareholding table, (i) under the column "Immediately prior to the Tranche 1 Sale Completion", "Total public Shareholders" refer to the aggregate shareholding interest in the Company held by IDG Technology, Lin Dongliang (林棟梁) and "Other existing public Shareholders"; (ii) under the columns "Immediately after the Tranche 1 Sale Completion (assuming no conversion of the Convertible Bonds)", "Immediately after the Tranche 1 Sale Completion and the Tranche 2 Sale Completion (i.e. the S&P Completion) (assuming no conversion of the Convertible Bonds)" and "Immediately after the S&P Completion and before the Subscription Completion and the CN Subscription Completion (assuming conversion in full of the Convertible Bonds)", "Total public Shareholders" refer to the shareholding interest in the Company under "Other existing public Shareholders"; (iii) under the columns "Immediately after the S&P Completion, the Subscription Completion and the CN Subscription Completion (assuming no conversion of the Convertible Bonds, the Convertible Note, and Preferred Shares)", "Total public Shareholders" refer to the total shareholding interest in the Company under "The Sellers", "Public Shares Subscribers" and "Other existing public Shareholders"; (iv) under the column "Immediately after the S&P Completion, the Subscription Completion and the CN Subscription Completion (assuming conversion in full of the Convertible Bonds, the Convertible Note and Preferred Shares)", "Total public Shareholders" refer to the total shareholding interest in the Company under "The Sellers", "Public Shares Subscribers", "League Way" and "Other existing public Shareholders".

(7) Based on the tentative timetable, it is expected that the Acquisition will be completed on the same date as the completion of the Subscription and the CN Subscription.

The following charts set out the shareholding structure of the Group (i) immediately prior to the Tranche 1 Sale Completion, (ii) as at the Latest Practicable Date, (iii) immediately after the S&P Completion, (iv) immediately after the S&P Completion and assuming conversion in full of the Convertible Bonds, (v) immediately upon completion of the Transfer and the Transactions; and (vi) after conversion of the Preferred Shares, the Convertible Note and the Convertible Bonds, so as to illustrate the effects of the Transfer and the Transactions.

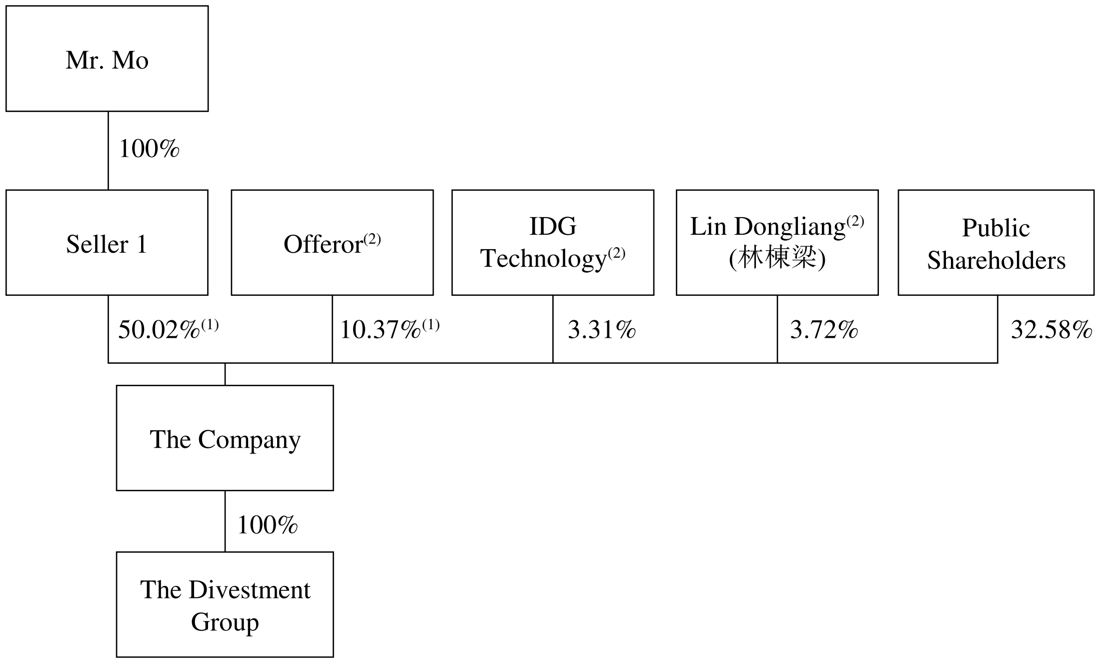
Shareholding structure of the Group immediately prior to the Tranche 1 Sale Completion



Note:

(1) The Offeror, IDG Technology and Lin Dongliang (林棟梁) are parties acting in concert.

Existing shareholding structure of the Group as at the Latest Practicable Date

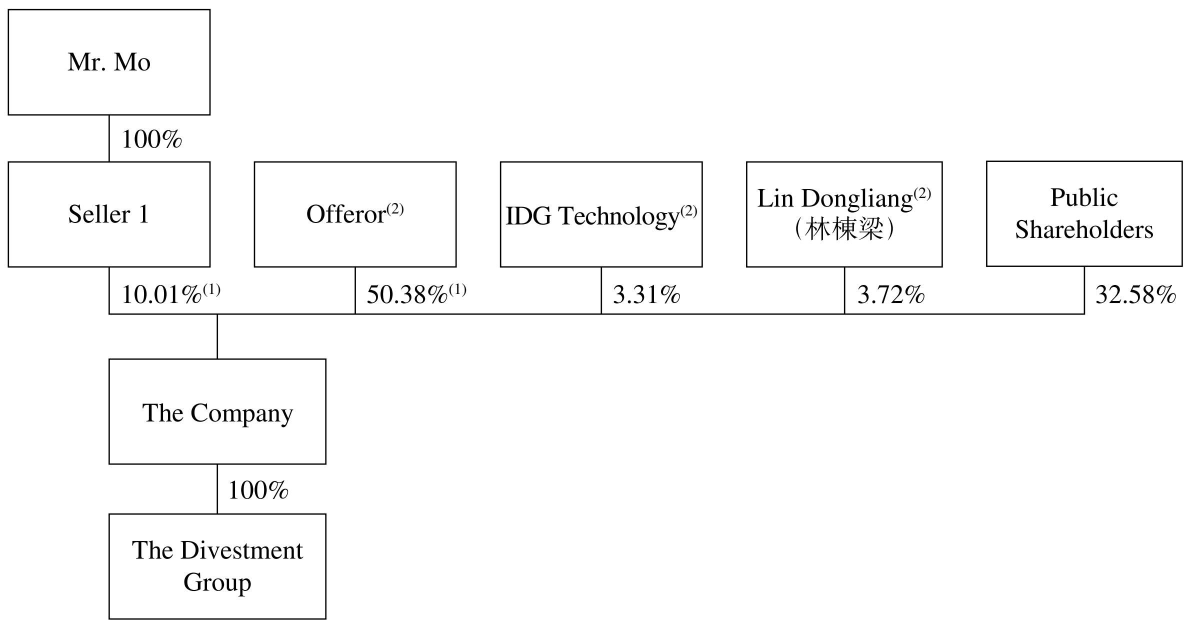


Notes:

(1) After completion of the Tranche 1 Sale Completion on 27 October 2015, Seller 1 transferred a 10.37% interest in the Company to the Offeror under the Transfer.

(2) The Offeror, IDG Technology and Lin Dongliang (林楝梁) are parties acting in concert.

Shareholding structure of the Group immediately after the S&P Completion (assuming no conversion of the Convertible Bonds)

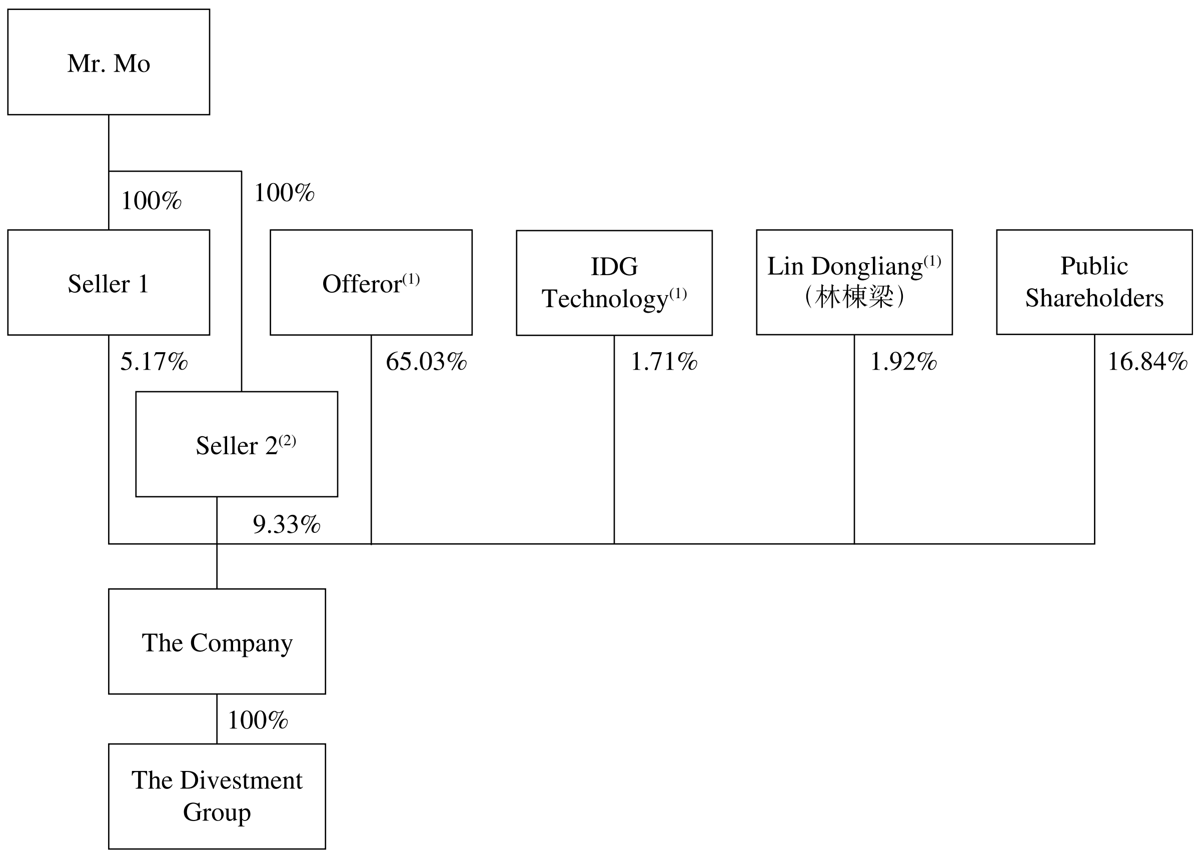


Notes:

(1) Upon completion of the Tranche 2 Sale Completion, Seller 1 shall transfer a 40.01% interest to the Offeror under the Transfer.

(2) The Offeror, IDG Technology and Lin Dongliang (林棟梁) are parties acting in concert.

Shareholding structure of the Group immediately after the S&P Completion and before the Subscription Completion and the CN Subscription Completion (assuming conversion in full of the Convertible Bonds)

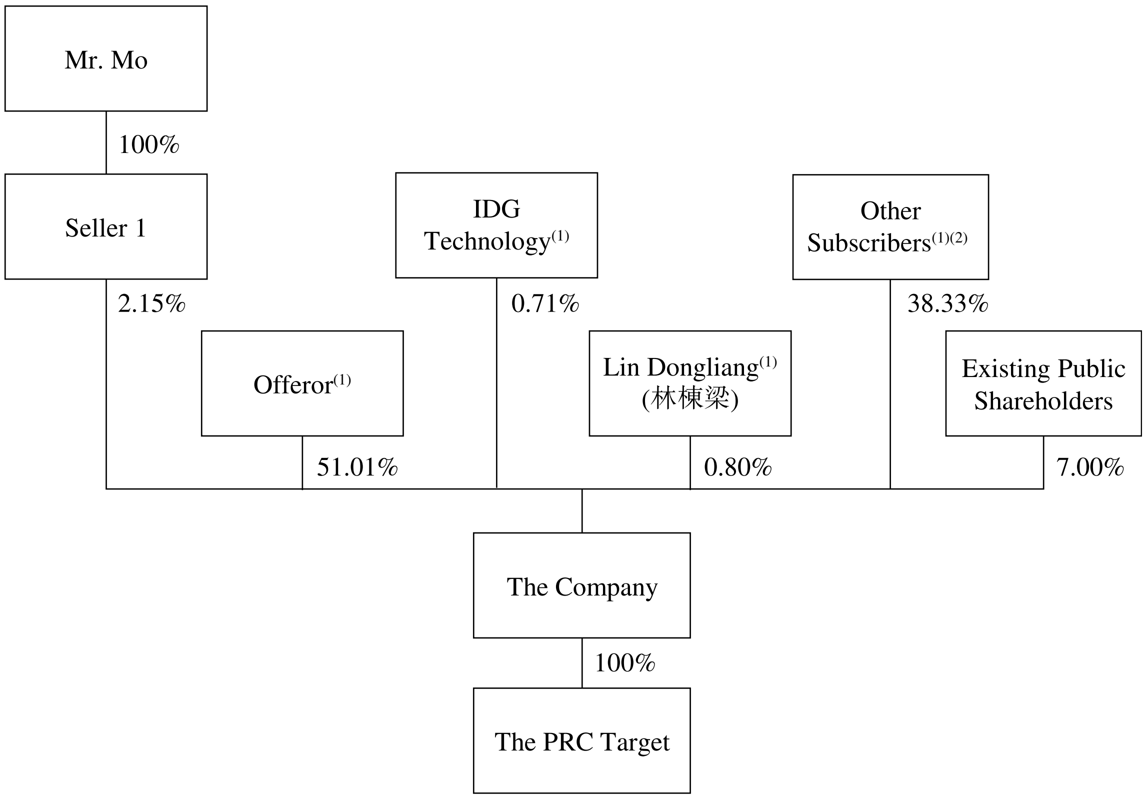


Notes:

(1) The Offeror, IDG Technology and Lin Dongliang (林棟梁) are parties acting in concert.

(2) Seller 2 is the holder of the existing Convertible Bonds.

Shareholding structure of the Restructured Group immediately upon completion of the Transfer and the Transactions and before conversion of the Convertible Bonds

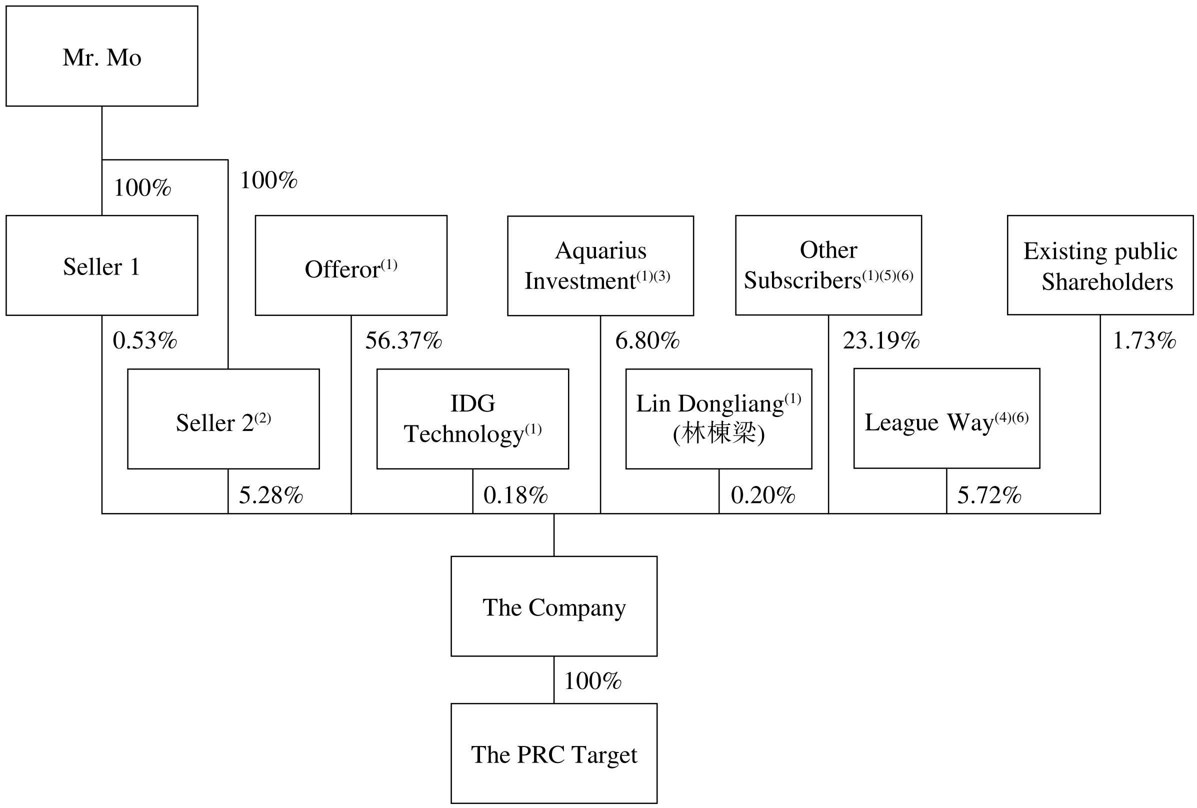


Notes:

(1) The Offeror, IDG Technology, Lin Dongliang (林棟梁) and the other Subscribers are regarded as parties acting in concert for the purpose of the Transfer and the Transactions.

(2) The other Subscribers (other than the Offeror) represent the Public Shares Subscribers that will subscribe for the Ordinary Subscription Shares and are regarded as public Shareholders as explained above.

Shareholding structure of the Restructured Group after conversion of the Preferred Shares, the Convertible Note and the Convertible Bonds



Notes:

(1) The Offeror, IDG Technology, Lin Dongliang (林棟梁), Aquarius Investment and the other Subscribers are regarded as parties acting in concert for the purpose of the Transfer and the Transactions.

(2) Seller 2 is the holder of the Excluded Bonds.

(3) Aquarius Investment is one of the Subscribers subscribing for the Preferred Shares under the Subscription.

(4) League Way will subscribe for the Convertible Note under the CN Subscription.

(5) The other Subscribers represent the Public Shares Subscribers that will subscribe for the Ordinary Subscription Shares and/or the Preferred Shares (other than the Offeror and Aquarius Investment).

(6) League Way and the other Subscribers (other than the Offeror and Aquarius Investment) are regarded as public Shareholders as explained above.

INFORMATION ON THE GROUP

The Company, through the Divestment Group, is principally engaged in the ownership and operations of hotels and restaurants in the PRC. Save for the Divestment Group, the Group does not have other significant operations.

As at the Latest Practicable Date, the Divestment Group, through Target 1, owned the Nanning Hotel which is located in Nanning, Guangxi, the PRC and a 26.7% interest in the Beihai Yintan No. 1 Hotel which is located in Beihai, Guangxi, the PRC. Target 2 has not engaged in any business operations since July 2015, and as at the Latest Practicable Date there were no ongoing discussions or agreements reached on any potential new business developments of Target 2.

The Divestment Group's unaudited net loss before and after taxation for the two years ended 31 March 2014 and 2015, as reviewed by the Company's auditors (as set out in Appendix V to this circular) were as follows:

	For the year ended 31 March	
	2014	**2015**
	HK$'000	*HK$'000*
Net loss before taxation (including non-controlling interests)	197,119	152,366
Loss for the year attributable to owners of the Divestment Group	196,644	151,452

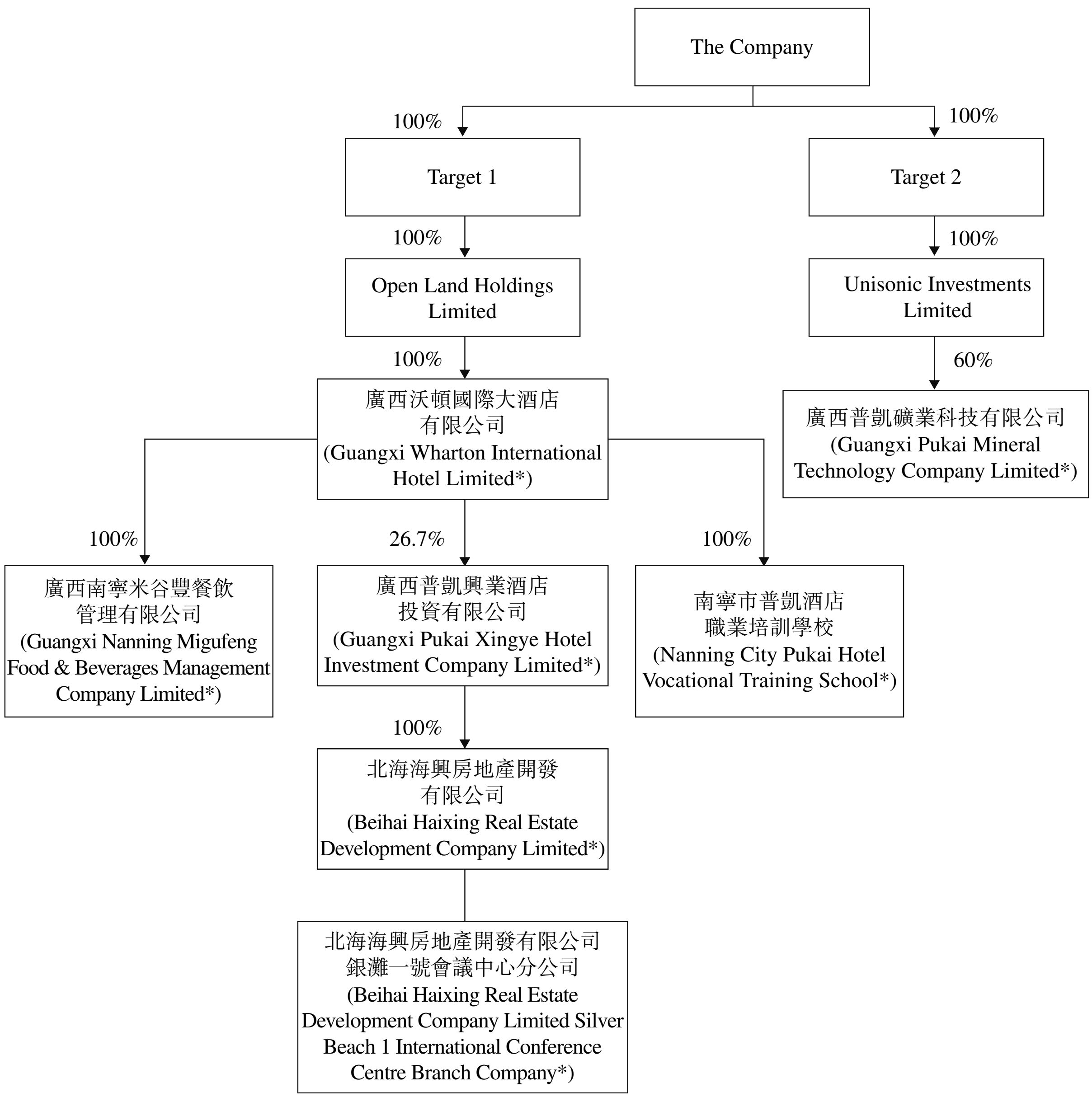
The above unaudited net losses of the Divestment Group constitutes a profit forecast for the purpose of the Takeovers Code. In this regard, please refer to "Appendix V — Unaudited Financial Information of the Divestment Group" for the respective reports of the auditors of and the financial advisor to the Company in compliance with Rule 10 of the Takeovers Code.

The unaudited combined net liabilities of the Divestment Group attributable to owners of the Divestment Group as at 31 March 2015 was HK$268,279,000 and the carrying value of the Current Accounts Receivable as at 31 March 2015 was HK$257,513,000, the net amount of which is HK$12,418,995 lower than the Initial Consideration.

GROUP STRUCTURE

Please refer to the sub-section headed "Information on the Group" in this section above for the information on the principal business, assets and financial results of the Divestment Group.

The corporate chart of the Company and the Divestment Group as at the Latest Practicable Date is as follows:



* *For identification purposes only*

INFORMATION ON THE PRC TARGET

Business of the PRC Target

The PRC Target is principally engaged in upstream crude oil exploration, development and production. Pursuant to the EPCC, Yanchang (as the mineral right owner) and the PRC Target (as the operator) cooperate to explore for oil in the Area; the crude oil produced from the Area, which belongs to Yanchang, is sold by the PRC Target (as entrusted by Yanchang) to the Customer which is designated by Yanchang and the PRC Target and Yanchang are entitled to share 80% and 20% of the sale proceeds (net of any sales related taxes). Yanchang holds the mineral rights in respect of the Area pursuant to two exploration permits granted by MOLR since 2008 and 2009. Please refer to the section headed "History and Business of the PRC Target" in this circular for details of the history and business of the PRC Target.

Financial information on the PRC Target

Based on the accountants' report on the PRC Target for the Track Record Period being prepared in accordance with HKFRS, the text of which is set forth in Appendix III to this circular:

(i) the net loss of the PRC Target for the two years ended 31 December 2014 and 2015 were as follows:

	For the year ended 31 December	
	2014	**2015**
	RMB'million	*RMB'million*
Net loss before taxation	9.7	25.2
Net loss after taxation	13.1	24.6

(ii) the net assets of the PRC Target as at 31 December 2015 was approximately RMB270.2 million.

Without qualifying the opinion, the accountants' report on the PRC Target included in Appendix III to this circular contains an emphasis of matter in respect of the financial information of the PRC Target relating to, among other things, its net current liabilities position and cash flow position. Under the Subscription, total net proceeds of about HK$2,630 million will be provided to the Restructured Group by instalments within 1 year after completion of the Transactions. Such proceeds are expected to significantly help improve the financial position and cash flow position of the Restructured Group. As per the unaudited pro forma financial information of the Restructured Group in Appendix VI to this circular, the Restructured Group would record net assets of HK$2,209 million, net current assets of HK$1,894 million and bank balances and cash of HK$279 million. Based on the cash flow forecast up to 30 June 2017, the Restructured Group will have sufficient working capital to meet 125% of its planned development needs based on the bases and assumptions as set out in the board forecast memorandum. Accordingly, the Company believes that the issues regarding the emphasis of matter in respect of the accountants' report on the PRC Target shall appropriately be addressed and resolved after completion of the Transactions.

INFORMATION ON THE OFFEROR

The Offeror is an investment holding company incorporated in the BVI with limited liability on 2 April 2015 and wholly owned by Titan Gas Holdings which is held as to (i) approximately 49.14% by the IDG Funds; (ii) approximately 35.13% by Standard Gas; (iii) approximately 8.05% by Mr. Wang; (iv) approximately 6.87% by Kingsbury (as stated below in the last paragraph under the sub-section headed "Information on the Offeror — Kingsbury" in this section, Standard Gas, Mr. Wang and Kingsbury entered into an acting in concert arrangement with respect to their voting rights in Titan Gas Holdings); (v) approximately 0.73% by Zhang Weiwei (張唯唯); and (vi) approximately 0.08% by Bryce Wayne Lee. As at the Latest Practicable Date, save for the entering into of the S&P Agreement, the CN Subscription Agreement and the Subscription Agreement, the Offeror did not engage in any business activities.

Shareholders shall refer to the section headed "Relationship between the Restructured Group and the Controlling Shareholders" in this circular for further details on the background of the Offeror and Titan Gas Holdings.

As at the Latest Practicable Date, the IDG Funds, Standard Gas, Mr. Wang, Kingsbury, Zhang Weiwei (張唯唯) and Bryce Wayne Lee, being the shareholders of Titan Gas Holdings, did not hold any Ordinary Shares, or any other relevant securities in the Company.

IDG Funds

As at the Latest Practicable Date, IDG-Accel Capital II held series A preferred voting shares and series B preferred voting shares in Titan Gas Holdings representing in aggregate approximately 47.04% of the outstanding voting rights in Titan Gas Holdings; and IDG-Accel Investors II held series A preferred voting shares and series B preferred voting shares in Titan Gas Holdings representing in aggregate approximately 2.10% of the outstanding voting rights in Titan Gas Holdings. The IDG Funds are exempted limited partnerships registered in the Cayman Islands and are under common control of their ultimate general partner, IDG-Accel Ultimate GP. IDG-Accel Ultimate GP is an exempted company incorporated in the Cayman Islands with limited liability and is beneficially owned as to 50% by Ho Chi Sing (何志成), and 10% each by Zhou Quan (周全), Shong Hugo (熊曉鴿), Guo Yihong (過以宏), Li Jianguang (李建光) and Zhang Suyang (章蘇陽), respectively. IDG-Accel Ultimate GP's board of directors (comprising Ho Chi Sing (何志成) and Zhou Quan(周全)) is responsible for decision-making matters relating to the IDG Funds and their investments, and hence controls the exercise of the voting rights attached to the shares that the IDG Funds hold in Titan Gas Holdings.

As at the Latest Practicable Date, Ho Chi Sing (何志成), Zhou Quan (周全), Shong Hugo (熊曉鴿), Guo Yihong (過以宏), Li Jianguang (李建光) and Zhang Suyang (章蘇陽), being the ultimate owners of IDG-Accel Ultimate GP, did not hold any Ordinary Shares, or any other relevant securities in the Company.

Standard Gas

Standard Gas is a company incorporated in the BVI and is established for the purpose of investing in Titan Gas Holdings. As at the Latest Practicable Date, Blazing Success Limited held all the issued voting shares in Standard Gas, being 2,500,000 shares. Blazing Success Limited is a company incorporated in the BVI and is established for the purpose of investing in Standard Gas. Blazing Success Limited is wholly owned by Lee Khay Kok, the chief engineer of Titan Gas Holdings. Lee Khay Kok is also the sole director of Blazing Success Limited. On 8 May 2015, Blazing Success Limited granted an irrevocable power of attorney to the board of directors of Standard Gas, or a person designated by the board of directors of Standard Gas, to exercise all the voting rights attached to the 2,500,000 voting shares in Standard Gas held by Blazing Success Limited. The board of directors of Standard Gas, which comprises Mr. Wang, Lin Dongliang (林棟梁) and Shong Hugo (熊曉鴿), designated Mr. Wang as the exclusive attorney-in-fact pursuant to the power of attorney granted by Blazing Success Limited. Further, each of Blazing Success Limited and Lee Khay Kok (in the capacity as the sole shareholder and sole director of Blazing Success Limited) has also given an irrevocable undertaking that it/he will not exercise its/his rights in respect of the shares in Standard Gas held by Blazing Success Limited. As at the Latest Practicable Date, the board of directors of Standard Gas comprises Mr. Wang, Lin Dongliang (林棟梁) and Shong Hugo (熊曉鴿); and 11,350,000 share options of Standard Gas had been granted under its employee stock option plan.

As at the Latest Practicable Date, Lee Khay Kok, Shong Hugo (熊曉鴿) and Mr. Wang do not hold any Ordinary Shares, or any other relevant securities in the Company.

Kingsbury

As at the Latest Practicable Date, Kingsbury is a joint stock company incorporated in the PRC and its scope of business mainly includes investment and management of urban infrastructures, land development, investment and management. Kingsbury is owned as to approximately 74.80% by Luo Yuping (羅玉平), approximately 14.15% by Guo Xihong (郭西紅), approximately 8.75% by Luo Xinyu (羅信余), approximately 0.7% by Chen Chang (陳暢), approximately 0.7% by Zhang Zhi (張智), approximately 0.7% by Li Kai (李凱), approximately 0.133% Zeng Hong (曾紅) and approximately 0.067% by Gong Mei (龔梅), none of whom is affiliated with the other shareholders of Titan Gas Holdings.

As at the Latest Practicable Date, Luo Yuping (羅玉平), Guo Xihong (郭西紅), Luo Xinyu (羅信余), Chen Chang (陳暢), Zhang Zhi (張智), Li Kai (李凱), Zeng Hong (曾紅) and Gong Mei (龔梅), being the beneficial owners of Kingsbury, did not hold any Ordinary Shares, or any other relevant securities in the Company.

On 8 May 2015, Standard Gas, Mr. Wang and Kingsbury entered into an acting in concert arrangement with respect to their voting rights in Titan Gas Holdings for the purpose of facilitating a more efficient decision-making process in connection with the exercise of their shareholders' rights in Titan Gas Holdings. Standard Gas and Kingsbury are both passive investors of Titan Gas Holdings. Pursuant to such arrangement, Standard Gas, Mr. Wang and Kingsbury commercially agreed to align with each other in respect of the voting of major actions in respect of Titan Gas Holdings' business and each of Standard Gas, Mr. Wang and Kingsbury will consult with each other and reach agreement on material matters of Titan Gas

Holdings before it/he exercises its/his respective voting rights in Titan Gas Holdings, provided that Mr. Wang will have a casting vote and will have the final decision making power in the event that a consensus cannot be reached among Standard Gas, Mr. Wang and Kingsbury.

Aquarius Investment

Aquarius Investment is an investment holding company incorporated in the BVI and owned as to 91% by Zhao Ming (趙明) and 9% by Mr. Wang as at the Latest Practicable Date. Zhao Ming (趙明) is an individual investor working for a private technology company in the PRC and Mr. Wang is a director of Aquarius Investment and Standard Gas, and the chief executive officer and an executive director of Titan Gas Holdings which beneficially owned 100% equity interests of the Offeror as at the Latest Practicable Date.

Interests in the Company

After the Tranche 1 Sale Completion, the Offeror holds:

(i) 36,024,724 Ordinary Shares (i.e. 36,024,724 Sale Shares) representing approximately 10.37% of the total number of Ordinary Shares in issue as at the Latest Practicable Date, and

(ii) the Convertible Bonds with an aggregate principal amount of HK$14,964,000 which are convertible into 40,497,970 CB Conversion Shares based on the Existing CB Conversion Price of HK$0.3695 per CB Conversion Share, representing:

(a) approximately 11.66% of the total number of Ordinary Shares in issue as at the Latest Practicable Date;

(b) approximately 10.44% of the total number of Ordinary Shares in issue as enlarged by the allotment and issue of 40,497,970 CB Conversion Shares to the Offeror upon exercise of the conversion rights attached to the Convertible Bonds with an aggregate principal amount of HK$14,964,000 held by the Offeror in full at the Existing CB Conversion Price; and

(c) approximately 6.03% of the total number of Ordinary Shares in issue as enlarged by the allotment and issue of 324,763,196 CB Conversion Shares upon exercise of the conversion rights attached to all the Convertible Bonds in full at the Existing CB Conversion Price.

As at the Latest Practicable Date, IDG Technology (which is managed by its general partner IDG Technology GP and Ho Chi Sing (何志成) and Zhou Quan (周全) (who are directors of IDG-Accel Ultimate GP, the ultimate general partner of the IDG Funds, which in turn own approximately 49.14% of the issued share capital of Titan Gas Holdings, the sole shareholder of the Offeror) are the only two managing members of IDG Technology GP, who manage IDG Technology GP pursuant to an operating agreement) held 11,500,000 Ordinary Shares, representing approximately 3.31% of the total number of Ordinary Shares in issue as at the Latest Practicable Date.

As at the Latest Practicable Date, Lin Dongliang (林棟梁) (a director of Titan Gas Holdings, which is interested in 100% of the issued shares of the Offeror, and also a director of Standard Gas which holds approximately 35.13% of Titan Gas Holdings) held 12,910,000 Ordinary Shares, representing approximately 3.72% of the total number of Ordinary Shares in issue as at the Latest Practicable Date.

Interests in SouFun

Zhou Quan (周全) (a director of SouFun) together with Ho Chi Sing (何志成) are beneficially interested in approximately 9.17% of the class A ordinary shares of SouFun in issue (not including Zhou Quan's (周全) interest in options and Zhou Quan (周全) and Ho Chi Sing's (何志成) interest in convertible instruments over shares of SouFun) as at the Latest Practicable Date, represented by the aggregate interest in SouFun held by IDG-Accel China Capital L.P., IDG-Accel China Capital Investors L.P., IDG Alternative Global Limited ("**IDG Alternative**") and Chuang Xi Capital Holdings Limited, all of which have the same ultimate general partner, namely IDG-Accel China Capital GP Associates Ltd., of which both Zhou Quan (周全) and Ho Chi Sing (何志成) are directors. The issued voting shares in IDG-Accel China Capital GP Associates Ltd. are held as to 50% by Zhou Quan (周全) and 50% by Ho Chi Sing (何志成).

SouFun announced that on 17 September 2015, SouFun entered into (i) a subscription agreement with IDG Alternative, a company then 100% owned by Ho Chi Sing (何志成)) (the "**IDG SouFun Subscription Agreement**"); and (ii) a subscription agreement with Safari Group Holdings Limited and Safari Group CB Holdings Limited (which are majority beneficially owned by Carlyle Group) ("**Carlyle**") (collectively, the "**SouFun Subscription Agreements**"). According to the said announcement, IDG Alternative, Carlyle and the management of SouFun (including Mr. Mo) will invest a total amount between US$400 million and US$700 million to purchase SouFun's newly issued class A ordinary shares and convertible notes (the "**SouFun Notes**") on a 50/50 basis. Under the SouFun Subscription Agreements, the subscription price of the new class A ordinary shares of SouFun is US$5.85 per current ADS (i.e. US$29.25 per class A ordinary share), which represented an approximately 0.2% premium over the closing price of US$5.84 per current ADS or US$29.20 per class A ordinary share as at 16 September 2015 and an approximately 3.4% premium over the volume-weighted average trading price of approximately US$5.66 per current ADS or US$28.30 per class A ordinary share for the 20 trading days preceding 16 September 2015. Holders of the SouFun Notes will have the right to convert the SouFun Notes into class A ordinary shares at the price per share equal to 122.5% of the purchase price per share of the new class A ordinary shares in seven (7) years after the issuance of the SouFun Notes. The SouFun Notes shall bear an annual interest of 1.5%. According to IDG Alternative, the terms of the SouFun Subscription Agreements were negotiated and discussed among the parties on an arm's length basis. Pursuant to the IDG SouFun Subscription Agreement, on 4 November 2015, IDG Alternative subscribed for 5,359,658 class A ordinary shares of SouFun.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, save as disclosed in this circular, prior to the entering into of the S&P Agreement, the Offeror and its ultimate owners are independent third parties and not connected with the Company or its connected persons, and the Offeror has become a substantial Shareholder after the Tranche 1 Sale Completion.

INFORMATION ON THE PUBLIC SHARES SUBSCRIBERS

Lu Xi (盧熙) works for a company listed in Hong Kong engaging principally in trading of chemicals and is an individual investor.

Fang Chao (房超) is a businessman with interests in a real estate business in the PRC.

華寶 • 境外市場投資2號系列20–6期QDII單一資金信托 (Hwabao.Overseas Investment Series 2 No 20–6 QDII Single Money Trust*) and 華寶 • 境外市場投資2號系列20–7期QDII單一資金信托 (Hwabao.Overseas Investment Series 2 No 20–7 QDII Single Money Trust*) (together known as the "**QDII Trusts**") are required to act based on the instructions of 上海宏流投資管理有限公司 (Shanghai Trend Capital Co., Ltd.*) ("**Trend Capital**"). Trend Capital will, upon completion of the Subscription, exercise the voting rights attached to the Subscription Shares subscribed by the two QDII Trusts. As at the Latest Practicable Date, Trend Capital was owned as to 66% by Wang Ruyuan (王茹遠) and 34% by 上海滙央投資中心 (有限合伙) (Shanghai Huiyang Investment Centre (Limited Partnership)*), of which all matters are managed by its executive partner Wang Ruyuan (王茹遠). The trustee of the above two QDII Trusts is Hwabao Trust Co., Ltd. (華寶信托有限責任公司).

New Fast Investments Limited is an investment holding company incorporated in the BVI with limited liability and is ultimately wholly owned by Yu Nan (余楠), who personally and through her companies invested in equity and listed securities in Hong Kong and the PRC. Her investments included companies engaged in, among other businesses, technology, media and internet business.

Real Smart Holdings Limited is an investment holding company incorporated in the BVI with limited liability and is ultimately wholly owned by Xu Sa (徐颯), who personally and through companies of which he is a shareholder, invested in listed securities in Hong Kong. He also invested in a company engaged in environment protection related businesses.

Grand Empire Global Limited is an investment holding company incorporated in the BVI with limited liability and is ultimately wholly owned by Zhang Lu (張璐), who was a consultant of a waste water treatment company with operations in the PRC. Ms. Zhang also, through a company of which she holds equity interest, invested in a company engaged in electronic products related business in the PRC.

True Success Global Limited is an investment holding company incorporated in the BVI with limited liability and is ultimately wholly owned by Ko Wing Yan Samantha (高穎欣) ("**Ms. Ko**"). Other than her directorship in REORIENT Group Limited, which she has resigned with effect from 9 November 2015, as at the Latest Practicable Date, Ms. Ko was also a shareholder and a director of Varitronix International Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 0710.HK).

Sonic Gain Limited is an investment holding company incorporated in the BVI with limited liability and is ultimately wholly owned by Ko Chun Shun Johnson (高振順) ("**Mr. Ko**"). Mr. Ko is father of Ms. Ko. Mr. Ko is a director of REORIENT Group Limited. As at the Latest Practicable Date, Mr. Ko was an indirect shareholder of REORIENT Group Limited and thus was deemed to be interested in approximately 9.55% of the issued share capital of REORIENT Group Limited; and REORIENT Group Limited wholly owned REORIENT Financial which is the financial advisor to the Company in respect of the Offer and the Transactions and one of the Joint Sponsors to the Company in respect of the deemed new listing application of the Company. In addition to his interests in REORIENT Group Limited, as at the Latest Practicable Date, Mr. Ko was a substantial shareholder, deputy chairman and a director of Frontier Services Group Limited (stock code: 0500.HK), and a shareholder and a director of KuangChi Science Limited (stock code: 0439.HK), all of which are companies whose shares are listed on the Main Board of the Stock Exchange.

Haitong International Securities Company Limited is a company incorporated in Hong Kong with limited liability and is ultimately wholly owned by Haitong International Securities Group Limited, a company listed on the Stock Exchange.

Rich Harvest Worldwide Ltd. is an investment holding company incorporated in the BVI with limited liability and is ultimately wholly owned by Zhang Chunhua (張春華) who invests in listed and unlisted securities in, among other areas, Hong Kong and the PRC.

ExaByte Capital Fund L.P. (the "**ExaByte Fund**") is a limited partnership registered under the laws of the Cayman Islands, which is a Greater China-focused hedge fund with a long-short equity strategy. ExaByte Capital Management (HK) Limited ("**ExaByte Hong Kong**") is the investment advisor of the ExaByte Fund. ExaByte Hong Kong, a company incorporated in Hong Kong with limited liability, is licensed to carry out type 9 (asset management) regulated activity under the SFO.

As at the Latest Practicable Date, none of the Public Shares Subscribers held, owned, had control or direction over any voting rights or rights over any Ordinary Shares, or convertible securities, warrants and options in the Company or outstanding derivatives in respect of the securities of the Company.

For the purposes of the Subscription Agreement and the Offer, the Public Shares Subscribers are parties acting in concert with the Offeror as the Public Shares Subscribers were introduced by the Offeror and the terms of the Subscription Agreement were negotiated between the Company and the Offeror (for itself and on behalf of the other Subscribers) and all the Subscribers entered into the Subscription Agreement (being one single agreement) together with the Company. Accordingly, the Offer will not be extended to the Public Shares Subscribers and the Subscribers will also not be allowed to dispose of any of the Ordinary Subscription Shares that may be allotted to them under the Subscription during the Offer Period.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the above Public Shares Subscribers and their ultimate owners were independent third parties and not connected with the Company or its connected persons as at the Latest Practicable Date.

Furthermore, to the best information of the Company as confirmed by the Public Shares Subscribers, with the exception to the QDII Trusts which is explained below, each of them will finance the Subscription Price for its/his respective part of the Subscription by its/his own internal resources and/or funding from its shareholder(s); and whilst they are parties acting in concert with the Offeror in connection with the Subscription as they entered into one single Subscription Agreement with the Offeror and had the Offeror represent them in negotiating and agreeing the terms of the Subscription with the Company, the Subscription by the Public Shares Subscribers will not be financed directly or indirectly by the Offeror and its associates, and after completion of the Subscription none of the Public Shares Subscribers will take instructions from the Offeror and its associates or any core connected persons of the Company in relation to voting on the Company's resolutions.

The Shares to be subscribed for by the QDII Trusts will be solely funded by Trend Capital and whilst it is a party acting in concert with the Offeror in connection with the Subscription as it entered into one single Subscription Agreement with the Offeror and had the Offeror represent it in negotiating and agreeing the terms of the Subscription with the Company, Trend Capital will not be financed directly or indirectly by the Offeror and its associates, and after completion of the Subscription none of the Public Shares Subscribers will take instructions from the Offeror and its associates or any core connected persons of the Company in relation to voting on the Company's resolutions.

In view of the above, the Public Shares Subscribers are treated as public Shareholders and the Ordinary Shares held by them are included in the calculation of the Company's public float.

Mr. Wang is a senior management member of Titan Gas Holdings (holding 100% equity interests in the Offeror) and is a business acquaintance of Mr. Mo. The Offeror initiated the discussions with the Company relating to the Subscription through the connection between Mr. Wang and Mr. Mo. The Offeror then discussed such investment opportunity with the Public Shares Subscribers who were businessmen and investors that have financial resources and experience in investments. Subsequently, the Offeror introduced the Public Shares Subscribers (being business acquaintances of the Offeror including some introduced by one of the other Subscribers to the Offeror) to the Company concerning the Subscription.

Save as disclosed in this circular, there is no other personal, family or business relationship among the Offeror and the Subscribers, and the Offeror and the Subscribers have not entered into any agreement or arrangement (either explicit or implicit) or understanding (whether formal or informal) in connection with the Subscription (other than those set out in the Subscription Agreement).

The Offeror has confirmed that (1) the Public Shares Subscribers are its acquaintances through business and/or social connections of the Offeror's directors or shareholders including professional investment funds which have business contacts with IDG Funds, and business and social acquaintances of Lin Dongliang (林棟梁) and Mr. Wang; (2) it discussed with the Public Shares Subscribers principally about the proposed terms of the Transfer and the Transactions, the business and prospects of the PRC Target, and its future intention about the Restructured Group; (3) all material representations that it made to the Public Shares Subscribers have been set out in the Joint Announcement and this circular; (4) it kept the Public Shares Subscribers informed of its negotiations with the Company, the Sellers and the other parties to the Transactions; and (5) it understands that the Public Shares Subscribers have agreed to the terms of the Subscription because they consider that, there is potential gain from their investments in the Company under the Subscription which may be realised by selling the Preferred Shares or the Conversion Shares if the selling price exceeds their investment cost and/or from any dividend which may be declared if they convert the Preferred Shares and hold the Conversion Shares (whilst the conversion of any Preferred Share is subject to the Company being able to satisfy the public float requirement under the Listing Rules from time to time, it is not anticipated that there will be any major public float issue as shown in the illustrative shareholding table on page 116 of this circular).

INFORMATION ON HONGBO INVESTMENT, LIDA INVESTMENT, HONGJIN ENGINEERING AND LEAGUE WAY

Hongbo Investment is a company established in the PRC with limited liability and ultimately held as to 80% by Shi Jianji (石建極) and 20% by Shi Wei (石為) as at the Latest Practicable Date. The principal businesses of Hongbo Investment include investment management, investment consulting, business information and other business.

Lida Investment is a company established in the PRC with limited liability and ultimately owned as to 95% by Hongbo Investment and 5% by Shi Jianji (石建極) as at the Latest Practicable Date. The principal businesses of Lida Investment include investment management, investment consulting, business information and other business.

League Way is a company incorporated in the BVI with limited liability and ultimately owned as to 70% by Shi Jianji (石建極) and 30% by Shi Wei (石為) as at the Latest Practicable Date. League Way is an investment holding company.

Hongjin Engineering is a company established in the PRC with limited liability and ultimately held as to 60% by Hongbo Investment and 40% by Lida Investment as at the Latest Practicable Date. Hongjin Engineering is principally engaged in the provision of petroleum engineering technology services, oilfield engineering services and drilling services.

As at the Latest Practicable Date, none of Hongbo Investment, Lida Investment, League Way, Hongjin Engineering, Shi Jianji (石建極) and Shi Wei (石為) held, owned, had control or direction over any Ordinary Shares or convertible securities, warrants or options in the Company or outstanding derivatives in respect of securities in the Company.

Mr. Wang, as representative of the Offeror, introduced Shi Wei (石為) (being the representative of the Target Sellers and League Way) to Mr. Mo (being the representative of the Company). To the best knowledge, information and belief of the Directors having made all reasonable enquiries, Hongbo Investment, Lida Investment, League Way and Hongjin Engineering and their respective ultimate owners were independent third parties and not connected with the Company or its connected persons nor the Offeror or parties acting in concert with the Offeror as at the Latest Practicable Date. Save as disclosed in this circular, there is no other personal, family or business relationship between (i) the Company and the Target Sellers, (ii) the Company and League Way; and the Company, the Target Sellers and/or League Way have not entered into any agreement or arrangement (either explicit or implicit) or understanding (whether formal or informal) in connection with the Acquisition (other than those set out in the Acquisition Agreement) or the CN Subscription (other than those set out in the CN Subscription Agreement) and save for the Acquisition and the CN Subscription, there is no other agreement or understanding between the Offeror, its shareholders, the PRC Target and its shareholders.

Prior to the completion of the Acquisition, both Shi Jianji (石建極) and Shi Wei (石為) are directors of the PRC Target and upon Acquisition Completion it is proposed that both Shi Jianji and Shi Wei will resign their position as directors of the PRC Target. Both Shi Jianji (石建極) and Shi Wei (石為) are not associates of the Offeror or any existing or proposed directors or chief executive of the Company.

As at the Latest Practicable Date, none of Shi Jianji (石建極) , Shi Wei (石為) or any of their respective associates held any Shares in the Company and none of Shi Jianji and Shi Wei held any office or was employed by any member of the Group. Both Shi Jianji (石建極) and Shi Wei (石為) will not become a controlling Shareholder, a director or chief executive of any member of the Restructured Group as a result of the Acquisition and upon completion of the Acquisition will be Independent Third Parties of the Group and the Directors and their respective associates.

In view of the above, both Shi Jianji (石建極) and Shi Wei (石為) are not and will not as a result of the Acquisition become controllers of the Company (as defined under Chapter 14A of the Listing Rules).

THE OFFEROR'S INTENTION

Business

The Group will no longer engage in the existing hotel and restaurant business carried on through the Divestment Group immediately upon the Divestment Completion, but will be principally engaged in a new business, namely, the exploration, development and production of crude oil after the Acquisition Completion.

Apart from the Acquisition, the Offeror will, following the completion of the Offer, conduct a detailed review of the operations and investment portfolio of the Restructured Group with a view to developing a sustainable corporate strategy to broaden its income stream, which may include rebalancing the resources of the Group should opportunities arise. As at the Latest Practicable Date, the Offeror was actively evaluating a number of acquisition opportunities, and except for the transactions contemplated under the Acquisition Agreement, the Offeror has confirmed that it and its associates currently have no concrete plans for any acquisition of assets and/or business by the Company. In the event that any of such opportunities materialises, further announcements will be made as and when required by the Listing Rules.

As at the Latest Practicable Date, save for the Divestment and the proposed change of the Board composition as described below, and subject to the result of the Offeror's review on the operations of the Company, the Offeror had not entered into any agreement, arrangements, understandings or negotiations and had no intention to (i) discontinue the employment of any employee of the Group; (ii) redeploy any fixed assets of the Company other than those in its ordinary and usual course of business but may evaluate the continued employment of the remaining employees of the Company depending on the business strategy and focus of the Restructured Group after completion of the Transactions.

The Offeror and the Company have decided to currently maintain the financial year end of the Company as end-March and the financial year end of the PRC Target as end-December after completion of the Transactions but may reassess from time to time depending on the development of the Restructured Group.

Maintaining the listing status of the Company

The Offeror intends that the Ordinary Shares will remain listed on the Stock Exchange after the close of the Offer and does not intend to exercise any rights to compulsorily acquire all the Ordinary Shares. The sole director of the Offeror and the new Directors to be nominated by the Offeror will jointly and severally undertake to the Stock Exchange to take appropriate steps following the close of the Offer to ensure the minimum public float requirement under the Listing Rules is complied with by the Company.

After the Subscription, the Company Secretary will keep (i) a register of the holders of the Preferred Shares; and (ii) a record of the Shares held by non-public Shareholders. Subject to the Preferred Share(s) having been fully paid, any transfer of the Preferred Share(s) may be effected by the submission of an instrument of transfer to the Company; and the Company Secretary will be responsible for updating the aforesaid register of holders of the Preferred Shares. Any transfer of any Preferred Shares will not affect the public float shareholding of the Company. When a holder of a Preferred Share serves a conversion notice to the Company, the Company Secretary will check the impact of such conversion on the shareholding and public float of the Company. If such conversion will cause the Company to fail to meet the public float requirement under the Listing Rules, the Company will inform the related holder of the Preferred Share and will not allow such conversion in accordance with the terms of the Preferred Shares. Whilst it has not been provided in the Subscription Agreement or the terms of the Preferred Shares, the Company and the Subscribers agree that in the event more than one conversion notice ("**Conversion Notice**") is submitted by the holders of the Preferred Shares (the "**Converting Holder(s)**") to the Company on the same date (the "**Conversion Date**"), and the conversion of such Preferred Shares in aggregate would cause the Company to fail to meet the public float requirement under the Listing Rules, the number of Preferred Shares which may be converted by each Converting Holder will be allocated on a pro-rata basis based on the number of Preferred Shares held by each Converting Holder compared to the aggregate number of outstanding Preferred Shares held by the Converting Holders on the Conversion Date multiplied by the number of Conversion Shares which may be issued by the Company pursuant to the Conversion Notices without breaching the public float requirement under the Listing Rules. For the avoidance of doubt, any fraction of a Conversion Share shall be ignored.

The Stock Exchange has indicated that if, upon the close of the Offer, less than 25% of the issued Ordinary Shares are held by the public or if the Stock Exchange believes that:

(i) a false market exists or may exist in the trading of the Ordinary Shares; or

(ii) there are insufficient Ordinary Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend the trading in the Ordinary Shares.

Proposed change of board composition of the Company

As at the Latest Practicable Date, the Board comprised two executive Directors, one non-executive Director and three independent non-executive Directors. All the current Directors except Prof. Chen Zhiwu have indicated to the Board their intentions to resign with effect from the closing date of the Offer (being the earliest time permitted under the Takeovers Code). The Offeror intends to nominate a number of new Directors (including executive and/or non-executive Directors) who will form the majority of the Board with effect from the date of despatch of the Composite Document (being the earliest time permitted under the Takeovers Code). Information on the background and experience of those new Directors to be nominated by the Offeror is set out in the section headed "Directors and Senior Management of the Restructured Group" in this circular.

Proposed change of company name and company logo

Upon the S&P Completion, the Offeror intends to propose to the Board to change the English name of the Company and to adopt and register a new Chinese name as its secondary name.

Further, as informed by the Board, the Company is currently using the existing logo being " " as a licensee without a written contract, accordingly, the Offeror also intends to propose to the Board to adopt a new logo, subject to the S&P Completion.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

Current situation of the Company and the Group

The Group recorded net loss for each of the four years ended 31 March 2015. Whilst the Group has been implementing various measures with a view to increasing revenue and controlling cost, the operating environment and prospect of the Group's existing hotel and restaurant business remain challenging. The Group recorded audited net current liabilities of HK$147.1 million and a deficiency in net assets of HK$105.0 million as at 31 March 2015. The auditors of the Company have expressed a disclaimer opinion on their reports in respect of the Group's financial statements for the years ended 31 March 2014 and 2015. The ongoing operation of the Group will substantially depend on the continuing support of the Company's existing majority shareholder and its affiliates.

As set out in the annual report of the Group for the year ended 31 March 2014, the independent auditors' report states that the consolidated financial statements have been prepared by the Directors on a going concern basis, the validity of which depends upon the successful implementation and outcome of the measures to be undertaken by the Group as described in note 2 to the related consolidated financial statements (and as summarised below). In view of the extent of the material uncertainties relating to the successful implementation and outcome of the measures to be undertaken by the Group as mentioned above which might cast a significant doubt on the Group's ability to continue as a going concern, the auditors have disclaimed their audit opinion on the consolidated financial statements.

As set out in note 2 to the financial statements of the Company for the year ended 31 March 2014, the Directors have adopted the following measures with a view to improving the Group's overall financial and cash flow position and to maintain the Group's existence as a going concern: (i) the Group's principal banker continued to provide continuing financing to the Group under the Group's existing available facilities which amounted to RMB162,000,000 (approximately HK$197.6 million); (ii) the Group implemented cost-saving measures to maintain adequate cash flows for the Group's operations; and (iii) as set out in the Company's announcement on 24 June 2014, the filing of an appeal in relation to a civil judgment where a provision for the litigation of approximately HK$166,780,000 was made as at 31 March 2014. In light of the above, the then Directors were of the opinion that it is still appropriate to prepare the consolidated financial statements for the year ended 31 March 2014 on a going concern basis.

As set out in the annual report of the Group for the year ended 31 March 2015, the independent auditors' report states that the consolidated financial statements for the year ended 31 March 2015 have been prepared by the Directors on a going concern basis, the validity of which depends upon the successful implementation and outcome of the measures to be undertaken by the Group as described in note 2 to the related consolidated financial statements (and as summarised below). However, the auditors were unable to obtain sufficient appropriate audit evidence regarding the continuing provision of financing by the Group's principal banker to the Group, successful implementation and outcome of the measures and therefore on the appropriateness of the use of the going concern assumption adopted for the preparation of the consolidated financial statements. In view of the extent of the material uncertainties relating to the successful implementation and outcome of the measures to be undertaken by the Group as mentioned above which might cast a significant doubt on the Group's ability to continue as a going concern, the auditors have disclaimed their audit opinion on the consolidated financial statements.

As set out in note 2 to the financial statements of the Company for the year ended 31 March 2015, the Directors considered the Group has adequate cash flows to maintain the Group's operation: (i) the Group's principal banker shall continue to provide continuing financing to the Group under the Group's existing available facilities; and (ii) the Group shall implement cost-saving measures to maintain adequate cash flows for the Group's operations. Accordingly, the Directors are of the opinion that it is still appropriate to prepare the consolidated financial statements for the year ended 31 March 2015 on a going concern basis.

Proposal of the Offeror

The Offeror will become the controlling Shareholder after completion of the Transfer. The other existing Shareholders will be offered a chance to dispose of their investments in the Company under the Offer on the same terms as Seller 1 and Seller 2.

Through Mr. Mo, the Company was approached by the Offeror which offered the Company a proposal to inject substantial cash of up to approximately HK$2,690 million under the Subscription to the Company. The Subscription will significantly improve the financial and liquidity positions of the Group. Under the Acquisition and the Divestment, the Company will be able to invest in the PRC Target which is principally engaged in the exploration, development and production of crude oil through the EPCC in the PRC and dispose of the entire Divestment Group which principal hotel and restaurant business has been facing operating and market challenges, and recorded net liabilities. The Offeror and the Company (having considered information and explanation as given by the Offeror) consider that it is a good time to invest in the PRC Target given the relatively low oil market price resulting in a lower valuation of the PRC Target. The diagram below shows the oil market price (Brent Crude) since 1 January 2014 up to the Latest Practicable Date.

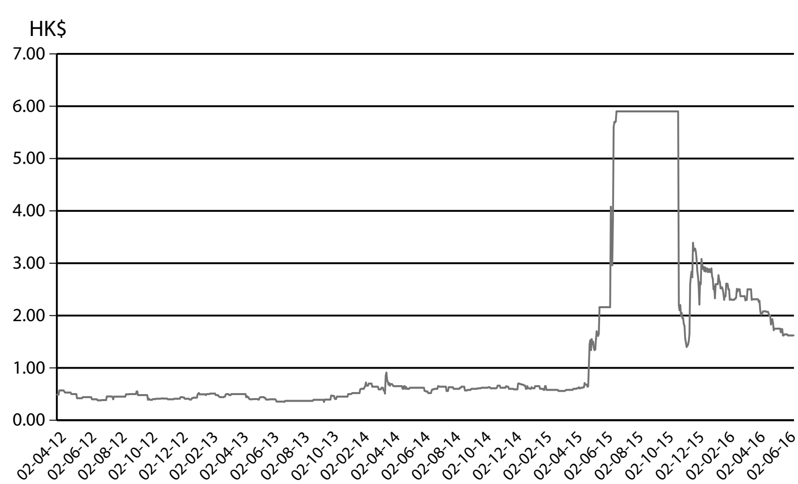
Source: Bloomberg

Structure and terms of the Subscription and the CN Subscription

As explained in the paragraph headed "the Subscription Agreement — Proposed use of proceeds" above in this letter from the Board, whilst the Restructured Group will require substantial funding to finance the continuing development of the PRC Target and acquisitions of other oil and gas assets, it does not require all the Subscription monies shortly after the completion of the Transactions as the further exploration and development work is expected to be gradually carried out over the next few years. Nevertheless it is important for the Company to have a secured source of funding, the Company therefore agreed to the payment schedule in respect of the subscription of the Preferred Shares as suggested by the Offeror and the other Subscribers, as opposed to issuing partly-paid Ordinary Shares, which the Company is not permitted to do so. Accordingly, the Company considers that the issue of the Preferred Shares, which allows the agreed deferred payment arrangement, will enable the Company to secure a source of funding now and equip the Company with the financial ability to fuel its future development and growth. The Preferred Shares are non-redeemable and are only convertible upon full payment of the subscription price. The purpose of the issue of the Preferred Shares is to allow a deferred payment schedule where the Company expects Preferred Shares would likely be converted into Ordinary Shares (subject to the terms of the Preferred Shares) as soon as they are fully paid, so the Company therefore priced the Preferred Shares at the same subscription price as the Subscription Shares.

The CN Subscription is carried out in connection with the Acquisition and will help the Restructured Group further strengthen its cash position for the development of the PRC Target's business after completion of the Transactions. The Company considers that by having a minority equity interest in the Company after completion of the Acquisition, the interests of the Target Sellers would be aligned with that of the Company. The Company considers that this aligned equity interest will help demonstrate the Target Sellers' confidence in the continuing development of the PRC Target after completion of the Acquisition. However, the Company understands that the Target Sellers did not agree to subscribe for new Shares as they are not familiar with the Hong Kong stock market but are willing to, through League Way, subscribe for the Convertible Note which has a debt element that is redeemable (albeit only after 2.5 years and not transferable during its term) and an equity element allowing the holder of the Convertible Note to subscribe for new Ordinary Shares based on the principal value of the debt at the same subscription price as the Subscribers, which was determined materially based on the long-term market price of the Shares as further explained below. As the purpose of the issue of the Convertible Note is to give the Target Sellers (through League Way) an equity interest in the Company, the conversion price is also set equal to the subscription price of the Subscription Shares and the Preferred Shares.

As shown in the share price chart below for the period from April 2012 up to the Latest Practicable Date, the closing price of the Shares saw a sharp increase in late April 2015 despite the continued disappointing results of the Group. Trading in the Shares was suspended on 15 May 2015 when the Share price increased to HK$2.16. On 8 June 2015, the Company issued an inside information announcement updating the market in respect of the then ongoing negotiations on the Transfer and the Transactions. The Share price continued to surge after the release of the inside information announcement to HK$5.9 (being the price as of the Last Trading Day) prior to the suspension of trading pending the release of the Joint Announcement. Whilst the Company does not know the reasons for the increase in Share price from April to June 2015, the Company believes that it is likely a result of market speculations.



Source: Bloomberg

Prior to the sudden unexplained surge in Share price on 23 April 2015, the closing price of a Share on 22 April 2015 (the "**Reference Date**") was only HK$0.65, and the average closing price of the Shares for the 10 and 30 consecutive trading days prior to (and including) such date were HK$0.654 and HK$0.616 respectively. The Company notes that these prices represented the long term price level of the Shares prior to the Reference Date as illustrated in the chart above.

Based on information available from the website of the Stock Exchange, on a best efforts basis, the following table sets out all share issues (the "**Subscription Comparable Issues**") announced since 1 January 2014 and up to the date immediately prior to the Latest Practicable Date by companies listed on the Stock Exchange involving the issue of (i) new shares; and/or (ii) convertible instruments, for cash to a subscriber/subscriber group (the "**New Subscriber**") resulting in the New Subscriber becoming a new controlling shareholder and making a general offer for all the remaining shares in such company. Share issues relating to companies under prolonged suspension have been excluded where different pricing considerations may apply.

		Premium/(discount) of placing/subscription/issue price over/(to)		
Date of announcement	**Company name**	**closing share price as at the last day of trading immediately prior to the relevant announcement** *% (Approximate)*	**average closing share price for the 5 trading days immediately prior to the relevant announcement** *% (Approximate)*	**average closing share price for the 10 trading days immediately prior to the relevant announcement** *% (Approximate)*
28 January 2014	Neo-Neon Holdings Limited ("Neo-Neon") (stock code: 1868) *(Note 3)*	(44.8)	(45.8)	(45.5)
8 May 2014	E-Rental Car Company Limited (formerly known as "Perception Digital Holdings Limited") (stock code: 1822) *(Note 2)*	(6.7)	16.7	25.5
5 June 2014	Southwest Securities International Securities Limited ("SWSI") (formerly known as "Tanrich Financial Holdings Limited") (stock code: 812) *(Note 4)*	(42.3)	(13.6)	(5.6)
25 July 2014	Jimei International Entertainment Group Limited (formerly known as "Sinogreen Energy International Group Limited") (stock code: 1159) *(Note 2)*	(94.3)	(94.4)	(94.0)
5 September 2014	Group Sense (International) Limited ("Group Sense") (stock code: 601) *(Note 5)*	(7.2)	5.3	10.7
26 November 2014	Maxnerva Technology Services Limited (formerly known as Daiwa Associate Holdings Limited) ("Maxnerva Technology") (stock code: 1037) *(Note 6)*	(4.7)	36.2	39.3
21 January 2015	Skynet Group Limited (formerly known as EDS Wellness Holdings Limited) ("Skynet Group") (stock code: 8176) *(Note 7)*	(90.5)	(86.2)	(84.1)
4 May 2015	New Silkroad Culturaltainment Limited (formerly known as "JLF Investment Company Limited") (stock code: 472) *(Note 2)*	(17.5)	(9.3)	(2.2)

Date of announcement	Company name	Premium/(discount) of placing/subscription/issue price over/(to) closing share price as at the last day of trading immediately prior to the relevant announcement	average closing share price for the 5 trading days immediately prior to the relevant announcement	average closing share price for the 10 trading days immediately prior to the relevant announcement
		% *(Approximate)*	% *(Approximate)*	% *(Approximate)*
10 August 2015	Asian Capital Holdings Limited ("Asian Capital") (stock code: 8295) *(Note 8)*	(25.5)	(13.4)	(12.4)
10 December 2015	Sun East Technology (Holdings) Limited ("Sun East") (stock code: 365) *(Note 9)*	(66.4)	(57.3)	(56.7)
29 February 2016	Global Link Communications Holdings Limited (stock code: 8060) *(Note 2)*	(46.3)	(45.9)	(47.6)
	Mean	(40.6)	(28.0)	(24.8)
	Minimum	(94.3)	(94.4)	(94.0)
	Maximum	(4.7)	36.2	39.3

	Premium/(discount) over/(to) closing price as at the reference date as indicated below	average closing price for the 5 trading days immediately prior to the reference date as indicated below	average closing price for the 10 trading days immediately prior to the reference date as indicated below
	% *(Approximate)*	% *(Approximate)*	% *(Approximate)*
The Subscription Price of HK$0.6696 per Subscription Share/conversion price of HK$0.6696 per CN Conversion Share			
— by reference to the closing price per Shares on the Reference Date	3.0	0.5	2.4
— by reference to the closing price per Share on the Last Trading Day	(88.7)	(88.3)	(85.0)
— by reference to the closing price per Share on the Latest Practicable Date	(58.7)	(58.7)	(58.7)

Source: Relevant announcements of the companies for the Subscription Comparable Issues

Notes:

(1) The closing share prices of the relevant listed companies are sourced from Bloomberg.

(2) The last trading days prior to the release of the relevant Rule 3.5 announcements under the Takeovers Code were used for our assessment above.

(3) Neo-Neon published an announcement on 28 January 2014 in relation to, among others, that Neo-Neon entered into a non-legally binding letter of intent with an investor, pursuant to which such investor expressed its interest in the subscription of new issues of Neo-Neon. Trading in Neo-Neon's shares was halted from 9 a.m. on 27 January 2014. Accordingly, we have taken the closing share price on 24 January 2014, being the last trading day prior to the halt of trading in Neo-Neon's shares for our assessment above.

(4) As stated in the announcement of SWSI dated 15 August 2014, the subscription price was determined and negotiated on an arm's length basis between certain parties with reference to, among others, the market prices of the shares of SWSI before its announcement dated 5 June 2014 in respect of a possible acquisition of the shares of SWSI held by Dr. Yip Man Fan, an executive director of SWSI. Trading in SWSI's shares was halted from 10:15 a.m. on 5 June 2014. Accordingly, we have taken the closing share price on 5 June 2014 for our assessment above.

(5) As stated in the announcement of Group Sense dated 6 January 2015, the subscription price was negotiated on an arm's length basis which has taken into account the trading price of the shares of Group Sense prior to its Rule 3.7 announcement dated 5 September 2014. Trading in Group Sense's shares was halted from 1 p.m. on 5 September 2014. Accordingly, we have taken the closing share price on 5 September 2014 for our assessment above.

(6) Maxnerva Technology published an announcement on 26 November 2014 in relation to, among others, that its substantial shareholder was recently approached by several intermediaries about the possible sale of its shareholding interest in Maxnerva Technology. Trading in Maxnerva Technology's shares was halted from 11:23 a.m. on 26 November 2014. Accordingly, we have taken the closing share price on 26 November 2014 for our assessment above.

(7) Skynet Group published an announcement on 21 January 2015 in relation to, among others, that Skynet Group was in discussions with certain independent third parties about a possible fund raising by way of issuing convertible notes or other instruments which may carry rights to convert into Skynet Group's new ordinary shares. Trading in Skynet Group's shares was halted from 1 p.m. on 19 January 2015. Accordingly, we have taken the closing share price on 19 January 2015 for our assessment above.

(8) Asian Capital published an announcement on 10 August 2015 in relation to, among others, that its controlling shareholder was approached by certain investors (acting separately) regarding possible acquisition of part of its shareholding interest in Asian Capital. Trading in Asian Capital's shares was halted from 11:27 a.m. on 10 August 2015. Accordingly, we have taken the closing share price on 10 August 2015 for our assessment above.

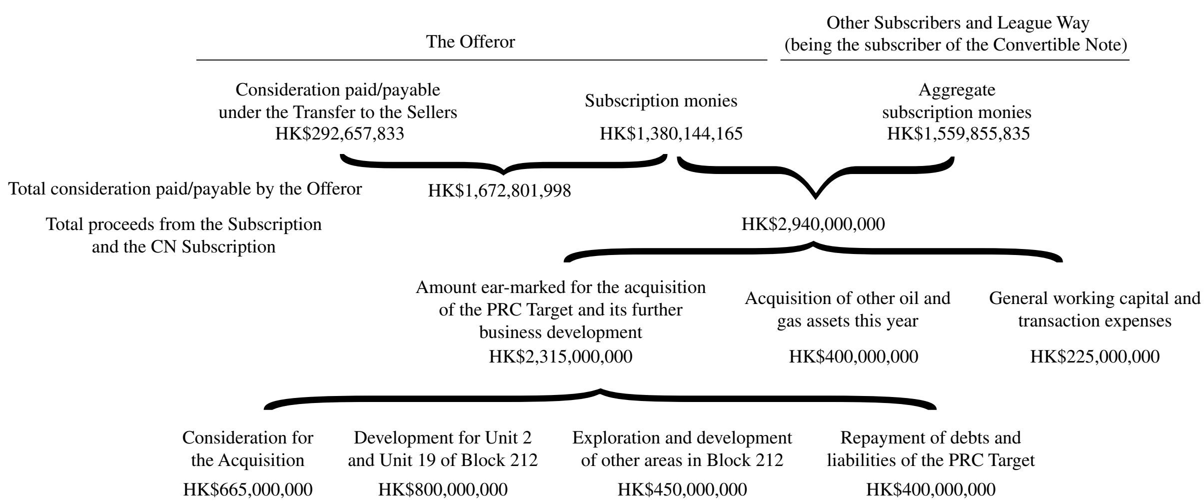
(9) Sun East published an announcement on 10 December 2015 in relation to, among others, Sun East was under negotiation with potential investors in connection with a proposed issue and allotment of new shares or issue of securities to such potential investors. Trading in Sun East's shares was halted from 1pm on 10 December 2015. Accordingly, we have taken the closing share price on 10 December 2015 for our assessment above.

Whilst the Subscription Price and the CN Conversion Price represent a substantial discount to the Share price on the Last Trading Day, the Company considers that this comparison is not meaningful as the Share price on the Last Trading Day deviated very significantly from the long-term normal Share price of the prior to the unexplained speculative price surge. The Company thus considers it more meaningful to compare the Subscription Price and the CN Conversion Price with the Share price prior to the unexplained speculative price surge based on the price on or before the Reference Date. The Subscription Price and the CN Conversion Price represent a premium in the range of 0.5% to 3.0% over the closing and average prices based on the Reference Date in the table above.

Based on the background, reasons and benefits of the Subscription as stated in this letter from the Board, the Company considers that the issue price of the Subscription Shares and the Preferred Shares under the Subscription and the conversion price of the Convertible Note to be fair and reasonable; and the Joint Sponsors concur with the Company's view. The Company considers that the terms of the Convertible Note, including the conversion price and the Redemption Premium fair and reasonable after having considered the maturity and redemption term of the Convertible Note and the overall terms of the Acquisition.

Fund flows and use of proceeds

The following chart illustrates the fund flows under the Transfer and the Transactions.



The Company (after discussion with the Offeror) estimates that the timing for the use of the net proceeds from the Subscription and the CN Subscription (on the basis that completion of the Transactions took place on 15 June 2016) will be as follows:

	Total	From the date of completion of the Transactions up to 31 December 2016	For the year ending 31 December 2017	2018	2019
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Net proceeds from the Subscription and the CN Subscription	2,880,000,000	2,026,653,003	853,346,997	—	—
Breakdown of proposed use of net proceeds:					
Repayment of the consideration for the Acquisition	665,000,000	665,000,000	—	—	—
Repayment of debts and other liabilities	400,000,000	400,000,000	—	—	—
Development of Unit 2 and Unit 19 of Block 212 (based on the high case development plan) [Note]	800,000,000	244,211,003	168,700,000	185,700,000	201,388,997
Further development of other areas in Block 212	450,000,000	152,442,000	146,156,000	147,986,000	3,416,000
Working capital	165,000,000	165,000,000	—	—	—
Acquisition and development of other oil and gas companies or projects	400,000,000	400,000,000	—	—	—
	2,880,000,000	2,026,653,003	314,856,000	333,686,000	204,804,997

Note: This sum sufficiently covers all financing requirements (including all capital expenditures (i.e. building of producers and water injectors) and fracturing expenditures (i.e. workover)) envisaged under the PRC Target's development plan and matches the development schedule as set out in the sub-section headed "History and Business of the PRC Target — Future Plans for Commercial Production" in this circular.

The Divestment

The Company further understands that the Offeror is not interested in the Group's existing hotel and restaurant assets and operations and has suggested the Company to divest them from the Group. As explained above, the Group has been loss making since the year ended 31 March 2012 as a result of, among other factors, the deteriorating market situation and increasing competition leading to decrease in profit margin and decrease in valuation of the Group's hotel properties, and compensation for litigation paid in relation to a contractual dispute between the Group and an ex-shareholder of a subsidiary which also contributed to an increase to the operating cost for the year ended 31 March 2014.

The table below summarises the net loss of the Group for the four years ended 31 March 2015, and the net assets/(liabilities) and market capitalisation of the Company as at each of 31 March 2012, 2013, 2014 and 2015.

	For the year ended 31 March			
	2015	**2014**	**2013**	**2012**
	HK$	*HK$*	*HK$*	*HK$*
Loss attributable to owners of the parent	234,020,000	197,298,000	24,667,000	9,067,000

	As at 31 March			
	2015	**2014**	**2013**	**2012**
	HK$	*HK$*	*HK$*	*HK$*
Net assets/(liabilities)	(112,410,000)	154,000	198,128,000	209,628,000
Market capitalisation	218,815,380	225,761,900	166,716,480	170,189,740

As explained above, the Company had a relatively small market capitalisation prior to April 2015. The Company believes that the increase in Share price and thus the market capitalisation is likely a result of market speculations and were not related to the performance or value of the business of the Group.

The Divestment Group recorded total assets of approximately HK$421.8 million, total liabilities (not including the amount due to the Company under the Current Accounts Receivable) of approximately HK$436.1 million as of 31 December 2015 and thus net liabilities (attributable to the Company) of approximately HK$14.3 million. Those liabilities of the Divestment Group mainly represent trading liabilities, debts and advances made by related companies ultimately owned by Mr. Mo to the Divestment Group (which have not been and will not be waived prior to completion of the Transactions).

Consideration for the Divestment

When selling the Divestment Group as a private group of companies engaging in the hotel business, and the Company's investment in SouFun shares, the Company considers that it is most appropriate to determine the consideration for the Divestment based on the estimated fair market value of Divestment Group and the SouFun shares. The Real Properties are the key assets to the operation of the Divestment Group's business and their aggregate carrying value represented approximately 97.7% of the total assets of the Divestment Group as at 31 March 2015. The Company accordingly considers it appropriate and reasonable to use the net assets/(liabilities) of the Divestment Group as adjusted based on the latest estimated fair market value of the Real Properties and the latest share price of SouFun shares as the basis of determining the consideration for the Divestment. The consideration for the Divestment reflects the latest unaudited combined net asset value of the Divestment Group and the amount of the Current Accounts Receivable prior to the entering into of the Divestment Agreement which will be further adjusted by, among other things, the latest fair market value of the Real Properties and SouFun shares.

The Real Properties held by the Divestment Group have been valued by LCH (Asia-Pacific) Surveyors Limited. The full text of the summary valuation report with property certificates for their respective market values in existing states as at 31 March 2016 are set out in Appendix X to this circular. The Real Properties were valued based on the income approach, the sales comparison approach making reference to comparable transactions and then adjusting them to reflect the difference between the comparable and the subject properties in respect of the hotel properties and land and the investment method of the income approach, which takes into account the current rent receivable from the existing tenancy agreements and the reversionary potential of the property interests in respect of those investment properties. The aggregate fair market value of the Real Properties as at 31 March 2016 amounted to approximately RMB345.6 million (equivalent to approximately HK$411.3 million) representing a shortfall of approximately HK$22.9 million from the aggregate book value of the Real Properties of approximately HK$434.2 million as of 31 March 2015, based on which the Initial Consideration was determined.

Given the capital deficiency (as represented by the net liabilities) of the Divestment Group (after taken into account the Current Accounts Receivable), the shortfall of the aggregate fair market value of the Real Properties to their aggregate book value and market price of SouFun shares as at the Latest Practicable Date, the Initial Consideration of approximately HK$1.65 million is likely to be adjusted to a nominal consideration of HK$1. Please refer to the paragraph headed "The Divestment Agreement — consideration" above in this letter from the Board for an illustration of the calculation of the adjusted consideration for the Divestment.

As a result of the Divestment, the Group is expected to record a material accounting gain upon disposal of the Divestment Group which would amount to approximately HK$42.2 million assuming that the Divestment had completed on 30 September 2015. The Divestment Completion is conditional on, among other things, the Subscription Completion and the Acquisition Completion.

The interests of the Company and the Shareholders

Whilst the Transactions (as a result of the issue of the Ordinary Subscription Shares, the full conversion of the Preferred Shares, the Convertible Note and the Convertible Bonds (based on the Adjusted CB Conversion Price)) may cause a substantial dilution of the shareholding interests of the existing public Shareholders (other than those who are parties acting in concert with the Offeror) from approximately 32.58% to approximately 1.73%, the Directors consider that the Transactions are beneficial to existing public Shareholders as the Transactions will help turn the Company from a current position of recording consolidated net liabilities to net assets. As illustrated in the unaudited pro forma financial information of the Restructured Group as set out in Appendix VI to this circular, the unaudited pro forma adjusted net tangible assets of the Restructured Group per Share would be HK$0.38, as compared to net tangible liabilities of the Group per Share of HK$(0.35) as at 30 September 2015, and thus, the Directors (including executive and non-executive Directors) consider that the potential substantial dilution to the shareholding interests of the existing public Shareholders is justifiable.

Please refer to the section headed "Risk Factors" in this circular for the risks associated with the Transfer and the Transactions.

The Directors consider that the Transactions represent a good opportunity for the Company to (i) raise a substantial amount of additional funds; and (ii) improve the financial position and liquidity and trading prospects of the Company.

The Board (including all the independent non-executive Directors) are of the view that the terms of the Transactions, which have been agreed after arm's length negotiation among the parties to the various related agreements, are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. As Ms. Cao and Mr. Mo are considered to have material interests in the Transfer and the Transactions, accordingly they abstained from voting from the relevant resolutions of the Board. Other than these two Directors, none of the Directors has a material interest in the Transfer and the Transactions or was required to abstain from voting from the relevant resolutions of the Board.

ADJUSTMENT TO THE CB CONVERSION PRICE OF THE CONVERTIBLE BONDS

As a result of the Subscription and the CN Subscription, the Existing CB Conversion Price will be adjusted from HK$0.3695 to HK$0.0672 per CB Conversion Share pursuant to the terms and conditions of the Convertible Bonds subject to the Subscription Completion and the CN Subscription Completion. Based on the outstanding principal amount of HK$120,000,000 of the Convertible Bonds as at the Latest Practicable Date, the number of CB Conversion Shares to be allotted and issued upon full conversion of the Convertible Bonds based on the Adjusted CB Conversion Price shall be 1,785,714,285 Ordinary Shares, representing:

(i) approximately 514.13% of the number of Ordinary Shares in issue as at the Latest Practicable Date; and

(ii) approximately 27.37% of the number of Ordinary Shares in issue as enlarged by the allotment and issue of:

   (a) 1,269,414,575 Ordinary Subscription Shares;

   (b) the New Conversion Shares to be issued upon the conversion of the 1,373,954,600 Tranche 1 Preferred Shares and the 1,373,954,599 Tranche 2 Preferred Shares (based on the initial conversion price of HK$0.6696 per Ordinary Share);

   (c) 1,785,714,285 CB Conversion Shares upon conversion of the Convertible Bonds in full (based on the Adjusted CB Conversion Price); and

   (d) 373,357,228 CN Conversion Shares upon conversion of the Convertible Note in full (based on the initial conversion price of HK$0.6696 per CN Conversion Share).

Pursuant to the Transfer, the Offeror will acquire the Sale Bonds with an aggregate principal amount of HK$96,832,526 from Seller 2 (of which part of the Sale Bonds with an aggregate principal amount of HK$14,964,000 have already been transferred to the Offeror pursuant to the Tranche 1 Sale Completion). Such Sale Bonds can be converted into

1,440,960,208 CB Conversion Shares upon full conversion at the Adjusted CB Conversion Price. The remaining Convertible Bonds (i.e. the Excluded Bonds) with an aggregate principal amount of HK$23,167,474 can be converted into 344,754,077 CB Conversion Shares upon full conversion at the Adjusted CB Conversion Price. Please refer to the sub-section headed "Shareholding Structure of the Company" in this section above for further information on the impact of the conversion of the Convertible Bonds based on the Adjusted CB Conversion Price.

SPECIFIC MANDATES AND LISTING APPROVAL

The Ordinary Subscription Shares and any New Conversion Shares which may fall to be issued by the Company upon conversion of the Preferred Shares and/or the Convertible Note will be issued under the Specific Mandates which are subject to the Independent Shareholders' approval at the SGM.

The Ordinary Subscription Shares and the New Conversion Shares will rank *pari passu* in all respects with the Ordinary Shares in issue as at the date of allotment and issue of the Ordinary Subscription Shares and the New Conversion Shares respectively.

No application will be made for the listing of, or permission to deal in, the Preferred Shares and the Convertible Note on the Stock Exchange or any other stock exchanges. An application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Ordinary Subscription Shares and the New Conversion Shares.

RAISING OF FUNDS IN THE PAST 12 MONTHS

The Company has not raised any other funds by way of issues of equity securities in the 12 months immediately preceding the date of the Subscription Agreement.

INCREASE OF AUTHORISED SHARE CAPITAL AND ADOPTION OF NEW BYE-LAWS

The Company has an authorised share capital of HK$80,000,000 divided into 8,000,000,000 Ordinary Shares of HK$0.01 each as at the Latest Practicable Date. In view of the Subscription, the Board proposes to put forward the Increase of Authorised Share Capital and Adoption of New Bye-laws Resolution to be passed by the Independent Shareholders at the SGM approving, inter alia, (i) the increase of the authorised share capital of the Company from HK$80,000,000 to HK$130,000,000 by the creation of 5,000,000,000 Preferred Shares of HK$0.01 each, such Preferred Shares having the rights, privileges and restrictions as set out in the New Bye-laws, such that the authorised share capital of the Company shall become HK$130,000,000 divided into 8,000,000,000 Ordinary Shares of HK$0.01 each, and 5,000,000,000 Preferred Shares of HK$0.01 each, and all the existing shares of the Company in issue shall be designated as Ordinary Shares; and (ii) the adoption of the New Bye-laws.

The Board proposes that the Company adopt the New Bye-laws to, amongst other things, (a) reflect the aforesaid increase of the authorised share capital and the creation and issue of the Preferred Shares, and (b) generally bring the Bye-laws in line with the current laws in Bermuda and the requirements under the Listing Rules.

A summary of certain provisions of the New Bye-laws is set forth in Appendix XI to this circular.

IMPLICATIONS UNDER THE LISTING RULES AND THE TAKEOVERS CODE

The Acquisition

The Acquisition constitutes:

(a) a very substantial acquisition for the Company under Rule 14.06(5) of the Listing Rules as one or more of the relevant percentage ratios under Rule 14.07 of the Listing Rules are over 100% for the Company in relation to the Acquisition; and

(b) a reverse takeover of the Company under Rule 14.06(6)(a) of the Listing Rules on the basis that (i) the Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules; and (ii) the Acquisition will take place in connection with the Transfer.

Accordingly, the Acquisition is subject to the approval of the Independent Shareholders at the SGM. Mr. Mo, Seller 1, the Offeror, Lin Dongliang (林棟梁), IDG Technology and their respective associates, and any person who has a material interest or who are involved in or interested in any of the Transfer, the Subscription, the Acquisition, the CN Subscription and/or the Divestment are required to abstain from voting on the relevant resolutions to be proposed at the SGM to approve, among others, the Acquisition.

As the Acquisition constitutes a reverse takeover of the Company, the Company is treated as if it were a new listing applicant under Rule 14.54 of the Listing Rules. The Company has submitted a new listing application to the Stock Exchange and the Acquisition will be subject to the approval of the Listing Committee. As the PRC Target's principal business relates to the exploration and extraction of natural resources, the deemed new listing application of the Company is required to comply with all the applicable requirements under the Listing Rules, in particular the applicable requirements under Chapters 8, 9 and 18 of the Listing Rules. As the PRC Target is not be able to satisfy the financial requirements under Rule 8.05 of the Listing Rules, the Company has applied for the deemed new listing based on the alternative requirements under Rule 18.04 of the Listing Rules.

The Divestment

As one or more of the applicable percentage ratios in respect of the Divestment are 75% or more, the Divestment constitutes a very substantial disposal for the Company under Chapter 14 of the Listing Rules. Seller 1 is wholly owned by, and is an associate of, Mr. Mo, a non-executive Director. Accordingly, the Divestment also constitutes a connected transaction for the Company. Pursuant to Chapter 14 and Chapter 14A of the Listing Rules, the Divestment Agreement and the transactions contemplated thereunder are therefore subject to the disclosure and the Independent Shareholders' approval requirements.

Since the Divestment is an arrangement made between the Company and Seller 1, the majority Shareholder, which is not capable of being extended to all Shareholders, the Divestment constitutes a special deal of the Company under Rule 25 of the Takeovers Code and requires the consent of the Executive. Such consent, if granted, will be subject to (i) an independent financial advisor publicly stating that in its opinion the terms of the Divestment are fair and reasonable; and (ii) the approval of the Divestment by the Independent Shareholders by way of poll at the SGM.

Mr. Mo, Seller 1, the Offeror, Lin Dongliang (林棟梁), IDG Technology, their respective associates and parties acting in concert with them, and any person who has a material interest or who are involved in or interested in any of the Transfer, the Subscription, the Acquisition, the CN Subscription and/or the Divestment are required to abstain from voting on the relevant resolutions to be proposed at the SGM to approve, among others, the Divestment.

The Company has made an application seeking consent of the Executive to the Divestment, and it is expected that the Executive's consent to the Divestment will be subject to the Independent Financial Advisor opining that the Divestment is fair and reasonable and subject to the approval of the Independent Shareholders having been obtained for the Divestment.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISOR

The Independent Board Committee, comprising all independent non-executive Directors, namely Prof. Ye Jianping, Palaschuk Derek Myles and Prof. Chen Zhiwu, has been established to make recommendation to the Independent Shareholders in respect of the Divestment Agreement and the transactions contemplated thereunder. Mr. Mo, a non-executive Director is not a member of the Independent Board Committee as Mr. Mo, being interested in the Divestment Agreement (through Seller 1), is considered to have material interests in the Divestment.

Somerley Capital Limited has been appointed as the Independent Financial Advisor to advise the Independent Board Committee in respect of the Divestment Agreement and the transactions contemplated thereunder and the appointment has been approved by the Independent Board Committee.

SGM

Set out on pages SGM-1 to SGM-5 of this circular is a notice convening the SGM to be held at United Conference Centre Limited — Room 4, 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong at 10:00 a.m. on Friday, 22 July 2016, at which resolutions will be proposed to approve (i) the Increase of Authorised Share Capital; (ii) the Transactions and the Specific Mandates; and (iii) the adoption of the New Bye-Laws. Voting at the SGM will be conducted by way of poll. All Shareholders who have a material interest or who are involved in or interested in any of the S&P Agreement, the Subscription Agreement, the Acquisition Agreement, the CN Subscription Agreement and/or the Divestment Agreement including Mr. Mo, Seller 1, the Offeror, Lin Dongliang (林棟梁) and IDG Technology, their respective associates and parties acting in concert with them, which in aggregate held 234,163,409

Ordinary Shares as at the Latest Practicable Date (representing approximately 67.42% of the issued Ordinary Shares), will be required to abstain from voting on each of the resolutions proposed at the SGM.

A form of proxy for use at the SGM is enclosed with this circular. In order to be valid, the enclosed form of proxy, together with any power of attorney or other authority under which it is signed must be delivered to the office of the Company's share registrar, Computershare Hong Kong Investor Services Limited at 17M/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof.

Completion and return of the enclosed form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

RECOMMENDATIONS

On the basis of the information set out in this circular, the Board considers the Transactions and the Specific Mandates to be fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Board also considers the proposed increase in the Company's authorised share capital and the adoption of the New Bye-laws are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the resolutions proposed at the SGM.

Your attention is drawn to (i) the letter from the Independent Board Committee which is set out on pages 155 to 156 of this circular; and (ii) the letter of advice from Somerley Capital Limited which is set out on pages 157 to 185 of this circular. The Independent Board Committee, having taken into account the advice of the Independent Financial Advisor, consider the terms of the Divestment are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Divestment Agreement, while not in the ordinary and usual course of business of the Company because of its "one off" nature, is nevertheless in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution which will be proposed at the SGM to approve the Divestment.

FURTHER INFORMATION

Your attention is drawn to the other sections and appendices in this circular, which contain further information about the PRC Target, the Restructured Group and other information that need to be disclosed in accordance with the Listing Rules. You should consider carefully all the information set out in the section headed "Risk Factors" in this circular before making a voting decision in relation to the Acquisition at the SGM.

WARNING

As fulfilment of the conditions precedent to the S&P Agreement, the Subscription Agreement, the Acquisition Agreement, the CN Subscription Agreement and the Divestment Agreement is not within the control of the respective parties involved in the Transfer, the Subscription, the Acquisition, the CN Subscription and the Divestment, there is no assurance that they can be fulfilled and/or that the Transfer, the Subscription, the Acquisition, the CN Subscription and the Divestment will be completed as contemplated and/or the Offer will be made. Shareholders and potential investors of the Company should exercise caution when dealing in the Ordinary Shares. If the Shareholders and potential investors of the Company are in any doubt about their position, they should consult their professional advisors.

By Order of the Board
Shun Cheong Holdings Limited
Cao Jing
Executive Chairman

SHUN CHEONG HOLDINGS LIMITED
順昌集團有限公司*
(Incorporated in Bermuda with limited liability)
(Stock Code: 650)

29 June 2016

To the Independent Shareholders

Dear Sirs or Madam,

SPECIAL DEAL, CONNECTED TRANSACTION AND VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE DIVESTMENT OF 100% OF THE SHARES IN AYKENS HOLDINGS LIMITED AND HOPLAND ENTERPRISES LIMITED

We refer to the circular to the Shareholders dated 29 June 2016 (the "**Circular**"), of which this letter forms part. Unless otherwise indicated herein or the context requires otherwise, capitalised terms used in this letter shall have the same meanings as defined in the section headed "Definitions" in the Circular.

We have been established by the Board to consider the terms of the Divestment and to advise the Independent Shareholders as to (i) whether the Divestment is in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole, (ii) whether the terms of the Divestment are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and (iii) the voting action that should be taken.

The Independent Financial Advisor has been appointed to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the Divestment is in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole, (ii) whether the terms of the Divestment are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the (iii) voting action that should be taken.

We wish to draw your attention to the letter from the Board set out in the section headed "Letter from the Board" in the Circular and the letter of advice from the Independent Financial Advisor as set out in the section headed "Letter from the Independent Financial Advisor" in the Circular.

* *For identification purposes only*

Having considered, among other matters, the principal factors and reasons considered by and the opinion of the Independent Financial Advisor as set out in its letter of advice, we consider that the Divestment is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the entering into of the Divestment Agreement, while not in the ordinary and usual course of business of the Company because of its "one off" nature, is nevertheless in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Divestment, particulars of which are set out in the Notice of SGM set out on pages SGM-1 to SGM-5 of the Circular.

Yours faithfully,
For and on behalf of
INDEPENDENT BOARD COMMITTEE

Prof. YE Jianping	**Mr. PALASCHUK Derek Myles**	**Prof. CHEN Zhiwu**
Independent Non-executive Director	*Independent Non-executive Director*	*Independent Non-executive Director*

The following is the letter of advice from Somerley Capital Limited to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

29 June 2016

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

SPECIAL DEAL, CONNECTED TRANSACTION AND VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE DIVESTMENT OF 100% OF THE SHARES IN AYKENS HOLDINGS LIMITED AND HOPLAND ENTERPRISES LIMITED

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in relation to the Divestment, details of which are set out in the letter from the Board contained in this circular of the Company to the Shareholders dated 29 June 2016, (the "**Circular**") of which this letter forms a part. Unless indicated otherwise, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As set out in the Joint Announcement, the Company's announcement dated 20 November 2015 and the announcements dated 28 January 2016, 23 March 2016 and 28 June 2016 jointly issued by the Company and the Offeror, the Company and the Offeror jointly announced, among others:

- the entering into of the S&P Agreement (as amended on 27 October 2015, 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016), pursuant to which the Offeror has conditionally agreed to acquire in two tranches, being the Tranche 1 Transfer and the Tranche 2 Transfer, (i) from Seller 1 (the majority shareholder of the Company) the Sale Shares, being 175.0 million Ordinary Shares (approximately 50.4% of the total number of Ordinary Shares in issue as at the Latest Practicable Date), at a consideration of approximately HK$117.2 million (or HK$0.6696 per Sale Share); and (ii) from Seller 2 the Sale Bonds, being part of the Convertible Bonds and convertible into approximately 262.1 million CB Conversion Shares, at a consideration of approximately HK$175.5 million (or HK$0.6696 per underlying CB Conversion Share);

- that subject to fulfilment (or where applicable, waiver) of the S&P Conditions and immediately following the S&P Completion, the Offeror and parties acting in concert with it will be interested in an aggregate of approximately 199.4 million Ordinary Shares, representing approximately 57.4% of the total number of Ordinary Shares in issue as at the Latest Practicable Date, and the Offeror will be required to make an unconditional mandatory general offer in cash for all the issued Ordinary Shares (other than those already owned by or agreed to be acquired by the Offeror and parties acting in concert with it) pursuant to Rule 26.1 of the Takeovers Code. Subject to and upon the S&P Completion, Essence Securities will, on behalf of the Offeror, make the Offer on the basis of HK$0.6696 in cash for each Offer Share;

- the entering into of the Subscription Agreement (as amended on 23 October 2015, 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016), pursuant to which the Subscribers have conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, approximately 1,269.4 million Ordinary Subscription Shares (approximately 365.5% of the total number of Ordinary Shares in issue as at the Latest Practicable Date) and approximately 2,747.9 million Preferred Shares (approximately 791.2% of the total number of Ordinary Shares in issue as at the Latest Practicable Date, upon conversion in full), at the Subscription Price of HK$0.6696 per Subscription Share;

- the entering into of the Acquisition Agreement (as amended on 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016) for the proposed acquisition by the Company of the entire equity interests in the PRC Target, which is principally engaged in upstream crude oil exploration, development and production, at a consideration of approximately RMB558.9 million (or approximately HK$665.0 million);

- the entering into of the CN Subscription Agreement (as amended on 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016), pursuant to which League Way has conditionally agreed to subscribe for the Convertible Note to be issued by the Company, in the aggregate principal amount of HK$250.0 million, with an initial conversion price of HK$0.6696 per Ordinary Share (approximately 107.5% of the total number of Ordinary Shares in issue as at the Latest Practicable Date, upon conversion in full);

- that as a result of the Subscription and the CN Subscription, the Existing CB Conversion Price will be adjusted from HK$0.3695 to HK$0.0672 per CB Conversion Share pursuant to the terms and conditions of the Convertible Bonds subject to the Subscription Completion and the CN Subscription Completion; and

- the entering into of the Divestment Agreement (as amended on 23 October 2015, 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016) for the proposed sale by the Company to Seller 1 of the Divestment Shares, being the entire issued and outstanding share capital of each of Target 1 and Target 2, the Current Accounts Receivable and the shares of SouFun held by the Company, at an initial consideration of approximately HK$1.6 million, subject to adjustments.

Tranche 1 Sale Completion took place on 27 October 2015 and as at the Latest Practicable Date, the Offeror and its concert parties were interested in approximately 17.4% of the entire issued share capital in the Company.

Further details on the S&P Agreement and the Transactions (of which the Divestment forms a part) are set out in the letter from the Board contained in the Circular. Further details on the Offer will be set out in the Composite Document, to be despatched in accordance with the Takeovers Code.

As one or more of the applicable percentage ratios in respect of the Divestment are 75% or more, it constitutes a very substantial disposal for the Company under Chapter 14 of the Listing Rules. Seller 1 is wholly-owned by, and an associate of, Mr. Mo, a non-executive Director. Accordingly, the Divestment also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Pursuant to Chapter 14 and Chapter 14A of the Listing Rules, the Divestment Agreement and the transactions contemplated thereunder are therefore subject to the disclosure and the Independent Shareholders' approval requirements.

In addition, since the Divestment is an arrangement made between the Company and Seller 1, the majority Shareholder, which is not capable of being extended to all Shareholders, the Divestment constitutes a special deal of the Company under Rule 25 of the Takeovers Code and requires the consent of the Executive. Such consent, if granted, will be subject to (i) an independent financial advisor publicly stating that in its opinion the terms of the Divestment are fair and reasonable; and (ii) the approval of the Divestment by the Independent Shareholders by way of poll at the SGM.

The Independent Board Committee, comprising all independent non-executive Directors, namely Prof. Ye Jianping, Mr. Palaschuk Derek Myles and Prof. Chen Zhiwu, has been established to make recommendation to the Independent Shareholders in respect of the Divestment Agreement and the transactions contemplated thereunder. Mr. Mo, a non-executive Director is not a member of the Independent Board Committee as he, as a party to the S&P Agreement and being interested in the Divestment Agreement (through Seller 1), is considered to have material interests in the Offer and the Divestment. We, Somerley Capital Limited, have been appointed as the Independent Financial Advisor to advise the Independent Board Committee and the Independent Shareholders on the Divestment. Our appointment has been approved by the Independent Board Committee.

We are not associated with the Company, Seller 1, or their respective substantial shareholders or associates and, accordingly, are considered eligible to give independent advice on the Divestment. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, Seller 1, or their respective substantial shareholders or associates.

BASIS OF OUR OPINION

In formulating our opinion, we have reviewed, among other things, the Divestment Agreement (as amended on 23 October 2015, 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016), the annual report of the Company for the financial year ended 31 March 2015, the interim report of the Company for the six months ended 30 September 2015, the unaudited financial information of the Divestment Group as set out in Appendix V to the Circular, the unaudited pro forma financial information of the Restructured Group as set out in Appendix VI to the Circular, and the independent property valuation report on the Real Properties as set out in Appendix X to the Circular. In addition, we have relied on the information and facts supplied, and the opinions expressed, by the Company and have assumed that the information and facts provided, and the opinions expressed to us are true, accurate and complete in all material aspects. Independent Shareholders will be notified of material changes to such information provided and our opinion, if any, as soon as practicable after the Latest Practicable Date and up to and including the date of the SGM. We have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied and that the opinions expressed to us are not misleading in any material respect. We consider that the information we have received is sufficient for us to formulate our opinion and recommendation as set out in this letter and have no reason to believe that any material information has been omitted or withheld, nor to doubt the truth or accuracy of the information provided to us. We have not, however, conducted any independent investigation into the business and affairs of the Group or the new business of the Restructured Group following, among others, the S&P Completion and the completion of the Transactions, nor have we carried out any independent verification of the information supplied.

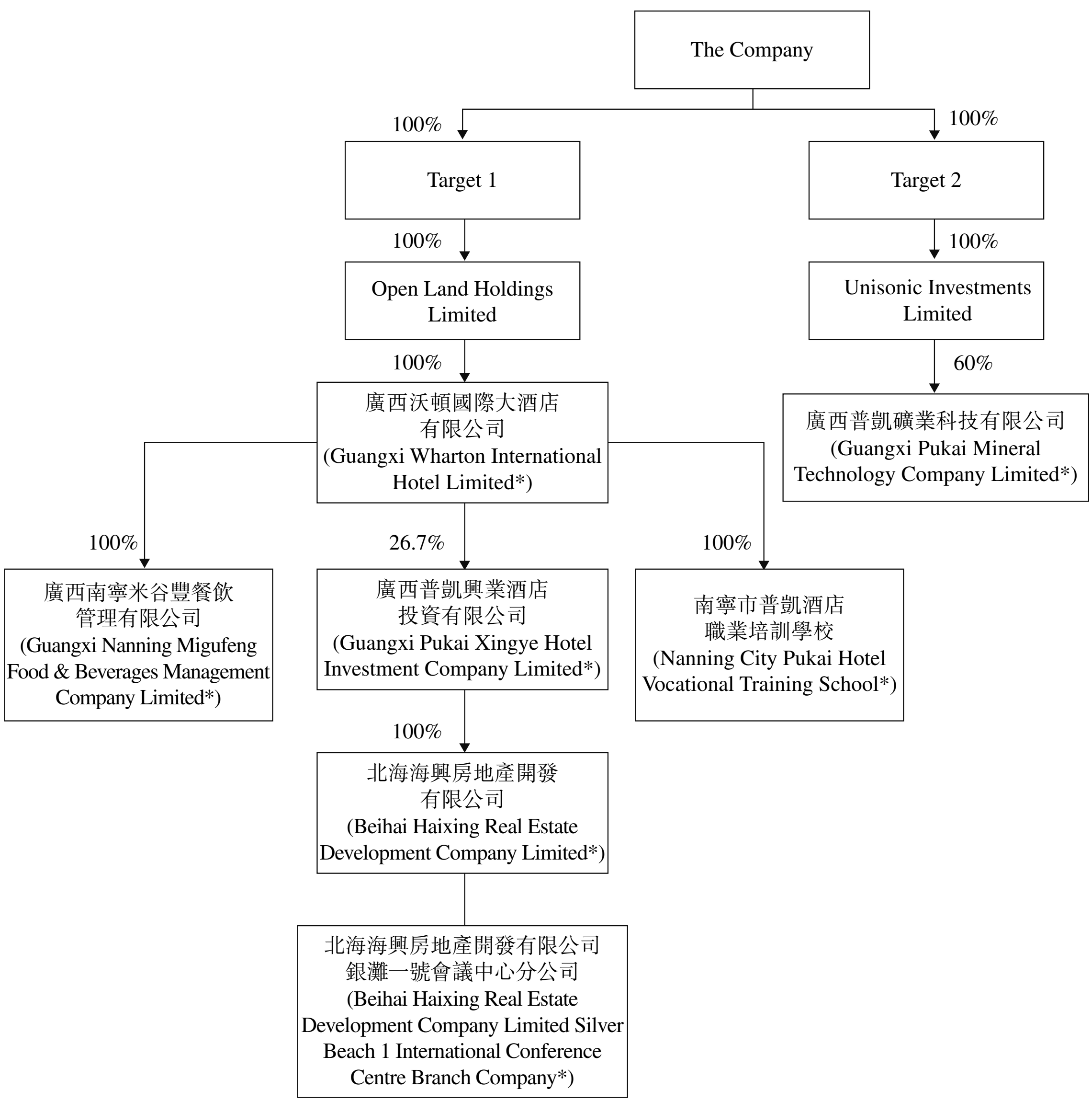
PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion with regard to the Divestment, we have taken into account the following principal factors and reasons:

1. Background of the Group and reasons for the Divestment

a. Background and business of the Group

The Group is principally engaged in hotel and restaurant operations in the PRC through its 100% equity interest in the Divestment Group, which comprises Target 1, Target 2, and their respective subsidiaries. The corporate chart of the Company and the Divestment Group as at the Latest Practicable Date was as follows:



* *For identification purposes only*

Target 1, through its indirect wholly-owned subsidiary, 廣西沃頓國際大酒店有限公司 (Guangxi Wharton International Hotel Limited), holds the Nanning Hotel, 19 residential units in Ruishi Garden and Minghu Garden, Nanning City (the "**Residential Units**") and an approximately 26.7% equity interest in a joint venture, 廣西普凱興業酒店投資有限公司 (Guangxi Pukai Xingye Hotel Investment Company Limited, "**Pukai Xingye**"). As confirmed by the management of the Group, the Residential Units, which are all located in Nanning City, are being used for staff accommodation and rental income purposes. Pukai Xingye indirectly holds the Beihai Yintan No. 1 Hotel (the "**Beihai Hotel**") located in Beihai, Guangxi, the PRC, and two parcels of land near the Beihai Hotel (the "**Land Parcels**"). Target 2 and its subsidiaries did not have an active business operation as at the Latest Practicable Date. As at the Latest Practicable Date, the Group did not have other significant operations save for the Divestment Group.

b. Financial information of the Group

Set out below are the highlights of the financial results of the Group for the three years ended 31 March 2015 and the six months ended 30 September 2014 and 2015, details of which are set out in Appendix IV to the Circular:

	For the six months ended 30 September		For the year ended 31 March		
	2015	2014	2015	2014	2013
	(unaudited)	(unaudited and represented)	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	—	—	143,695	121,384	157,908
Gross Profit	—	—	27,870	14,446	41,274
Loss attributable to owners of the Company	(10,439)	(32,769)	(234,020)	(197,298)	(24,667)

Revenue from hotel business, being the operation of the Divestment Group, represented almost the entire source of revenue of the Group for each of the past three financial years. For further information on the operating performance of the hotel business, please refer to sub-section headed "Principal Factors and Reasons Considered — 3. Information on the Divestment Group" in this letter.

The Group has been loss making in recent years. Apart from the unsatisfactory performance of its hotel operation, the significant loss for the financial year ended 31 March 2014 was mainly attributable to litigation provisions of approximately HK$166.8 million in relation to a contractual dispute between the Group and an ex-shareholder of a subsidiary (the "**Subsidiary**") of the Group in the year ended 31 March 2015 (the "**Legal Proceedings**"), as stated in the annual report of the Company for the financial year ended 31 March 2015. It was further stated that the

Subsidiary has paid the litigation settlement in full and the above case was closed. Details of the Legal Proceedings were set out in the announcement of the Company dated 18 December 2014.

For the financial year ended 31 March 2015, the loss attributable to the owners of the Company widened to approximately HK$234.0 million, which was largely due to an impairment loss recognised in respect of the Nanning Hotel of approximately HK$120.9 million and a loss on modifications of terms of the Convertible Bonds of approximately HK$68.9 million.

As set out in the Company's interim report for the six months ended 30 September 2015, following the entering into of the Divestment Agreement, the Divestment Group was regarded as a discontinued operation of the Group. Also, the comparative financial information of the Group for the same period in 2014 has been represented. For the six months ended 30 September 2015, there was no revenue from continuing operation generated by the Group, and the Group recorded loss attributable to the owners of the Company of approximately HK$10.4 million, which mainly included finance costs of approximately HK$2.9 million and loss for the period from discontinued operation (i.e. operation of the Divestment Group) of approximately HK$5.3 million.

Set out below is a summary of the consolidated assets and liabilities of the Group as at 31 March 2013, 2014, 2015 and 30 September 2015 respectively, details of which are set out in Appendix IV to the Circular:

	As at 30 September 2015	**As at 31 March 2015**	**2014**	**2013**
	(unaudited)	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	1	416,234	571,044	586,144
Current assets	439,429	38,018	72,537	56,932
Current liabilities	446,393	185,128	466,308	121,688
Non-current liabilities	107,394	374,151	168,920	314,577
Net current liabilities	6,964	147,110	393,771	64,756
Net (liabilities)/assets attributable to the owners of the Company	(121,325)	(112,410)	154	198,128

As at 31 March 2015, assets of the Group mainly comprised its holding of the Nanning Hotel and its joint venture interest in Pukai Xingye, and the liabilities of the Group mainly represented bank borrowings, amounts due to related companies ultimately owned by Mr. Mo, and the Convertible Bonds maturing in April 2018.

As shown above, the Group recorded net current liabilities of approximately HK$147.1 million and net liabilities attributable to owners of the Company of approximately HK$112.4 million respectively as at 31 March 2015. The auditors of the Company, SHINEWING (HK) CPA Limited ("**Shinewing**"), have expressed a disclaimer of opinion on their report in respect of the Group's financial statements for the year ended 31 March 2015, as they were unable to obtain sufficient appropriate audit evidence regarding the continuing provision of financing by the Group's principal banker to the Group, and the successful implementation and outcome of certain cost-saving measures, which might cast a significant doubt on the Group's ability to continue as a going concern.

As at 30 September 2015, the Group reclassified all assets and liabilities in respect of the Divestment Group, being the hotel operations of the Group, as held for sale in current assets and current liabilities in the Group's consolidated balance sheet, following the entering into of the Divestment Agreement to dispose of the Group's hotel operations. The net liabilities attributable to owners of the Company worsened to approximately HK$121.3 million as at 30 September 2015.

c. Background to and reasons for the Divestment

As set out in the letter from the Board in the Circular, the operating environment and prospects of the Group's existing hotel and restaurant business remains challenging. Through Mr. Mo, the Company was approached by the Offeror which offered a proposal to inject substantial cash to the Company of up to approximately HK$2,690.0 million under the Subscription.

Under the Acquisition, the Company will be able to invest in the PRC Target which is principally engaged in the exploration, development and production of crude oil through the EPCC in the PRC. The PRC Target has been working on the exploration and development of the Area for oil reserves through the EPCC entered into between the PRC Target and Yanchang, which owns the relevant oil mineral exploration permits. Yanchang is a branch company of Shaanxi Yanchang Petroleum (Group) Company Limited, a state-owned enterprise that is one of four enterprises, which is qualified to own mineral rights in respect of upstream oil and gas resources in the PRC. The Area, located in Inner Mongolia of the PRC, comprises Block 212, which is in development stage, and Block 378, in which no material exploration work has been carried out as at the Latest Practicable Date. As the Acquisition constitutes a reverse takeover for the Company, the Company is being treated as if it were a new listing applicant under Rule 14.54 of the Listing Rules. The Acquisition is therefore also subject to the approval by the Listing Committee of a new listing application to be made by the Company. As stated in the letter from the Board in the Circular, the CN Subscription is to be carried out in connection with the Acquisition and will help the Restructured Group further strengthen its cash position for the development of the PRC Target's business after completion of the Transactions.

The Company understands that the Offeror is not interested in the Group's existing hotel and restaurant assets and operations and has suggested the Company to divest them from the Group. As such, the Divestment Agreement has been entered into for the purpose of disposing the Divestment Group to Seller 1, the existing majority Shareholder.

The Divestment Completion is conditional on the S&P Completion, the Subscription Completion, the Acquisition Completion and the CN Subscription Completion. The S&P Completion is not conditional on the Divestment Completion. The Divestment Completion, the Subscription Completion, the Acquisition Completion and the CN Subscription Completion shall take place simultaneously, after the S&P Completion. Independent Shareholders should note that if the Divestment Agreement is not approved by the Independent Shareholders, neither the S&P Agreement nor the Transactions would complete. It also follows that the Offer would not proceed.

The Directors consider that the entering into of the Transactions represents a good opportunity for the Company to (i) raise a substantial amount of additional funds; and (ii) improve the financial position and liquidity and trading prospects of the Company. As set out in the sub-section headed "Principal Factors and Reasons Considered — 3. Information on the Divestment Group — C. Prospects of the Divestment Group" in this letter, the Divestment Group has faced and is expected to continue to face for the foreseeable future considerable headwind as regards to its hotel business. Given that the Divestment Completion would not occur without the S&P Completion, the Subscription Completion, the Acquisition Completion and the CN Subscription Completion, Divestment Completion would entail the Group not only divesting the Divestment Group, but also entering a new principal business through the Acquisition, namely, upstream oil exploration, development and production.

Independent Shareholders should note that completion of the Transfer, the Subscription, the Acquisition, the CN Subscription and the Divestment are subject to a number of conditions precedent, some of which involve the decisions of third parties, including approvals by the Independent Shareholders at the SGM and the approval of the deemed new listing application of the Company by the Listing Committee, and consent of the Executive to the special deal.

d. Information on the Offeror, the Subscribers, and the Offeror's intention regarding the Group

The Offeror is an investment holding company incorporated in the BVI with limited liability on 2 April 2015 and wholly owned by Titan Gas Holdings, which is in turn held as to (i) approximately 49.14% by the IDG Funds; (ii) approximately 35.13% by Standard Gas; (iii) approximately 8.05% by Mr. Wang; (iv) approximately 6.87% by Kingsbury (Standard Gas, Mr. Wang and Kingsbury entered into an acting in concert arrangement with respect to their voting rights in Titan Gas Holdings); (v) approximately 0.73% by Zhang Weiwei (張唯唯); and (vi) approximately 0.08% by Bryce Wayne Lee. Save for the entering into of the S&P Agreement, the CN Subscription Agreement and the Subscription Agreement, the Offeror did not engage in any business activities as at the Latest Practicable Date.

The Subscribers comprise the Offeror and 13 other entities and/or individual investors who, as stated in the letter from the Board in the Circular, are businessmen and investors that have financial resources and experience in investments.

Following S&P Completion and completion of the Transactions, the Group will be controlled by the Offeror and shall no longer be engaged in the existing hotel and restaurant business carried on through the Divestment Group. The Group will principally be engaged in a new business, namely, upstream oil exploration, development and production. The PRC Target is planning to move certain of its development works in Block 212 from development stage to commercial production. It has also engaged Hongjin Engineering for the exploration and development works in respect of Block 378.

Apart from the Acquisition, the Offeror will, following the completion of the Offer, conduct a detailed review of the operations and investment portfolio of the Restructured Group. As at the Latest Practicable Date, the Offeror was actively evaluating a number of acquisition opportunities, and except for the transactions contemplated under the Acquisition Agreement, the Offeror has confirmed that it and its associates currently have no concrete plans for any acquisition of assets and/or business by the Company.

Independent Shareholders should also refer to the other sections and appendices in the Circular for further details on the PRC Target and the Restructured Group.

2. Key terms of the Divestment Agreement

a. Subject matter

On 22 June 2015, the Company (as vendor) and Seller 1 (as purchaser) entered into the Divestment Agreement (as amended on 23 October 2015, 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016) pursuant to which, the Company has conditionally agreed to sell, and Seller 1 has conditionally agreed to purchase, (i) the Divestment Shares, being 100% of the issued and outstanding share capital of each of Target 1 and Target 2, (ii) the Current Accounts Receivable, being the aggregate amount of the net account receivables (a) owed by Target 1 and its subsidiaries to the Company and (b) owed by Target 2 to the Company and (iii) the ADS of SouFun (the "**SouFun ADS**") held by the Company. The Initial Consideration is approximately HK$1.6 million, which shall be subject to the adjustments as detailed in the sub-section below headed "Consideration for the Divestment".

We note that the Company's entire holdings in the abovementioned ADS of SouFun, a company listed on the New York Stock Exchange conducting real estate internet business in the PRC, being 125,000 SouFun ADS (representing 25,000 class A ordinary shares of SouFun) as of the date of the Divestment Agreement, will be transferred, at market price effective at the time of transfer, from the Company to Target 1.

b. Consideration for the Divestment

The Initial Consideration is approximately HK$1,652,995, which was agreed with reference to the aggregate value of (i) the unaudited amount of Current Accounts Receivable as at 31 March 2015 and (ii) the unaudited combined net liabilities of the Divestment Group attributable to owners of the Divestment Group as at 31 March 2015. The Initial Consideration shall be subject to the following adjustments:

(a) the amount (which, for the avoidance of doubt, can either be a positive amount or a negative amount) of (i) the aggregate fair market value of the Real Properties set forth in the property valuation report in Appendix X to the Circular, minus (ii) the aggregate book value of the Real Properties (including any related leasehold improvement) as reflected in the Company's audited accounts for the financial year ended 31 March 2015 (being approximately HK$434.2 million); and

(b) the amount (which, for the avoidance of doubt, can either be a positive amount or a negative amount) of (i) the aggregate net amount of the Current Accounts Receivable as of the date of the Divestment Completion, minus (ii) approximately HK$257.5 million, being the aggregate net amount of the Current Accounts Receivable as of 31 March 2015,

provided that, in any event, the minimum adjusted consideration for the Divestment shall be HK$1. The two adjustment items as described above will in effect adjust the consideration for the Divestment so as to take into account (i) the revaluation surplus/discount on the Real Properties over/to their book values, and (ii) movements of the net balance of the Current Accounts Receivable from 31 March 2015 to the date of the Divestment Completion.

The Divestment consideration shall be paid by Seller 1 to the Company by telegraphic transfer on the date of the Divestment Completion.

c. Conditions precedent

The Divestment Completion will be subject to certain conditions precedent (all of which are waivable by either the Company or Seller 1) as set out in the letter from the Board in the Circular, the main ones are as follows:

- the passing of resolutions by the Independent Shareholders at the SGM approving, among other things, the execution of the Divestment Agreement and consummation and completion of the Divestment and related transactions under the Divestment Agreement;

- each of the S&P Agreement and the Transaction Documents having been duly executed by the parties thereto and the transactions contemplated under the S&P Agreement and the Transaction Documents (including the Subscription, the Transfer, the Acquisition and the Divestment) being completed prior to or simultaneously at Divestment Completion;

- the Company, Seller 1 and the relevant members of the Divestment Group having entered into an assignment deed pursuant to which the Company shall assign to Seller 1, at Divestment Completion and for nil consideration, the rights and obligations of the Company with respect to all its rights to the entire net amount of the Current Accounts Receivable as of the date of the Divestment Completion; and

- all the shares of SouFun held by the Company as of the date of the Divestment Agreement having been transferred, at market price effective at the time of transfer, from the Company to Target 1.

As at the Latest Practicable Date, none of the above conditions had been fulfilled, the Company had no intention to waive any of the conditions it is entitled to waive, and the Company was not aware of any intention of Seller 1 to waive any of the conditions Seller 1 is entitled to waive. The Company will consider the seriousness and any adverse impact to the Group in respect of any condition which cannot be satisfied before it decides to waive any of the conditions that it is entitled to waive.

Details of the conditions precedent to the Divestment Completion are set out in the section headed "Letter from the Board — The Divestment Agreement" in the Circular.

Divestment Completion shall take place on or before the 10th Business Day following the satisfaction or waiver of the conditions precedent (other than those conditions precedent that by their terms cannot be fulfilled until Divestment Completion) or on such other date as may be agreed in writing by the parties. The Divestment Completion is conditional on the S&P Completion, the Subscription Completion, the Acquisition Completion and the CN Subscription Completion. The Divestment Completion, the Subscription Completion, the Acquisition Completion and the CN Subscription Completion shall take place simultaneously.

3. Information on the Divestment Group

a. Background and business of the Divestment Group

The Divestment Group comprises Target 1 and Target 2, and their respective subsidiaries. In addition to wholly owning the Nanning Hotel and the Residential Units, Target 1 is interested in the Beihai Hotel and the Land Parcels through its approximately 26.7% equity interest in Pukai Xingye. The remaining 73.3% equity interest in Pukai Xingye is owned by 北京普凱世杰投資諮詢有限公司 (Beijing Pukai Shijie Investment Consultancy Company), which is beneficially owned as to 80.0% by Mr. Mo.

Target 2, through its 60.0% equity interest in 廣西普凱礦業科技有限公司 (Guangxi Pukai Mineral Technology Company Limited), a PRC incorporated company, was in the past engaged in sourcing mining assets for potential acquisitions and in this connection had conducted certain preliminary studies on a potential mining asset. As advised by the management of the Group, these activities ceased in July 2015 and Target 2 has since then not engaged in any business operation.

The Nanning Hotel

The Nanning Hotel is located in Nanning, Guangxi, the PRC. It is a 5-star hotel with 23 storeys and a basement which includes various meeting and function rooms, restaurants, tennis courts, a swimming pool, shops, car parks and other facilities. It has 346 rooms and a gross floor area ("**GFA**") of approximately 46,409.4 sq.m.

Set out below are the historical, approximate average daily room rates ("**ADR**") and occupancy rates of the Nanning Hotel:

Financial year ended 31 March	**ADR** *(in HK$)*	**Occupancy rate**
2013	764	60.5%
2014	757	39.4%
2015	678	55.8%

Nine months ended 31 December	**ADR** *(in HK$)*	**Occupancy rate**
2014	692	56.9%
2015	656	59.6%

The operating environment of the Nanning Hotel has become more competitive in recent years, with ADRs having exhibited a downward trend, as advised by the Company, and that such decline was attributable to, amongst others, a slowdown in overall national economic growth and the continued anti-corruption campaign in the PRC.

Occupancy rate of the Nanning Hotel dropped significantly to 39.4% for the financial year ended 31 March 2014, which was mainly due to a renovation of certain parts of the hotel. While the occupancy rate increased again for the financial year ended 31 March 2015 and for the nine months ended 31 December 2015, it did not reach the occupancy rate level prior to the renovation, as China's economic slowdown continued in the financial year ended 31 March 2015 and the nine months ended 31 December 2015.

The Beihai Hotel

The Beihai Hotel is located in Beihai, Guangxi, the PRC. It is situated an approximately 40-minute drive away from Beihai Fucheng Airport. It is a 5-storey hotel with various conference and meeting rooms, a business centre, restaurants, car parks and other facilities. The Beihai Hotel has 192 hotel rooms and a GFA of approximately 48,759.9 sq.m. The construction of the Beihai Hotel was completed in early 2013. It commenced trial operations in April 2013 and was put into full operation in April 2014.

Set out below are the historical, approximate ADR and occupancy rates of the Beihai Hotel:

Financial year ended 31 March	**ADR** *(in HK$)*	**Occupancy rate**
2014 *(Note)*	449	18.0%
2015	306	30.8%

Nine months ended 31 December	**ADR** *(in HK$)*	**Occupancy rate**
2014	322	30.1%
2015	280	45.7%

Note: The Beihai Hotel was in trial operation during the financial year ended 31 March 2014

The financial year ended 31 March 2014 reflects the first full year of trial operations for the Beihai Hotel, with a relatively low occupancy rate. Although the occupancy rate substantially increased in its first year of full operation for the financial year ended 31 March 2015 and further improved for the nine months ended 31 December 2015, the ADR was trending downward, principally as a result of keen hotel competition in the same district, and the various special promotions, discounts and packages offered to guests in order to promote the hotel.

Legal opinion in respect of the Land Parcels

As disclosed in the valuation report on the Real Properties in Appendix X to the Circular, the PRC legal advisors to the Company (the "**PRC Legal Advisor**"), Haiwen & Partners, has issued an opinion dated 29 June 2016 in which it states that the Land Parcels are exposed to a resumption risk by relevant government authorities. According to the PRC Legal Advisors, the Group has obtained the relevant land use right certificates relating to the Land Parcels more than two years ago, and pursuant to the relevant PRC laws and regulations, the Land Parcels may be deemed to be idle land and may be recovered by the government without compensation in certain circumstances. As confirmed by the management of the Group, no notification has been issued by the relevant authority stating that the Land Parcels are identified as idle land. Upon completion of the Divestment Agreement, the Divestment Group will be disposed of by the Group to Seller 1, and will no longer hold any interest in the Land Parcels.

b. Financial information of the Divestment Group

The unaudited financial information of the Divestment Group has been reviewed by Shinewing in accordance with the Listing Rules, and has been reported on by Shinewing and the financial advisor to the Company in accordance with Rule 10 of the Takeovers Code. Set out below are the highlights of the combined financial results of the Divestment Group for the three years ended 31 March 2015 and the nine months ended 31 December 2014 and 2015, as extracted from Appendix V to the Circular:

	For the nine months ended 31 December		**For the year ended 31 March**		
	2015	**2014**	**2015**	**2014**	**2013**
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	106,584	112,921	143,695	121,384	157,908
Cost of sales	(79,893)	(85,787)	(115,825)	(106,938)	(116,634)
Gross profit	26,691	27,134	27,870	14,446	41,274
Share of results of joint ventures	(3,992)	(3,777)	(5,258)	(4,923)	(333)
Loss for the period/year	(12,310)	(9,861)	(152,366)	(197,119)	(18,504)
Loss for the period/year attributable to owners of the Divestment Group	(12,222)	(8,950)	(151,452)	(196,644)	(17,922)

Revenue of the Divestment Group mainly represents room rental, food & beverage and other revenue of the Nanning Hotel.

For the three financial years ended 31 March 2013, 2014 and 2015

For the financial year ended 31 March 2014, the Divestment Group recorded revenue of approximately HK$121.4 million, representing a decrease of approximately 23.1% as compared to the previous financial year. As advised by the management of the Divestment Group, this decrease was mainly due to large scale renovation work carried out at the Nanning Hotel during this time, which led to a decreased occupancy rate and therefore decreased revenue. Following the completion of a majority of the renovation work during the year ended 31 March 2014, the revenue of the Nanning Hotel increased to approximately HK$143.7 million for the financial year ended 31 March 2015. However, the ADR and occupancy rate of the Nanning Hotel for the financial year ended 31 March 2015 were in general still lower than the previous levels.

The Divestment Group adopted the equity method to account for its share of results of joint ventures, which mainly arose from the Divestment Group's approximately 26.7% equity interest in Pukai Xingye. The share of results of joint ventures exhibited a downward trend from the financial year ended 31 March 2013 to the financial year ended 31 March 2015, reflecting the worsening performance of the Beihai Hotel since the commencement of operations. According to the management of the Group, the loss-making situation was principally due to keen competition and the fact that the Beihai Hotel has only operated for a short period of time.

Loss attributable to the owners of the Divestment Group for the financial year ended 31 March 2014 increased significantly to approximately HK$196.6 million, mainly due to the litigation provisions of approximately HK$166.8 million in respect of the Legal Proceedings.

For the financial year ended 31 March 2015, the loss attributable to the owners of the Divestment Group amounted to approximately HK$151.5 million, largely due to the impairment of the carrying amount of the Nanning Hotel of approximately HK$120.9 million based on an independent valuation performed at the time.

For the nine months ended 31 December 2014 and 2015

For the nine months ended 31 December 2015, the Divestment Group recorded revenue of approximately HK$106.6 million, which represented a slight decrease compared to the same period in 2014. However, gross profit margin showed an improvement, principally due to the higher occupancy rate of the Nanning Hotel and cost control measures taken during the period.

Despite the improved gross profit margin, the higher share of loss from joint ventures (mainly represents the operation of the Beihai Hotel) and the higher finance costs led to the increased loss attributable to owners of the Divestment Group for the nine months ended 31 December 2015 compared to the same period last year.

Set out below is the summary of the combined assets and liabilities of the Divestment Group as at 31 March 2013, 2014, 2015 and 31 December 2015 respectively, as extracted from Appendix V to the Circular:

	As at 31 December	**As at 31 March**		
	2015	**2015**	**2014**	**2013**
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	295,609	327,503	477,501	487,531
Interests in joint ventures	83,703	88,728	93,536	98,603
Total non-current assets	379,312	416,231	571,037	586,134
Bank balances and cash	27,294	14,603	40,032	28,835
Other current assets	15,232	13,418	13,047	16,131
Total current assets	42,526	28,021	53,079	44,966
Total assets	421,838	444,252	624,116	631,100
Provision for litigation	—	—	166,606	—
Interest-bearing bank borrowings	73,413	77,767	76,814	39,384
Amount due to holding company	256,710	257,513	255,435	255,223
Other current liabilities	106,238	100,799	105,558	79,787
Total current liabilities	436,361	436,079	604,413	374,394
Interest-bearing bank borrowings	113,402	120,128	157,999	197,547
Other non-current liabilities	143,076	148,941	10,921	10,572
Total non-current liabilities	256,478	269,069	168,920	208,119
Total liabilities	692,839	705,148	773,333	582,513
Net current liabilities	393,835	408,058	551,334	329,428
Net (liabilities)/assets	(271,001)	(260,896)	(149,217)	48,587
Net (liabilities)/assets attributable to the owners of the Divestment Group	(277,887)	(268,279)	(157,416)	39,904

As at 31 December 2015, the Divestment Group had total assets of approximately HK$421.8 million, which mainly comprised (i) the carrying amount of property, plant and equipment (mainly in respect of the Nanning Hotel and the Residential Units) of approximately HK$295.6 million, (ii) interests in joint ventures, which hold the Beihai Hotel and the Land Parcels, of approximately HK$83.7 million and (iii) bank balances and cash of approximately HK$27.3 million.

As at 31 December 2015, the Divestment Group had total liabilities of approximately HK$692.8 million, which mainly comprised (i) the amount due to holding company (i.e. the Company) of approximately HK$256.7 million (being the Current Accounts Receivable, which forms part of the Divestment consideration and accordingly will be settled upon Divestment Completion), (ii) interest-bearing bank borrowings of approximately HK$186.8 million (for which the Group will not be liable following Divestment Completion, as confirmed by the Company) and (iii) amounts due to related companies, which are all ultimately held by Mr. Mo, of approximately HK$157.2 million (for which the Group will not be liable following Divestment Completion, as confirmed by the Company).

As at 31 December 2015, the net liabilities attributable to owners of the Divestment Group amounted to approximately HK$277.9 million. The continued losses of the Divestment Group in the past three years, together with the significant capital deficiency as at 31 December 2015, indicate that the Divestment Group is in a worsening financial situation. The operation and financing of the Divestment Group relied heavily on the continuing financial support from the Company, related companies controlled by Mr. Mo and the principal banks of the Divestment Group. Due to the material uncertainty relating to the going concern basis, Shinewing has expressed a disclaimer of conclusion on their review report in respect of the unaudited financial information of Divestment Group for the nine months ended 31 December 2015.

c. Prospects of the Divestment Group

As set out in the Company's interim report for the six months ended 30 September 2015, Company management believed that due to the slowdown of the overall national economic growth and the further implementation of the anti-corruption campaign, a much smaller revenue increase or even decrease in the hotel industry was observed in 2014 and is anticipated to continue. It is also stated that the management team will put in additional efforts to alleviate the negative impacts. We note that the Valuer (as defined in the sub-section headed "Principal Factors and Reasons Considered — 4. Valuation of the Real Properties" in this letter) anticipated a lower ADR growth rate in first three years when forecasting the future cash flows of the Nanning Hotel when compared to the higher stabilised growth rate, as detailed in sub-section headed "Principal Factors and Reasons Considered — 4. Valuation of the Real Properties" in this letter, indicating that it considers the ADR growth rates to be initially lower than the long term trend. In addition, statistics from the website of the China National Tourism Administration have shown that there have been no substantial fluctuations in the ADR and occupancy rates since the beginning of 2014, indicating that the hotel industry performance in the Guangxi Zhuang Autonomous

Region (where the Divestment Group's hotel properties are located) remained flat or slightly deteriorated in general. The ADR of hotels with a star rating in the Guangxi Zhuang Autonomous Region in 2015 has slightly decreased by approximately 1.8% (compared to the previous year) to approximately RMB190.4. The average occupancy rate has slightly increased by approximately 0.1% to approximately 55.0% in 2015. We consider the most recently available ADR and occupancy rate figures could offer a more meaningful picture of the most up to date status of the hotel industry in the Guangxi Zhuang Autonomous Region, and concluded that there are no clear and visible signs of recovery or improvement.

In addition, as confirmed by management of the Group, there was no approved development plan for the Land Parcels and there were no ongoing discussions or agreements reached on any potential new business developments of Target 2, as at the Latest Practicable Date.

According to Company management and as stated in the Company's interim report for the six months ended 30 September 2015, the Divestment Group has faced and is expected to continue to face for the foreseeable future considerable headwind as regards to its hotel business, given the unstable economic outlook in the PRC and government spending policies, as well as challenges relating to increasing operational costs, leading to uncertainty as to future performance of the Divestment Group. Based on the above opinion from the management, the gradual slowdown of the PRC economy growth in terms of the downward trend in the growth of gross domestic products, and our research statistics above specifically in the hotel industry in Guangxi Zhuang Autonomous Region which showed no obvious signs of growth, we concur with the Company management regarding the uncertainty of the future performance of the Divestment Group.

4. Valuation of the Real Properties

The Real Properties held by the Divestment Group have been valued by LCH (Asia-Pacific) Surveyors Limited (the "**Valuer**"). The full text of the summary valuation report with property certificates for their respective market values in existing states as at 31 March 2016 (the "**Valuation Report**") are set out in Appendix X to the Circular.

Set out below is a summary of the valuations of the Real Properties as at 31 March 2016 (the "**Valuations**"), as extracted from the Valuation Report:

Property	**Valuation in its existing state** *(in RMB million)*	**The Divestment Group's ownership interest in the property**	**Valuation in its existing state attributable to the Divestment Group** *(in RMB million)*
Nanning Hotel	251.0	100.0%	251.0
Beihai Hotel	243.3	26.7%	65.0
Land Parcels	79.8	26.7%	21.3
Residential Units in Ruishi Garden	3.1	100.0%	3.1
Residential Units in Minghu Garden	5.2	100.0%	5.2
Total	**582.4**		**345.6**

Set out below are details of the valuation approaches adopted by the Valuer for each of the Real Properties:

The Nanning Hotel

The Nanning Hotel was valued by reference to the income approach, which takes into account the present worth of the future economic benefits to be received over the useful life of the property. We consider income approach to be a common valuation approach when valuing hotel properties. A discounted cash flow model (the "**DCF Model**") has been developed, which involves discounting future cash flow on a yearly basis, until the end of the land use term (the "**Evaluation Period**"), to its present value at a rate reflecting risk to derive a market value.

The Beihai Hotel

The income approach is of limited relevance for the valuation of the Beihai Hotel, as it has historically operated with a net cash outflow, and Company management has not been able to ascertain the timing of a positive turnaround. The Valuer has therefore adopted the sales comparison approach, making reference to comparable transactions and then adjusting them to reflect the difference between the comparables and the subject property.

As the construction of the Beihai Hotel was completed in early 2013 and it has been less than 3 years since its completion to the valuation date, the Valuer has also adopted the cost approach to achieve a more balanced perspective on the market value of the Beihai Hotel.

The Land Parcels

The Land Parcels comprise two parcels of land near the Beihai Hotel, with a total site area of approximately 29,790.3 sq.m. The Valuer has adopted the sales comparison approach to assess the market value with reference to comparable bare land transactions that the Valuer has identified, with adjustments to reflect the differences between the comparables and the subject land parcels.

The Residential Units

The 9 Residential Units in Ruishi Garden are currently being used for rental income purpose, and the Valuer has adopted the investment method of the income approach, which takes into account the current rent receivable from the existing tenancy agreements and the reversionary potential of the property interests. For the 10 Residential Units in Minghu Garden, which are currently being used for staff accommodation purpose, the Valuer has adopted the sales comparison approach by making reference to comparable transactions or offerings in the vicinity of the relevant Residential Units, with adjustments to reflect the differences between the comparables and the subject units.

Having taken into account the above, we consider the adoption of the relevant valuation methodologies adopted by the Valuer in the Valuations to be reasonable and consider them to be commonly used ones for establishing the market value of the Real Properties.

Specific valuation bases and assumptions for the Nanning Hotel and the Beihai Hotel

As the combined valuation of Nanning Hotel and the Beihai Hotel attributable to the Group of approximately RMB316.0 million represents over 90% of the total valuation attributable to the Group of approximately RMB345.6 million, we further analyse below the major bases and assumptions of the valuations of the Nanning Hotel and the Beihai Hotel:

The Nanning Hotel

In arriving at the market value of the Nanning Hotel based on the DCF Model, the Valuer has adopted various bases and assumptions relying on its professional judgment, to arrive at the projection of future cash inflows (e.g. cash income based on certain levels of ADR and occupancy rate) and cash outflows (e.g. rooms and apartments, food and beverage costs) of the Nanning Hotel during the Evaluation Period. The projected future cash flows have been arrived at by making reference to the historical operational data of the Nanning Hotel and adjusting it for anticipated future growth. In particular, the assumed ADR for the year ending 31 March 2017 is approximately RMB542 (or approximately HK$678), with reference to ADR of the Nanning Hotel for the financial year ended 31 March 2015, and is expected to grow at 2.0% per annum (which is reference to the 2011 to 2015 average annual ADR growth rate of 5-star hotels in Nanning City, as published by the China National Tourism Administration) for the years ending 31 March 2018 and 2019, and is then subsequently expected to stabilise at an annual growth of 3.0% for the remainder of the Evaluation Period. According to our research, the 10-

year consumer price index in the PRC between 2006 and 2015, as disclosed on the website of the National Bureau of Statistics of China, represents an average annual growth rate of approximately 2.9%, which is close to the stabilised growth rate of 3.0% as adopted by the Valuer. The assumed occupancy rate is based on the actual occupancy rate for the year ended 31 March 2015, which will remain stable throughout the Evaluation Period. According to the Valuer, the discount rate used in the DCF Model of 10.0% falls within the normal range of discount rates adopted for similar hotel properties by the Valuer, which we consider reasonable.

The Beihai Hotel

In arriving at the market value of the Beihai Hotel using the sales comparison approach, the Valuer has collected and analysed comparable hotel transactions. Adjustments to the comparable hotel transactions were made to facilitate comparability. We were informed by the Valuer that there is an unused portion of the land parcel where the Beihai Hotel is erected, which relates to certain unused GFAs as permitted under the state owned land use right certificate of the Beihai Hotel (the "**Unused GFAs**"). In valuing the Beihai Hotel, the Valuer has also taken into consideration the Unused GFAs, which were valued with reference to comparable bare land transactions with the same land usage in Beihai City.

As mentioned above, the Valuer has also made reference to the cost approach. Under the cost approach, the Valuer assessed (i) the relevant land parcel portion with reference to the comparable bare land transactions, and (ii) the hotel building portion with reference to the construction costs of a hotel with similar features, with a discount for depreciation. The Valuer adopted equal weighting to both the sales comparison approach and the cost approach in arriving at the valuation of the Beihai Hotel.

We have visited the Real Properties, reviewed the Valuation Report, the underlying calculation bases to arrive at the Valuations, and discussed with the Valuer the methodologies of, and bases and assumptions adopted for, the Valuations. We note that the Valuer has also carried out physical inspections of the Real Properties and made relevant enquiries in the context of the Valuations. We have also performed work as required under note (1)(d) to Listing Rule 13.80 in relation to the Valuer, including interviewing the Valuer as to its experience and qualification, we have also reviewed its terms of engagement and discussed with the Valuer its work performed as regards the Valuations.

5. Evaluation of the consideration

a. Initial Consideration

The Initial Consideration is approximately HK$1.6 million. As set out in the section headed "Letter from the Board — The Divestment Agreement" in this circular, the Initial Consideration was calculated based on the unaudited management accounts of the Divestment Group as of 31 March 2015 before the management accounts were reviewed by the Company's auditors. Although such amount was agreed with reference to aggregate value of (i) the unaudited amount of Current Accounts Receivable as at 31 March 2015 and (ii) the unaudited combined net liabilities of the Divestment Group attributable to owners of the Divestment Group as at 31 March 2015, the Initial Consideration is in fact approximately HK$12.4 million higher than such aggregate value, calculated as follows:

		HK$ million
Initial Consideration	**A**	1.6
Current Accounts Receivable as at 31 March 2015		257.5
Less: Unaudited combined net liabilities of the Divestment Group attributable to owners of the Divestment Group as at 31 March 2015, as extracted from Appendix V to the Circular		(268.3)
	B	(10.8)
Difference	**A-B**	12.4

As shown above, the Initial Consideration is approximately HK$12.4 million higher than the aggregate value of the Current Accounts Receivable and the combined net liabilities of the Divestment Group attributable to its owners as at 31 March 2015. In the hypothetical scenario where the consideration of the Divestment is determined strictly based on such aggregate value, the consideration would be a negative figure. Further, we understand from the Company that the difference between the net liabilities of the Divestment Group as per the unaudited management accounts and the reviewed accounts of about HK$12.4 million represents mainly the provision of losses made in respect of the Divestment Group's investment in joint venture companies as at 31 March 2015 which is not reflected in the unaudited management accounts used by the Company in calculating the Initial Consideration. We consider such premium of HK$12.4 million in setting the Initial Consideration to be beneficial to the Independent Shareholders.

b. Adjustment Amount

As described in the sub-section headed "Principal Factors and Reasons Considered — 2. Key Terms of the Divestment Agreement — b. Consideration for the Divestment" in this letter, the Initial Consideration of approximately HK$1.6 million is subject to adjustments on (i) the revaluation surplus/discount on the Real Properties over/to their book values, and (ii) movements of the net balance of the Current Accounts Receivable from 31 March 2015 to the date of the Divestment Completion. In addition, a condition precedent to Divestment Completion is that all the SouFun ADS held by the Company as of the date of the Divestment Agreement had been transferred from the Company to Target 1. The SouFun ADS will be transferred to Target 1 at market price, and will be settled by Target 1 by way of a corresponding increase in Current Accounts Receivable or by way of a cash payment to the Company, prior to or upon Divestment Completion, as confirmed by the Company.

Except for the movement of the net balance of Current Accounts Receivable which could only be determined as at the date of the Divestment Completion, and assuming the market price of the SouFun ADS as at the Latest Practicable Date is used, the approximate adjustment to the Initial Consideration can be calculated as follows:

		HK$ million
The aggregate fair market value of the Real Properties *(Note 1)*	**A**	411.3
Less: the aggregate book value of the Real Properties *(Note 2)*	**B**	434.2
	C = A – B	(22.9)
Market value of the SouFun ADS held by the Company as at the Latest Practicable Date *(Note 3)*	**D**	4.9
Adjustment Amount, without taking into account further movement of the net balance of the Current Accounts Receivable	**C + D**	(18.0)

Notes:

(1) Representing the aggregate fair market value of the Real Properties attributable to the Group of approximately RMB345.6 million as at 31 March 2016, translated into HK$ at an exchange rate of RMB1.00 = HK$1.19

(2) Representing the aggregate book value of the Real Properties (including any related leasehold improvement) as at 31 March 2015 (a) held by members of the Divestment Group of approximately HK$312.2 million forming part of "Property, plant and equipment" in the Company's audited accounts for the financial year ended 31 March 2015; and (b) held by a 26.7%-owned joint venture of the Divestment Group of approximately HK$122.0 million

calculated based on the management accounts of such joint venture and included under "Interests in joint ventures" in the Company's audited accounts as at 31 March 2015. As confirmed with the Company, there has been no addition or disposal of the Real Properties from 31 March 2015 to 31 March 2016, the valuation date

(3) Representing the market value of the SouFun ADS of US$5.11 per share as extracted from Bloomberg, multiplied by the 125,000 SouFun ADS held by the Group, and translated into HK$ at an exchange rate of US$1.00 = HK$7.75. The adjustment assumes the transfer of SouFun ADS will be settled by way of a corresponding increase in the Current Accounts Receivable

The above calculation effectively adjusts the consideration for the Divestment to reflect the aggregate fair value of the Real Properties as at 31 March 2016 as set out in the Valuation Report and the transfer of the SouFun ADS. Details of our analysis on the Valuation Report is set out in the sub-section headed "Principal Factors and Reasons Considered — 4. Valuation of the Real Properties" in this letter. As the Adjustment Amount of approximately negative HK$18.0 million is higher than the Initial Consideration of HK$1.6 million, the adjusted consideration for the Divestment would be $1 under the above scenario.

As disclosed in the sub-section headed "Principal Factors and Reasons Considered — 3. Information on the Divestment Group — Financial Information of the Divestment Group" in this letter, the Divestment Group has been loss making in recent years, with a net liabilities position of approximately HK$271.0 million as at 31 December 2015. The operation and financing of the Divestment Group relied heavily on the continuing financial support from the Company, the principal banks of the Divestment Group and related companies held by Mr. Mo. Due to the material uncertainty relating to the going concern basis, the auditors of the Company have expressed a disclaimer of conclusion on their review report in respect of the unaudited financial information of Divestment Group for the nine months ended 31 December 2015. Should the Divestment Group remain with the Group, and in the event that the Divestment Group would not be able to meet its financial obligation and run into financial difficulties in the future, the Company, not only being a shareholder but also a creditor of the Divestment Group (to the amount of approximately HK$256.7 million, as at 31 December 2015), may also suffer from the effect of any deferral or default in payment from the Divestment Group.

We note that the market capitalisation of the Company was approximately HK$2.0 billion as at the Last Trading Day, but, on an "undisturbed" basis, was approximately HK$226.0 million on 22 April 2015, being the day before a period of substantial increases in the Share price prior to the publication of the Initial Announcement on 8 June 2015. As set out above, the Divestment consideration has been set with regard to the combined net liabilities of the Divestment Group and the amount of the Current Accounts Receivable as at 31 March 2015, to be adjusted for any changes in the value of the Real Properties and movements of the net balance of the Current Accounts Receivable upon Divestment Completion. Even when the underlying net asset value of a business is negative, the market capitalisation cannot be negative and will always incorporate some "hope value". The Divestment consideration was not set with regard to the market capitalisation of the Company.

The Share price may be effected by market speculation, particularly considering that the trading volume of the Shares has historically been low. Given the concerns in relation to evaluating the terms of the Divestment, in particular, the Initial Consideration, with reference to the market capitalisation of the Company, as set out above, we have assessed the consideration for the Divestment based on, among others, the financial position of the Divestment Group and its recent financial performance and prospects, including the fact that the Divestment Group was in a net liability position, and the Initial Consideration represented a premium over the sum of the net liabilities of the Divestment Group and the amounts owed by the Divestment Group to the Company, as set out in the section headed "Initial Consideration".

Given that (i) the Initial Consideration takes into account that the latest available financial position of the Divestment Group when the Divestment Agreement was entered into, and that the HK$12.4 million premium in setting the Initial Consideration is beneficial to the Independent Shareholders, (ii) the Adjustment Amount reflects the aggregate fair value of the Real Properties, as set out in the Valuation Report, (iii) the Adjustment Amount also takes into account the effective divestment of the SouFun ADS at market value, and any further movements of the net balance of the Current Accounts Receivable before and up to Divestment Completion, (iv) the Divestment Group being loss making for each of the three years ended 31 March 2013, 2014 and 2015 and the nine months ended 31 December 2014 and 2015, with a net liabilities position as at 31 December 2015, and the operation and financing of the Divestment Group having relied heavily on the continuing financial support from the Company, the principal banks of the Divestment Group and related companies held by Mr. Mo, (v) Target 2 and it subsidiaries not conducting any business operations, and (vi) the limited prospects of the Divestment Group in general, as summarised in the sub-section headed "Principal Factors and Reasons Considered — 3. Information on the Divestment Group" in this letter, we consider the consideration for the Divestment to be fair and reasonable.

6. Financial effects of the Divestment

Following the Divestment Completion, Target 1 and Target 2 will cease to be subsidiaries of the Company. As such, the operating results and the financial position of the Divestment Group will no longer be consolidated into the financial statements of the Group following the Divestment Completion. As the Divestment Completion would not occur without the Acquisition Completion, the Group will, following the Divestment, enter into a new principal business though the Acquisition, namely, upstream oil exploration, development and production.

The analyses on the financial effects below reference the unaudited pro forma financial information of the Restructured Group in Appendix VI to the Circular, which has included the financial effects of the Transfer and other elements of the Transactions and has been prepared for illustrative purpose only based on certain assumptions as set out therein. For example, it assumes the consideration of the Divestment to be the Initial

Consideration of approximately HK$1.6 million, whereas the final consideration is subject to the Adjustment Amount. The actual financial effects of the Divestment to the Group can only be determined upon Divestment Completion.

Please note that sub-sections (a) to (c) below make reference to the pro forma financial effects of the Divestment only, as exhibited in the relevant adjustment columns, while sub-section (d) analyses the overall financial effects of the Transfer and the Transactions.

a. Earnings

The Group's current principal, loss making business, being the hotel and restaurant operations in the PRC, will have been divested after the Divestment Completion.

As set out in note 2 to the unaudited pro forma financial information of the Restructured Group, based on the pro forma adjustments in relation to the Divestment, had the Divestment completed on 30 September 2015, the estimated gain from the Divestment would be approximately HK$42.2 million, calculated based on the Initial Consideration, the unaudited combined net liabilities of the Divestment Group attributable to owners of the Divestment Group, the unaudited aggregate amount of the Current Accounts Receivable due from the Divestment Group, and the exchange fluctuation reserve relating to the Divestment Group.

b. Net asset value

As at 30 September 2015, capital deficiency attributable to owners of the Company was approximately HK$121.3 million. As set out in the unaudited pro forma financial information of the Restructured Group, based on the pro forma adjustments in relation to the Divestment, the net liability position of the Restructured Group attributable to owners of the Company would decrease by approximately HK$16.8 million as a result of the Divestment Completion (excluding the effect of relevant transaction-related costs).

c. Working capital

As at 30 September 2015, the Group had bank balances and cash of approximately HK$1.2 million. As set out in the unaudited pro forma financial information of the Restructured Group, based on the pro forma adjustments in relation to the Divestment, the bank balances and cash of the Restructured Group would increase by approximately HK$7.7 million, as a result of the Initial Consideration and proceeds from disposal of the SouFun ADS to be received by the Group.

d. Financial effects of the Transfer and the Transactions

Upon completion of the Transfer and the Transactions, the operating assets and liabilities of the Restructured Group will principally represent those of the PRC Target. For the financial year ended 31 March 2015, the Group recorded a loss of approximately HK$234.9 million, whereas the Restructured Group would record a loss of approximately HK$527.4 million according to the unaudited pro forma financial information. The significant loss on the pro forma basis is principally due to the recognition of estimated listing expenses of approximately HK$278.3 million which are one-off notional accounting expenses recognised. Upon completion of the Transactions, it is also expected that the original net liability position of the Group would turn into a net asset position of approximately HK$2,208.8 million, principally as a result of the Subscription, which will enlarge the equity base of the Restructured Group.

As regards working capital, the bank balances and cash of the Restructured Group is expected to be increased to approximately HK$279.1 million due to the significant cash injection as a result of the partial receipt of subscription monies for the Subscription, offset by payment of the consideration for the Acquisition and taking into account transaction costs.

OPINION AND RECOMMENDATION

In summary, in reaching our opinion and recommendation, we have considered the above principal factors and reasons, in particular:

- the Divestment Group's unsatisfactory operating results in recent years, its net liability position and the fact that the operation and financing of the Divestment Group relied heavily on the continuing financial support from the Company, related companies controlled by Mr. Mo and the principal banks of the Divestment Group;
- the Divestment Group's limited prospects in the next two or three years, given the uncertainty as to future performance;
- the Initial Consideration representing a premium over the sum of the net liabilities of the Divestment Group and the amounts owed by the Divestment Group to the Company; and
- the Adjustment Amount to be determined upon Divestment Completion taking into account (i) the valuations of the Real Properties and as such reflecting the fair value of the Divestment Group's property interests, (ii) the disposal of the SouFun ADS at market value, and (iii) any other movement of the Current Accounts Receivable up to the date of Divestment Completion.

Having taken into account the principal factors and reasons set out in our letter, we consider that the Divestment is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the entering into of the Divestment Agreement, while not in the ordinary and usual course of business of the Company because of its "one off" nature, is nevertheless in the interest of the Company and the Shareholders as a whole. We therefore recommend, and advise the Independent Board Committee to recommend, the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Divestment.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

M. N. Sabine *Chairman*

John Wong *Director*

Mr. M. N. Sabine is a licensed person registered with the SFC and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over thirty years of experience in the corporate finance industry.

Mr. John Wong is a licensed person registered with the SFC and a responsible officer of Somerley Capital Limited. He has over seven years of experience in the corporate finance industry.

This circular contains forward-looking statements that state the intentions, beliefs, expectations or predictions of the Group, the PRC Target and the Restructured Group for the future that are, by their nature, subject to significant risks and uncertainties, including the risk factors described in this circular. These forward-looking statements include all statements in this circular that are not historical facts, including, without limitation, statements relating to:

- the Restructured Group's operations and business prospects;
- the Restructured Group's strategies, plans, objectives and goals and its ability to implement such strategies and achieve its plans, objectives and goals;
- the Restructured Group's future capital needs and capital expenditure plans;
- the amount and nature of, and potential for, future development of the Restructured Group's business;
- the Restructured Group's continual review of its operation and strategy;
- prospective financial matters regarding the Restructured Group's business, results of operations and financial condition;
- the future developments, trends and conditions of the oil and gas industry;
- the regulatory environment relating to, and the general industry outlook for the oil and gas industry in the PRC; and
- the general political and economic environment in the PRC.

When used in this circular, the words 'aims', 'anticipate', 'believe', 'could', 'estimate', 'expect', 'going forward', 'intend', 'may', 'ought to', 'plan', 'project', 'seek', 'should', 'will', 'would' and similar expressions, as they relate to the Group, the PRC Target and/or the Restructured Group, are intended to identify forward-looking statements. However, all statements in this circular other than statements of historical fact are forward-looking statements. Such forward-looking statements reflect the views of the management of the Group, the PRC Target and/or the Restructured Group (as the case may be) as at the date of this circular with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this circular. Although the Directors believe that the expectations reflected in such forward-looking statements are reasonable, actual results and events may differ materially from information contained in the forward-looking statements as these statements are subject to uncertainties and assumptions, some of which are beyond the control of the Directors. Should one or more of these uncertainties materialise, or should the underlying assumptions prove to be incorrect, the results of operations and financial condition of the Group, the PRC Target and/or the Restructured Group may be adversely affected and may vary materially from those described herein as anticipated, believed or expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. Moreover, the inclusion of forward-looking statements should not be regarded as representations by the Company that its plans and objectives will be achieved or realised.

The forward-looking statements in this circular reflect the views of the management of the Group as of the date of this circular and are subject to change in light of future developments. Subject to the requirements of the Listing Rules and the Takeovers Code, the Company does not intend to update or otherwise review the forward-looking statements in this circular, whether as a result of new information, future events or otherwise.

You should carefully consider the following risk factors together with all other information contained in this circular in considering the Transactions. The occurrence of any of the following events or factors described below could materially and adversely affect the business, financial condition, results of operations and prospects of the Restructured Group. If these events occur, the trading price of the Shares could decline and you may lose all or part of your investment. The risks and uncertainties described below may not be the only ones that are faced by the Restructured Group. Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial may also adversely affect the Restructured Group's business, financial condition, results of operations and prospects.

RISKS RELATING TO THE TRANSACTIONS

Completion of the Transactions is subject to the fulfillment of conditions precedent and there is no assurance that they can be fulfilled and/or the Transactions will be completed as contemplated.

A number of the conditions precedent to the completion of the Transactions involve the decisions of, and compliance with applicable laws and regulations by, third parties, including approval by the Stock Exchange for the issue of the Ordinary Subscription Shares and the New Conversion Shares, the Stock Exchange's approval for the deemed new listing in respect of the Acquisition, consent of the Executive to the Divestment, approvals by the Independent Shareholders at the SGM and registration by certain Subscribers and their respective shareholders or investors who are PRC domestic residents in accordance with the SAFE Circular. These conditions precedent and legal compliance requirements are set out in the section headed "Letter from the Board" in this circular and in this section below. As fulfillment of these conditions precedent is not within the control of the parties involved in the Transactions, there is no assurance that the Transactions will be completed as contemplated, or at all.

The Restructured Group will record a substantial amount of listing expenses in the financial year when the Transfer and the Transactions complete, which is expected to be the financial year ending 31 March 2017.

The Independent Shareholders shall pay particular attention that substantial deemed listing expenses are expected to be recognised in the consolidated income statement of the Restructured Group upon the S&P Completion and the completion of the Transactions. Details of the basis of the deemed listing expenses are set out in note 8 to the unaudited pro forma financial statements of the Restructured Group as set out in "Appendix VI — Unaudited Pro Forma Financial Information of the Restructured Group" to this circular. As set out in the unaudited pro forma financial statements of the Restructured Group, assuming that the Transfer and the Transactions were completed on 30 September 2015, the deemed listing expenses are estimated to be approximately HK$278.3 million, which represents 1.2 times of the loss attributable to the owners of the Company for the year ended 31 March 2015 and 9.5 times of the loss attributable to the owners of the PRC Target for the year ended 31 December 2015, and the Restructured Group's loss for the year is estimated to be approximately HK$527 million.

Whilst such deemed listing expenses are notional expenses without any impact on the Restructured Group's net assets and cash flow, they would have a material adverse impact on the Restructured Group's results for the year ending 31 March 2017 (assuming that the Transfer and the Transactions will be completed that year based on the present estimated timetable).

The Restructured Group is also expected to incur a material amount of professional and other expenses in relation to the Transactions.

The Restructured Group is estimated to incur total professional and other expenses in cash in relation to the Transfer and the Transactions of approximately HK$60 million, which will be charged to the Company's profit or loss for the year ending 31 March 2017, assuming the Transactions will be completed on or before 31 March 2017.

The shareholdings of the existing Shareholders will be diluted following the issue of the Ordinary Subscription Shares and upon conversion of the Convertible Bonds, Convertible Note or the Preferred Shares, and any value enhancement of the Shares as a result of the Transactions may not offset the dilutive effect on the shareholdings of the existing Shareholders.

As a result of the Subscription and the CN Subscription, the Existing CB Conversion Price will be adjusted to the Adjusted CB Conversion Price, resulting in an increase in the total number of CB Conversion Shares that may be converted into after the adjustment. Pursuant to the Subscription Agreement entered into between the Company and the Subscribers, the Company will issue and allot the Ordinary Subscription Shares and the Preferred Shares to the Subscribers. Pursuant to the CN Subscription Agreement, the Company will issue the Convertible Note to League Way. The Convertible Bonds, the Preferred Shares and the Convertible Note are convertible into New Conversion Shares.

As a result, the shareholding percentages of the existing Shareholders in the Company will be diluted when the Company issues the Ordinary Subscription Shares and will be subject to dilution as the Convertible Bonds, the Preferred Shares or the Convertible Note are converted into Ordinary Shares. Any value enhancement of the Ordinary Shares as a result of the Transactions may not necessarily be reflected in their market price and may not offset the dilutive effect to the Shareholders.

The Acquisition involves the acquisition of an oil-related business which is entirely different from the existing business of the Company and the future direction of the Company will focus on oil-related opportunities.

The Company is currently principally engaged in the hotel and restaurant business through the Divestment Group. Upon completion of the Transactions, the Restructured Group will no longer be engaged in the existing hotel and restaurant business carried on through the Divestment Group and will principally be engaged in the new business of the exploration, development and production of crude oil in the PRC through the PRC Target.

The new business of the exploration, development and production of crude oil in the PRC to be carried on by the Restructured Group after the completion of the Transactions differs entirely from the business of the Company at present. Existing Shareholders should take care to understand the new business of the Restructured Group, which may involve risks entirely different from those faced by a company involved in the hotel and restaurant business. Previous familiarity with the Company and its business may not be sufficient to fully understand the material risks involved in investing in an oil-related business.

Upon exercise of the Option, the Company may be considered a cash company by the Stock Exchange and trading in the Shares may be suspended.

The Offeror has granted to the Company an option (the "**Option**"), pursuant to which the Company may require the Offeror to purchase the entire equity interest in the PRC Target upon the occurrence of certain triggering events within the two years after the completion of the Acquisition. There is no guarantee that the Company will have any other substantial business or operating assets outside of the PRC Target at the time of any exercise of the Option.

Under Rule 14.82 of the Listing Rules, where the assets of a listed issuer consist wholly or substantially of cash or short-dated securities, the Stock Exchange will consider such issuer unsuitable for listing, and trading in its shares will be suspended. Under Rule 14.84 of the Listing Rules, such a listed issuer may apply for the suspension to be lifted when it has a business suitable for listing. Such application will be treated as a new listing application by the Stock Exchange.

If, upon completion of the disposal pursuant to the exercise of the Option, the Stock Exchange considers that the Company's assets consist wholly or substantially of cash or short-dated securities, trading in the Shares may be suspended. The value of and liquidity in the Shares may be adversely affected as a result. If the Company were required to submit a new listing application in order to lift such a suspension, the Company may incur a material amount of professional and other expenses, and there is no guarantee that such an application would be granted on a timely basis or at all.

RISKS RELATING TO THE PROPOSED INVESTMENT IN THE PRC TARGET AND TO BUSINESS AND INDUSTRY OF THE RESTRUCTURED GROUP

The Restructured Group's business operations depend on the EPCC with Yanchang. If the Restructured Group fails to maintain a continued good working relationship with Yanchang, or if Yanchang changes its intention and decides to enforce its right to terminate the EPCC, the Restructured Group's business, financial condition and results of operations may be materially and adversely affected.

The Restructured Group's business operations relies on the EPCC entered into between the PRC Target and Yanchang in respect of the exploration and development of the Area, which is the sole concession that the PRC Target is working on. The Restructured Group's cooperation right to engage in upstream crude oil exploration, development and production in the Area is granted under the EPCC. The current EPCC expires on 30 June 2018.

The success of the Restructured Group's business depends on its relationship with Yanchang. However, we cannot assure you that the Restructured Group will be able to continue to maintain a good working relationship with Yanchang. If the Restructured Group experiences any material disagreement with Yanchang, the Restructured Group's working relationship with Yanchang may be adversely affected.

The PRC Target's success to date is driven by its performance in the Area, which accounts for the entirety of its revenue in the Track Record Period and up to the Latest Practicable Date. The EPCC requires the PRC Target to meet certain requirements such as payment of the revenue sharing monies, a minimum yearly investment amount, record-keeping and reporting. Due to the PRC Target's tightening liquidity and cash management, as of 31 December 2015, about RMB74.2 million of revenue sharing monies payable by the PRC Target to Yanchang under the EPCC were due and remain outstanding (as further detailed in the section headed "History and Business of the PRC Target — Relationship with Yanchang" in this circular), which is not in accordance with the terms of the EPCC. As a result of these overdue amounts payable to Yanchang, Yanchang has the right to terminate the EPCC before expiry. Yanchang has not set a timetable for the repayment of the outstanding payments as at the Latest Practicable Date and renewed the EPCC in 2015 and again in 2016 despite the overdue outstanding payments. Yanchang further confirmed in the Second Confirmation Letter that it will not terminate the EPCC as a result of the overdue payment. However, there is no guarantee that Yanchang will not change its intention. If Yanchang changes its intention and decides to enforce its right under the EPCC, the Restructured Group will no longer be able to explore and exploit the oil resources in the Area, and the Restructured Group's prospects and profitability will be materially adversely affected. In addition, any failure or undue delay by Yanchang to comply with the terms of the EPCC, or its unwillingness to cooperate with the Restructured Group for any reason, may also have a material adverse impact on the success of the Restructured Group's operations.

Furthermore, Yanchang has confirmed that it will renew the EPCC upon its expiry and further confirmed that it will not terminate the EPCC as a result of the overdue payment, on the condition that the PRC Target has performed its obligations under the EPCC. There is, however, no assurance that Yanchang will not breach its obligations. There is also no assurance that Yanchang will not decide to terminate the EPCC before expiry or refuse to subsequently renew the EPCC. If Yanchang terminates or does not renew the EPCC, there is no assurance that the Restructured Group will be able to secure another production sharing arrangement in a timely manner, on terms similar and not less favorable than the terms in the EPCC, or at all. This may materially adversely affect the PRC Target's prospects.

If the Restructured Group and/or Yanchang fails to obtain or maintain all required licences, permits and approvals including but not limited to the use of land with only temporary land use rights, or if they are required to take actions in order to obtain such licences, permits and approvals which are time-consuming or costly, the Restructured Group's business operations and development plans may be materially and adversely affected.

Oil operations such as the Restructured Group's are subject to different licences, permits and approvals in the PRC. Please refer to "Appendix II — Regulatory Overview" to this circular and the section headed "History and Business of the PRC Target — Regulatory Compliance" in this circular for further details. In particular, the Restructured Group's projects and any expansion plans are subject to extensive government review and approval via the requirement to obtain exploration permits and production permits. The Restructured Group's ability to continue to conduct its existing operations and to successfully implement its expansion strategies is dependent on it and Yanchang obtaining, maintaining, and renewing, where necessary, the relevant regulatory approvals under PRC law, including but not limited to exploration permits, production permits, workplace safety approvals and land use rights. If the Restructured Group or Yanchang fails to obtain or renew such approvals on a timely basis or at all, the Restructured Group may be subject to fines, ordered to take corrective measures, or subject to other administrative penalties. The Restructured Group may even be prohibited from continuing or expanding its operations due to a failure to obtain or renew such approvals, and it may have to expend considerable time and costs to rectify the situation and sustain its business.

Production permits are one of the key licences that the Restructured Group requires Yanchang to obtain and be granted. It is currently anticipated by the management of the PRC Target that Yanchang will be granted a production permit for Unit 2 and Unit 19 of Block 212 for a term of 20 years in line with the PRC Target's understanding of the current related laws and practice in the PRC. Further development and investment plans in respect of Block 212 by the PRC Target, the financial information on the PRC Target as set out in this circular (including the audited financial statements in "Appendix III — Accountants' Report on the PRC Target" to this circular), the reserve estimate in the Independent Technical Report and the fair market value stated in the Competent Evaluator's Report all rely on this assumption. If there is any unfavourable change to the related laws and practice, or for any other reasons, the production permit granted to Yanchang is materially shorter than 20 years, whilst it can usually be renewed upon expiry, there is no guarantee for such renewal, and the financial and trading position and prospects of the PRC Target, like the investment return, valuation, carrying value of the oil and gas properties and cooperation right with Yanchang and the related depreciation and depletion charges will materially and adversely be affected.

The PRC Target is entitled to use various parcels of land in the Area pursuant to rights granted by relevant PRC land administration authorities. The approximately 739,973.44 m^2 of agricultural land upon which the PRC Target's oil wells are built in Block 212 is used pursuant to temporary land use rights held by the PRC Target. Failure to renew such rights in whole or in part will adversely affect the Restructured Group's ability to conduct development and production in Block 212. There is no assurance that the Restructured Group or Yanchang will be able to renew the temporary land use rights. In the event that the Restructured Group loses the right to use any or all of the land subject to temporary land use rights, the Restructured Group may be required to restore the land and return it to its original users. If the Restructured Group is unable to use these parcels of land for exploration and/or production of crude oil, there may be an adverse impact on the Restructured Group's expansion plans and future profitability.

Crude oil development has inherent uncertainties and risks, and the Restructured Group's projects may not progress within expected timeframes or budgets or achieve commercial viability or the intended economic results.

The Restructured Group's ability to achieve its growth objectives is dependent in part on its level of success in implementing its development plan to achieve commercial production in certain areas of Block 212. The Restructured Group's development plan would expose it to inherent risks associated with crude oil development, including the risk that existing proved reserves are not as productive as originally estimated, or that no additional economically productive oil reservoirs will be discovered in the Area. This inherent risk is increased by the low porosity and permeability of the oil reservoirs in the Area. Developing additional reserves is a highly capital-intensive activity, and there is no assurance that the substantial investment envisaged in the Restructured Group's development plan will produce a significant return or any return at all. In particular, during the Track Record Period, the PRC Target recorded net losses for the three years ended 31 December 2015. There is no guarantee that the development plan will allow the PRC Target to record a net profit in the future and the investment involved in the development plan could instead contribute to further losses. The significant investment required for the Restructured Group's development plan may adversely affect the Restructured Group's financial condition or results of operations before any returns can be realised.

Crude oil reserves are finite, and the rate of recovery from any given crude oil reserves will decline over time. As a result, the Restructured Group will endeavour to maximise recovery from its probable and possible reserves, migrate resources into reserves and locate additional reserves. However, without successfully migrating resources into reserves, locating additional reserves within the Area or acquiring new reserve bases through acquisitions or new production sharing contracts, the Restructured Group's net reserves and net production will decline over time, which would materially and adversely affect its results of operations and financial condition.

The Restructured Group's results of operations and potential value are affected by the volatility of global crude oil prices.

The Restructured Group's results of operations will be significantly affected by crude oil prices. Throughout the Track Record Period, the selling price of the PRC Target's crude oil closely followed certain local and international market prices, including Daqing crude oil, Liaohe special crude oil and Brent Crude. International prices for crude oil have fluctuated widely in recent years in response to changes in the supply of and demand for oil, market uncertainty and a variety of additional factors that are beyond the Restructured Group's control, including developments in alternative energy technologies that may reduce the demand for crude oil, political developments in petroleum-producing regions, the ability of the OPEC and other petroleum-producing nations to set and maintain production levels and prices, the price and availability of other energy sources, such as coal, domestic and foreign government regulation, and overall economic conditions. Between January 2015 and April 2016, the price of Brent Crude ranged from a high of approximately US$68 per barrel (equivalent to approximately RMB443.4 per barrel) (on 6 May 2015) to a low of approximately US$26 per barrel (equivalent to approximately RMB169.5 per barrel) (on 20 January 2016). The PRC Target does not and the Restructured Group will not have control over the factors affecting domestic and international prices for crude oil. There is no guarantee that domestic and international prices for crude oil will be stable, and any future declines in domestic and international prices for crude oil will reduce the Restructured Group's revenue.

If the price of crude oil drops further and remains low for a longer period of time, the development plan of the PRC Target may also be delayed and adversely affected.

In addition, it should be noted that the reserves estimation in Block 212 and the NPV estimates and fair market valuation of the PRC Target's working interest in Block 212 as set out in the Independent Technical Report and the Competent Evaluator's Report depend on the long term market price of crude oil gradually picking up and increasing. Long term unfavourable market price of crude oil will impose additional uncertainty on the reserves estimate and thus the estimated NPV and fair market value of the PRC Target's working interest in the Area. In particular, the Competent Person's/Competent Evaluator's post-tax NPV estimate attributable to the PRC Target's proved and probable reserves (at a 10% discount rate) drops from:

- US$169 million (equivalent to approximately RMB1,112 million) under the US$90 per barrel (equivalent to approximately RMB586.8 per barrel) case, to

- US$115 million (equivalent to approximately RMB757 million) under the base case oil price scenario, to

- US$82 million (equivalent to approximately RMB540 million) assuming an average 2016 oil price of US$32 per barrel and escalating thereafter (the PRC Target's lowest selling price of crude oil since 2013 was RMB208.7 per barrel (equivalent to US$32 per barrel), which represents the actual selling price per barrel received from the Customer, and assuming a 10% cost reduction by the PRC Target and drilling scheduled for commencement in 2016 delayed to 2018), and further drops to

- negative US$22 million (equivalent to approximately negative RMB145 million) assuming a constant oil price of US$26 per barrel (equivalent to approximately RMB169.5 per barrel) (being the lowest Brent Crude since 1 January 2016) and at which point, recovery of the PRC Target's undeveloped crude oil in Block 212 could become economically unviable.

The Competent Person's/Competent Evaluator's analysis of the above is set out in full in the Independent Technical Report in Appendix VII to this circular and the Competent Evaluator's Report in Appendix VIII to this circular. Please also refer to the sub-section headed "Risk Relating to Business and Industry of the Restructured Group — The Crude Oil Reserve

Data in this Circular are Only Estimates and the Actual Production, Revenue and Expenditures with respect to the PRC Target's Net Reserves under the EPCC May Differ Materially from these Estimates" in this section.

Under HKFRS, the Restructured Group's accounting of units-of-production method for depreciation, depletion and amortisation is based on the reserve as defined in the PRMS. The Restructured Group applies the units-of-production rates based on net proved developed producing oil reserves estimated to be recoverable from existing facilities in accordance with the terms of the EPCC.

Estimated proved reserves are important elements in determining the depreciation of capitalised development costs. Crude oil prices will affect the calculation of the Restructured Group's net reserves and in return have an impact on depreciation and amortisation for property, plant and equipment related to oil production.

If crude oil prices increase in the future, the costs of materials and well drilling services may increase beyond the Restructured Group's anticipation as a result of higher demand, which will materially and adversely affect its capital expenditures and results of operations.

Yanchang controls, to a significant extent, the amount of the Restructured Group's sales through its right to designate customers and the influence it is entitled to over the management of the Area. If the Restructured Group's sales of crude oil are reduced, its business, financial condition and results of operations may be materially and adversely affected.

Under the EPCC, the PRC Target shall sell all crude oil produced by the PRC Target in the Area to customer(s) designated by Yanchang. Up to the Latest Practicable Date, all of the PRC Target's crude oil sales have been made to a single customer designated by Yanchang. There are risks associated with the concentration of business on a single customer. There is no assurance that this customer will continue to purchase the Restructured Group's crude oil in the future in the same quantity, for example in the event that the customer's operation or financial position deteriorates. The Restructured Group may not have adequate or sufficient storage capacity for unsold crude oil if Yanchang's designated customer(s) significantly reduces or discontinues its purchases of crude oil from the PRC Target for any reason. If Yanchang designates a new customer for the Restructured Group, there is no assurance that such new customer would purchase the same quantity of crude oil from the Restructured Group, or on similar and not less favorable terms.

Yanchang remains entitled to a right of review over the development and production plans for the Area. Yanchang may choose to curtail the Restructured Group's production or sales and materially and adversely affect its results of operations.

If the net production of crude oil decreases, the Restructured Group's business, financial condition, and results of operations may be materially and adversely affected, for example by a reduction in revenue.

The PRC Target's operations are limited to a single project in a limited geographical area.

During the Track Record Period, the PRC Target generated all its revenue from the oil produced in Block 212, and Block 212 accounts for all the proved and probable reserves in the Area. There is no guarantee that the remainder of the Area contains any crude oil. If the Restructured Group is unable to locate further reserves in the Area, or to secure revenue from other projects outside of the Area, its financial condition and results of operation could potentially be affected.

As of the Latest Practicable Date, all of the PRC Target's gross proved crude oil reserves were located in Inner Mongolia, the PRC. The geographic concentration of these oil reserves exposes the Restructured Group's business to natural disasters and other acts of God, in a single area which could adversely affect the development or production of the Restructured Group's crude oil, such as catastrophically damaging pipelines or reservoir structures or otherwise causing damage or disruption to the Restructured Group, its employees or its facilities, any of which could materially impact its sales, cost of sales, overall operating results and financial condition.

The Restructured Group's operations may be adversely affected by global and domestic economic conditions.

The Restructured Group's results of operations will be materially affected by economic conditions in China and elsewhere around the world. The oil and gas industry is sensitive to macroeconomic trends as oil prices tend to decline in recessionary periods. Substantially all of the Restructured Group's revenue will be derived from the sale of crude oil in the PRC. A global recession or an economic downturn in the PRC, as well as uncertainties regarding the future economic prospects of the PRC or major economies in the world, could depress oil prices, and would likely have an adverse effect on the Restructured Group's results of operations and financial condition. For example, partly as a result of the decreasing and volatile crude oil price in 2014 and 2015, the PRC Target did not drill any new wells in 2014 and 2015. Turbulence in the international energy markets, as well as any slowdown of economic growth in the PRC, may adversely affect the Restructured Group's liquidity and financial condition, including its ability to access the capital markets to meet liquidity needs.

Uncertainty regarding the terms of the agreements governing the sale of the PRC Target's crude oil may negatively affect the Restructured Group's business, financial condition and results of operation.

The PRC Target is entrusted by Yanchang to sell crude oil on Yanchang's behalf. The current crude oil sales agreement ("**Current Agreement**") was entered into between Yanchang and the Customer in 2014, under which the PRC Target was to sell crude oil on behalf of Yanchang. Prior to the Current Agreement, the sale of the PRC Target's crude oil was governed by an agreement between the PRC Target and the Customer, signed in 2013 ("**Previous Agreement**"), which was not superseded by the Current Agreement.

As the PRC Target is not a party to the Current Agreement, there is a risk that it cannot prevent amendments to the contract terms that may be adverse to it, which could be made by Yanchang and the Customer without the PRC Target's involvement. The PRC Target would be bound by any new contract terms that make its role as seller more onerous, such as bearing expenses which it did not bear before, which would increase the PRC Target's cost of sales. This may then affect the operation and prospects of the Restructured Group.

In addition, notwithstanding the signing of the Current Agreement in 2014, the PRC Target continued to follow the terms of the Previous Agreement. There are currently immaterial discrepancies between the Current Agreement and the Previous Agreement. Whilst during the Track Record Period, Yanchang had not strictly enforced its rights under any of the terms of the Current Agreement that differ from those in the Previous Agreement, in the event that Yanchang chooses to strictly enforce such rights, or, whilst Yanchang has confirmed that it will not easily amend the Current Agreement and damage the interest of the PRC Target, if the Current Agreement is amended such that it materially differs from the terms of the Previous Agreement and if the amended terms are unfavourable to the Restructured Group, there could be a risk of a legal dispute regarding which terms validly govern the sale of the PRC Target's crude oil. If the court interprets the terms differently than the PRC Target's actual practice, the Restructured Group's business, financial condition and results of operation may be adversely affected.

The crude oil reserve data in this circular are only estimates and the actual production, revenue and expenditures with respect to the PRC Target's net reserves under the EPCC may differ materially from these estimates.

The oil reserve estimates are important data to the Restructured Group for making future development and production plans and estimating its expected recovery of operating costs incurred and revenue sharing monies. The crude oil reserve data in this circular are only estimates of underground conditions which cannot be measured with total certainty. The reliability of reserve estimates depends on the following factors, some of which are beyond the Restructured Group's control and may fluctuate or prove to be incorrect over time:

- the quality and quantity of technical and economic data;
- the prevailing oil prices applicable to the Restructured Group's net production;
- the production performance of the reservoirs;
- estimate of future costs;
- extensive engineering judgments; and
- consistency in the PRC government's oil policies.

There are numerous uncertainties inherent in estimating quantities of proved oil reserves, and in the timing of development expenditures and the projection of future rates of production. Adverse changes in economic conditions may render it uneconomical to develop certain reserves. The Restructured Group's actual production, revenues, taxes and fees payable and development and operating expenditures with respect to its net reserves may likely vary from these estimates. Results of drilling, testing and production after the date of the estimates may require substantial upward or downward revisions in the reserve data. The Restructured Group's actual production, revenues and expenditures with respect to its net reserves may differ materially from these estimates because of these revisions. In addition, the PRC Target's reserves have been estimated on the basis that the price of crude oil produced in Block 212 will follow a particular relationship with Brent Crude over time. In the event that this basis is inaccurate or incorrect, this may also cause the Restructured Group's actual production, revenues and expenditures with respect to its net reserves to differ materially from the PRC Target's reserve estimates.

Control or significant influence by the Offeror may limit your ability to affect the outcome of decisions requiring the approval of the Shareholders.

Immediately after the completion of the Transactions, the Offeror will own approximately 51.01% of the then issued share capital of the Company and will be the controlling shareholder of the Company. Mr. Wang, Lee Khay Kok, Lin Dongliang (林棟梁) and Shong Hugo (熊曉鴿), who will become executive Director (and chief executive officer), executive Director (and chief engineer), non-executive Director and non-executive Director respectively of the Company after completion of the Transactions, and hold various interests and/or directorships in the Offeror and the Offeror's ultimate shareholders, will have significant control over the Restructured Group's business, including matters relating to its management and policies and certain matters requiring the approval of the Shareholders, such as election of Directors, approval of significant corporate transactions including mergers, consolidations and the sale of all or substantially all of the Restructured Group's assets, and the timing and distribution of dividends. The Offeror could potentially approve actions that require a majority vote at shareholder meetings which may not be in the best interests of other Shareholders. To the extent the interests of Mr. Wang, Lee Khay Kok, Lin Dongliang (林棟梁), Shong Hugo (熊曉鴿) and the Offeror conflict with the Restructured Group's interests and those of its other Shareholders, the Company and its other Shareholders may be disadvantaged or harmed and the Restructured Group's business may be materially adversely affected as a result.

The concentration of ownership may discourage, delay or prevent a change in control of the Restructured Group, which could deprive the Shareholders of an opportunity to receive a premium for their Shares as part of a sale of the Restructured Group and might reduce the price of their Shares. In addition, unless the Restructured Group obtains the consent of the Offeror, it could be prevented from entering into transactions that could be beneficial to it.

The Restructured Group will depend on the services of key personnel and its business may be severely disrupted in the event that it loses their services and is unable to find replacements with comparable experience and expertise, or if the Restructured Group cannot recruit and retain suitable staff for its operations.

The Restructured Group's future success depends heavily upon the continued services of the PRC Target's senior executives and other key employees. The PRC Target relies, and the Restructured Group will rely, on their expertise in developing business strategies, managing business operations and strengthening its relationship with Yanchang and service providers.

Upon completion of the Transactions, all the PRC Target's upper management will remain employed by the Restructured Group. If one or more of the PRC Target's current upper management is unable or unwilling to continue in their position at the Restructured Group (as the case may be), the Restructured Group may not be able to replace them in a timely manner or at all. If any dispute arises between the Restructured Group and its key employees, there is no assurance of the extent to which any of the employment agreements entered into between the key employee and the PRC Target and/or the Restructured Group could be enforced, particularly in the PRC where these key employees reside, in light of the uncertainties within the PRC legal system. See the sub-section headed "Risks Related to the Restructured Group's Operations in the PRC — Uncertainties with respect to the PRC Legal System Could Limit the Protections Available to You and the Restructured Group" in this section below for details. If one or more of the Restructured Group's senior management (including members of the proposed new management team) or key employees were unable or unwilling to continue in their present positions, its business may be severely disrupted, its financial condition and results of operations may be materially and adversely affected, and it may have to incur additional expenses to recruit, train and retain personnel. The Restructured Group may not be able to attract or retain replacement personnel that it will need to achieve its strategic objectives at costs similar to its current costs.

The Restructured Group's continued growth depends in part on its ability to recruit and retain suitable staff. As the Restructured Group expands its oil operations, it will need to hire experienced staff who are knowledgeable about the oil industry in order to manage and operate its oil facilities and properties. There is no assurance that the Restructured Group will have the resources to satisfy fully its staffing needs as it continues to grow its business in the future or that its operating expenses will not significantly increase.

The Restructured Group will need substantial funding to maintain its operations and accomplish its growth strategy. It may be unable to raise capital on terms favourable to it or at all, which could increase its financing costs, dilute your ownership interests, affect its business operations or force it to delay, reduce or abandon its growth strategy.

Oilfield operations are a capital-intensive business. The Restructured Group's ability to maintain and increase its revenue, net profits and cash flows depends on continued capital spending. The Restructured Group currently contemplates capital expenditures of approximately RMB333 million (low case) to RMB552 million (high case) up to 2019 for the development of Unit 2 and Unit 19 in Block 212. The Restructured Group will further incur capital expenditure for the exploration of other areas in Block 212. The Restructured Group's actual capital expenditures may vary significantly from these planned amounts due to various factors, including but not limited to its ability to generate sufficient cash flows from its operations to finance its capital expenditures, its ability to obtain external financing, oil prices and approval by Yanchang. To implement its plan to achieve commercial production successfully, the Restructured Group will need the proceeds from the Subscription and the CN Subscription.

The Restructured Group may need to raise additional capital if the costs of investment increase significantly.

The Restructured Group's ability to arrange financing and the cost of such financing are dependent on numerous factors, including but not limited to:

- general economic and capital market conditions;
- the availability of credit from banks or other lenders;
- investor confidence in the Restructured Group; and
- the continued performance of the Restructured Group's projects.

The Restructured Group's operations may not generate sufficient cash to fund its capital investment requirements, and it may be required to finance its cash needs through public or private equity offerings, bank loans or other debt financing, or otherwise. The PRC Target has been incurring net current liabilities with lengthening payable turnover days, which may indicate potential pressure in working capital sufficiency that the Restructured Group will need to address. There is no assurance that international or domestic financing for the Restructured Group's future expansion will be available on terms favorable to it or at all, which could force it to delay, reduce or abandon its growth strategy, increase its financing costs, or both.

Additional funding from debt financings may make it more difficult for the Restructured Group to operate its business because it would need to make principal and interest payments on the indebtedness and may be obligated to abide by restrictive covenants contained in the debt financing agreements, which may, among other things, limit its ability to make business and operational decisions and pay dividends. Furthermore, raising capital through public or private sales of equity to finance acquisitions could cause earnings or ownership dilution to the Shareholders' shareholding interests in the Restructured Group.

In addition, there can be no assurance as to whether, or at what costs, the Restructured Group's capital projects will be completed or as to the success of these projects if completed. In the event that the Restructured Group fails to obtain sufficient funding for its operations or development plans, its business, results of operations and financial condition could be materially and adversely affected.

During the Track Record Period, the PRC Target did not strictly comply with social insurance contributions, housing provident fund contributions, construction planning, individual income tax, environmental protection, production safety and fire safety regulations.

During the Track Record Period, there were some incidents of regulatory non-compliance by the PRC Target. In light of such non-compliance incidents, where applicable or practicable, the PRC Target has taken various follow-up measures for each non-compliance incident. Details of the non-compliance incidents and the follow-up measures are set out in the section headed "History and Business of the PRC Target — Non-compliance Incidents" in this circular.

In relation to the structures for which the PRC Target did not obtain planning or construction permission, file completion records or possess building ownership certificates, there is a risk that the PRC Target may be ordered to take remedial action before building ownership certificates can be obtained. The PRC Target may need to pay a fine or incur costs in relocating affected operations.

With regard to the use of the processing facilities (i.e. the oil gathering station), given the specific circumstances being faced by the PRC Target, the confirmation letters from the relevant bodies overseeing environmental protection, production safety and fire safety were obtained, along with other follow-up measures taken, the Offeror and the Board (after consultation with the Offeror) consider that the non-compliance incidents set out in this circular, whether individually or collectively, will not have a material adverse impact on the PRC Target. However, there is no assurance that the abovementioned regulatory bodies will not change their decision, revoke or supersede the confirmation letters and decide to enforce the relevant laws under their jurisdiction against the PRC Target. The relevant authorities may decide to take strict enforcement actions, in that case the PRC Target could be ordered to take remedial actions, or could be ordered to cease operation of the oil gathering station, and/or pay fines, all of which could potentially affect the Restructured Group's financial condition and results of operation.

In the case of the social insurance and housing provident fund contributions, the PRC Target may be asked to pay the underpayment amounts and be fined. The PRC Target has obtained confirmation letters from the relevant bodies overseeing social insurance and housing provident fund, such that the Offeror and the Board (after consultation with the Offeror) consider that the non-compliance incidents set out in this circular, whether individually or collectively, will not have a material adverse impact on the PRC Target. However, there is no assurance that the abovementioned regulatory bodies will not change their decision, revoke or supersede the confirmation letters and decide to enforce the relevant laws under their jurisdiction against the PRC Target. The relevant authorities may decide to take strict enforcement actions, in that case the PRC Target could be ordered to take remedial actions, and/or pay fines, which could potentially affect the Restructured Group's financial condition and results of operation.

The Restructured Group's operations may be affected by significant operating hazards and natural disasters and it has limited insurance coverage for any resulting losses.

Developing, producing and transporting crude oil involve many hazards. These hazards may result in fires, explosions, spillages, blow-outs and other unexpected or dangerous conditions causing personal injuries or death, property damage, environmental damage and interruption of operations. Significant operating hazards and natural disasters may cause interruption to the Restructured Group's operations, damage property or the surrounding environment and cause personal injuries. Any of these incidents could have a material adverse impact on the Restructured Group's financial condition and results of operations. Up to the Latest Practicable Date, there has been no accidents or safety incidents causing a material adverse impact on the PRC Target's financial condition or results of operations. However, the PRC Target and the Restructured Group's preventative measures may not always be effective, particularly due to the hazardous nature of the oil industry, and there is no assurance that there will not be material accidents or safety incidents in the future. The PRC Target does not currently maintain insurance over its facilities or equipment, which could increase the risk that financial losses caused by accidents or safety incidents may materially adversely affect the Restructured Group's financial condition and results of operations.

The Restructured Group faces intense competition in the oil industry, and if it fails to compete effectively, may be unable to enter into new production sharing contracts and sustain its growth.

The Restructured Group will be the operator of the oilfields in the Area through contractual arrangements with Yanchang. It will not compete with other operators in the Area. However, the Restructured Group will encounter competition when it seeks to acquire properties or secure additional production sharing contracts. Factors that could affect the Restructured Group's competitiveness may include, among others, technical capability, financial resources, experience and track record and its relationship with Yanchang.

The Restructured Group's competitors may be more experienced and/or may have greater financial and personnel resources available to them. In addition, the large state-owned oil companies in the PRC, such as Yanchang, are themselves able to conduct oil development and production operations. The Restructured Group's ability to successfully enter into new production sharing contracts and sustain its growth therefore will, to a significant extent, depend upon its ability to out-perform other market players in an increasingly competitive market. In addition, the oil and gas industry is characterised by rapid and significant technological advancements. As new technologies develop, the Restructured Group may be placed at a competitive disadvantage, and competitive pressures may force it to implement those new technologies at a substantial cost. The Restructured Group may not be able to respond to these competitive pressures and implement new technologies on a timely basis or at all. If the Restructured Group is unable to utilise the most advanced commercially available technologies, its ability to compete in securing additional production sharing contracts could be adversely affected. Furthermore, if demand for oil in the PRC decreases, the Restructured Group may need to compete with other competitors for the reduced amount of oil purchased by the customer(s) designated by Yanchang.

If the Restructured Group attempts to acquire oil and gas properties outside of the PRC it may face competitors that are able to pay more for productive oil and gas properties and exploratory prospects. The Restructured Group's ability to acquire additional prospects in the future will depend on its ability to evaluate and select suitable properties and to consummate transactions in a competitive environment.

Compliance with rules and requirements applicable to public companies may cause the PRC Target to incur additional costs, and any failure by us to comply with such rules and requirements could negatively affect investor confidence in us and cause the market price of our Shares to decline.

As part of the Restructured Group, the PRC Target may incur significant legal, accounting and other expenses that it did not incur as a private company. The Company expects rules and regulations applicable to it as a public company to increase the PRC Target's legal, accounting and financial compliance costs and to make certain corporate activities more time-consuming and costly. Complying with these rules and requirements may be especially difficult and costly for the PRC Target because there may be difficulty in locating sufficient personnel in the PRC with experience and expertise relating to HKFRS and Hong Kong public company reporting requirements, and such personnel may command high salaries. If sufficient personnel cannot be employed to ensure compliance with these rules and regulations, there could be more reliance on external legal, accounting and financial experts, which may be costly. In addition, the PRC Target may incur additional costs associated with the Restructured Group's public company reporting requirements. Neither the Offeror nor the Board can predict or estimate the amount of additional costs the Restructured Group may incur or the timing of such costs.

The new and existing management of the Restructured Group's operations may not necessarily work effectively together.

As part of the Acquisition, the upper management of the PRC Target will be retained in their current capacities, and two members of the PRC Target's upper management will also have roles in the senior management of the Restructured Group. Additional members will be appointed to the senior management of the Restructured Group pursuant to the Transactions. Existing and new members of senior management may have different views and working cultures. There is no assurance that the senior management of the Restructured Group will be able to cooperate effectively immediately after the completion of the Transactions, or at all. The Restructured Group's financial condition and results of operations may be affected during the time it takes for the senior management to become an effective team, and it may need to incur additional costs if any members of senior management need to be replaced due to incompatibility with other members of senior management.

The Restructured Group will incur a significant payment if Hongjin Engineering exercises its right to early termination of the Services Agreement.

Under the Services Agreement, if certain exploration results are met at any exploration well in Block 378 (i.e. reservoir thickness of logging interpretation equal to or greater than five metres after the relevant well completion, the exploration well's average production is greater than one tonne per day per 1,000 metres of well depth for a period of 15 consecutive days during pilot production; and the identification of a hydrocarbon trap with an area of not less than 2 km^2 in Block 378), Hongjin Engineering will have the right to unilaterally terminate the Services Agreement (subject to compliance with applicable laws and regulations and listing rules of applicable stock exchanges), and the PRC Target shall pay Hongjin Engineering a success fee of RMB200,000,000. Whilst Hongjin Engineering may only terminate the Services Agreement upon reaching the benchmark exploration results which the PRC Target considers should help reveal the underlying reserve potential, there is no assurance that proved reserves could be identified or if any could be identified, it will be able to generate sufficient economic return exceeding the success fee.

The Restructured Group will have to, or procure its contractors to, comply with a number of applicable construction, safety, building and environmental protection laws, regulations and requirements in the PRC to perform its business operations.

In order for the Restructured Group to perform its business operations, it will have to, or procure its contractors to, comply with a number of construction, safety, building and environmental protection laws, regulations and requirements in the PRC. In the event that the Restructured Group or its contractors fail to meet the applicable construction, safety, environmental protection laws, regulations and requirements, it or its contractors may be subject to fines or required to make remedial measures which may in turn have an adverse effect on the operations and financial condition of the Restructured Group.

The opinion in the accountants' report on the PRC Target is a modified opinion.

Without qualifying the opinion, the accountants' report on the PRC Target included in Appendix III of this circular contains an emphasis of matter relating to the fact that the PRC Target incurred a loss of approximately RMB24,594,000 for the year ended 31 December 2015 and had net current liabilities of approximately RMB252,748,000 as at 31 December 2015. Although the above conditions indicate the existence of material uncertainties which may cast significant doubt on the PRC Target's ability to continue as a going concern, the financial information of the PRC Target included in the accountants' report was prepared on a going concern basis, dependent on (i) the ongoing financial support from the PRC Target's banker and its shareholder, Hongbo Investment (prior to completion of the Transactions) and (ii) the availability of proceeds from the Subscription and the CN Subscription upon successful completion of the Transactions. However, in the event of unforeseen changes to the Restructured Group's operating conditions, or adverse developments in the local or international economy, the current funding may not be sufficient to address such uncertainties and ensure that the Restructured Group continues as a going concern in the longer term.

The PRC Target is currently involved in outstanding litigation. If this case is determined against the PRC Target, the Restructured Group's business, financial conditions, results of operations, prospects and reputation may be adversely affected.

The PRC Target has been involved in litigation with the Claimant. Please refer to the section headed "History and Business of the PRC Target — Litigation" in this circular for further details.

The litigation between the PRC Target and the Claimant is currently pending a rehearing by the Supreme People's Court of the PRC. The PRC Target and the Offeror intend to defend the dispute strenuously. However, neither the Offeror nor the Board can guarantee that the dispute will be resolved in the PRC Target's favour. If the litigation is determined against the PRC Target, the Restructured Group's business, financial condition, results of operations, prospects and reputation could be adversely affected. While Hongbo Investment has agreed to bear any direct loss suffered by the PRC Target in relation to the dispute, it may fail to honor its agreement. Regardless of the merits of the dispute, the Restructured Group may need to divert management resources and incur extra costs to handle the litigation.

RISKS RELATED TO THE RESTRUCTURED GROUP'S OPERATIONS IN THE PRC

Political and economic policies of the PRC government will affect the Restructured Group's business and results of operations.

At present, the PRC is a developing economy and differs from developed economies in many respects. These include its structure, the level of governmental involvement in the economy, capital investment and development, its growth rate, the control of capital investment and foreign exchange, as well as the allocation of resources.

While the Chinese economy has grown significantly in the past three decades, growth has been uneven geographically, among various sectors of the economy and during different periods. The PRC economy may not continue to grow or may not do so at the pace that has prevailed in recent years, or, if there is growth, such growth may not be steady and uniform. Due in part to the impact of the global economic recession, the European debt crisis and other factors, the growth rate of China's gross domestic product decreased to 7.4% in 2014, the slowest pace since 1990. It is uncertain whether the various macroeconomic measures, monetary policies and economic stimulus packages adopted by the PRC government will be effective in restoring or sustaining the fast growth rate of the Chinese economy. In addition, such measures, even if they benefit the overall Chinese economy in the long term, may have a negative effect on the Restructured Group. For example, the Restructured Group's financial condition and results of operations may be materially and adversely affected by government control over capital investments.

Although the Chinese economy has been transitioning from a planned economy to a more market-oriented economy, a substantial portion of the productive assets in the PRC are still owned by the PRC government. The continued control of these assets and other aspects of the national economy by the government could materially and adversely affect the Restructured Group's business. The PRC government also exercises significant control over Chinese economic growth by allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Any adverse change in PRC government policies could materially and adversely affect overall economic growth and the level of investments and expenditures in the PRC, which in turn could lead to a reduction in demand for energy and consequently have a material adverse effect on the Restructured Group's businesses.

The Restructured Group's ability to successfully expand its business operations in the PRC depends on a number of factors, including macro-economic and other market conditions and the availability of credit from lending institutions. The PRC government has from time to time articulated the need to control economic growth and to tighten lending. Stricter lending policies in the PRC may affect the Restructured Group's ability to obtain financing, reducing its ability to fund its business and implement its expansion strategies. Such additional measures to tighten lending may materially and adversely affect the Restructured Group's future results of operations or profitability. Furthermore, the historical economic and market conditions in which the PRC Target has operated its business may not continue, and should these conditions change, the Restructured Group may not be able to sustain growth.

Failure to register with the local SAFE branch pursuant to the SAFE Circular by the Subscribers or their respective shareholders or investors may adversely affect the Restructured Group's ability to inject and/or pay out foreign exchange after Acquisition Completion.

According to the SAFE Circular, prior to a PRC resident's use of its legally-owned onshore or offshore assets or interests to finance an offshore special purpose vehicle (which is set up for investment purposes) ("**SPV**") such PRC resident, whether a natural or legal person, must complete the "overseas investment foreign exchange registration" procedures with SAFE or its branch institutions. In addition, an amendment to the registration with the local SAFE branch is required to be filed by any PRC resident that holds interests in such SPV upon (i) any change with respect to the basic information of the SPV, such as its name, term of operation or domestic individual resident shareholder, (ii) an increase or decrease in its capital, (iii) a transfer or swap of its shares, or (iv) a merger or division event. Under the relevant rules, failure to comply with the registration procedures set forth in the SAFE Circular may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company and may also subject the relevant PRC resident to penalties under PRC foreign exchange administration regulations.

According to the memorandum dated 29 June 2016 of Haiwen & Partners, the PRC legal advisors to the Company, if the Subscribers and their respective shareholders or investors register with the local SAFE branch before the PRC Target itself undergoes the relevant foreign exchange registration procedure or if those Subscribers who fail to do so withdraw from the Subscription Agreement in accordance with the terms thereof, their failure to register in accordance with the SAFE Circular for the time being, should have no effect on the Acquisition.

However, if the Subscribers and/or their respective shareholders or investors fail to register with the local SAFE branch in accordance with the SAFE Circular, the Restructured Group's ability to undergo foreign exchange registration while completing the Acquisition may be materially and adversely affected. As a result, the Restructured Group's ownership structure and capital inflow from the Company, and the PRC Target's ability to pay dividends or make other distributions to its shareholders may be materially and adversely affected.

PRC regulations may limit the Restructured Group's activities and adversely affect its business operations.

The Restructured Group's operations, like those of other oil and gas companies in the PRC, will be subject to extensive regulations and control by the PRC government. Although the PRC government has been gradually liberalising its regulations on the oil and gas industry in recent years, it continues to exercise a certain degree of control over this industry by, among other measures, licensing the right to explore and produce crude oil, assessing and imposing taxes and fees payable in respect of crude oil produced and setting safety, environmental and quality standards. For example, Yanchang is required to pay a special oil income levy in respect of sales of crude oil produced in the Area to the PRC Government and the PRC Target is required to pay its portion of the special oil income levy to Yanchang based on Yanchang's instructions. As a result, the PRC Target recorded special oil income levy payments in aggregate of RMB3,236,000, RMB3,373,000 and nil in relation to its sales of crude oil in years ended 31 December 2013, 2014, and 2015 respectively. These regulations and controls, including any future changes in tax rules or policies, may affect material aspects of the Restructured Group's operations and profitability, which may in turn constrain its ability to implement its business strategies, to develop or expand its business operations or to maximise its profitability.

The Restructured Group's business operations may be adversely affected by present or future environmental regulations.

The PRC Target is and the Restructured Group will be subject to extensive environmental protection laws and regulations in the PRC. These laws and regulations permit:

- the imposition of fees for the discharge of waste substances;
- the levy of fines and payments for serious environmental offences; and
- the government, at its discretion, to close any facility that fails to comply with orders and require it to correct or stop operations causing environmental damage.

Apart from crude oil, the operations in the Area produce waste water and natural gas. Currently, the production of waste is handled in accordance with relevant laws and regulations. However, there is no assurance that there will not be changes to the Restructured Group's operations which may result in a different treatment under environmental laws or regulations, or that environmental laws and regulations will not change in a way that adversely impacts the Restructured Group's operations. The PRC government has moved, and may move further, towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards. If the Restructured Group expands its operations overseas, it may also be subject to domestic and international environmental protection laws of other jurisdictions that may be more stringent than those in the PRC. In such event, the Restructured Group may be required to incur additional expenses for environmental compliance matters.

The Restructured Group may be deemed a PRC resident enterprise under the new PRC Enterprise Income Tax Law and be subject to PRC taxation on its worldwide income.

The PRC Enterprise Income Tax Law, which became effective on 1 January 2008, provides that enterprises established outside of the PRC whose "de facto management bodies" are located in the PRC are considered "resident enterprises" and are generally subject to the uniform 25% enterprise income tax rate as to their worldwide income. Under the Implementation Rules of the PRC Enterprise Income Tax Law, issued by the State Council, "de facto management body" is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. At present, the PRC tax authorities have not issued any guidance on the application of the new PRC Enterprise Income Tax Law and its Implementation Rules on offshore entities which are not controlled by PRC enterprises or Chinese group enterprises. As a result, it is unclear what factors will be used by the PRC tax authorities to determine whether the Restructured Group has a "de facto management body" in the PRC. A substantial number of the Restructured Group's management personnel will be located in the PRC, and all of its revenues will arise from its operations in the PRC. However, the Restructured Group may recognise some interest income and other gains from any financing activities outside the PRC. The PRC Target is currently and the Restructured Group will be subject to enterprise income tax on their PRC activities. If the PRC tax authorities determine that the Restructured Group is a PRC resident enterprise, it will be subject to PRC tax on its worldwide income at a uniform tax rate of 25%, which may have an adverse impact on its financial condition and results of operations.

Dividends paid by the Restructured Group to its foreign shareholders, and capital gains realised by its foreign shareholders from the sales of the Shares, may be subject to taxes under PRC tax laws.

If the Restructured Group is deemed to be a PRC "resident enterprise" under the "de facto management body" test of the new PRC Enterprise Income Tax Law and Implementation Rules, dividends paid on the Shares, and capital gains from transfers or dispositions of the Shares, may be regarded as income from "sources within the PRC." In that case, dividends paid to, and capital gains realised by, the Restructured Group's foreign shareholders may be subject to PRC tax. In the case of foreign shareholders that are "non-resident enterprises" such PRC tax would be imposed at a rate of 10%, and in the case of foreign individuals whose domicile is not in China and who are not present in the territory of China or whose domicile is not in China and have stayed in the territory of China for less than one year, such PRC tax would be imposed at a rate of 20%, in each case subject to the provisions of any applicable international tax treaty. In the case of dividends, the Restructured Group would be required to withhold such PRC tax at source. For these purposes, a "non-resident enterprise" is an enterprise that either (i) does not have an establishment or place of business in the PRC or (ii) has an establishment or place of business in the PRC but the dividends or capital gains are not substantially related to such establishment or place of business. It is unclear whether the Restructured Group will be treated as a resident enterprise for PRC tax purposes and therefore whether the dividends it may pay, or any capital gains realised by foreign shareholders, would be treated as income derived from sources within the PRC and be subject to PRC tax. If the Restructured Group is required under the new PRC Enterprise Income Tax Law and Implementation Rules to withhold PRC tax on any dividends it pays to its foreign shareholders, or if gains of such foreign shareholders from the transfer of the Shares were subject to PRC tax, the value of an investment in the Shares may be materially and adversely affected.

Uncertainties with respect to the PRC legal system could limit the protections available to you and the Restructured Group.

The PRC legal system is a civil law system based on written statutes. Unlike in common law systems, prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in the PRC. However, since many laws, rules and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to the Restructured Group. These uncertainties may impede the Restructured Group's ability to enforce its contracts with Yanchang and other business partners. In addition, such uncertainties, including the inability to enforce the Restructured Group's contracts, could materially and adversely affect its business and operations. Accordingly, the effect of future developments in the PRC legal system cannot be predicted, particularly with regard to the energy industry in the PRC, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws. These uncertainties could limit the legal protections available to the Restructured Group and other foreign investors. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of the Restructured Group's resources and management attention.

Future fluctuations in foreign exchange rates and government control of currency conversion may adversely affect the Restructured Group's financial condition and results of operations, and its ability to remit dividends and repay its debts.

The Restructured Group's revenue and most of its expenditures will be denominated in RMB, which is currently not a freely convertible currency. The Restructured Group will require foreign currencies for dividend payments, if any, to its shareholders. Future financings may also be denominated in foreign currencies. The Restructured Group will therefore be exposed to foreign currency fluctuations.

The value of the RMB depends, to a large extent, on China's domestic and international economic, financial and political developments and government policies, as well as the currency's supply and demand in the local and international markets. The conversion of RMB into foreign currencies, including the US$, is based on exchange rates set and published daily by People's Bank of China (the "**PBOC**") in light of the previous day's inter-bank foreign exchange market rates in the PRC and the then current exchange rates on the global financial markets. The official exchange rate for the conversion of RMB into the US$ was largely stable until July 2005 when the PBOC allowed the official RMB exchange rate to float against a basket of foreign currencies, including the US$. In July 2008, the PBOC established a narrow band within which the RMB could fluctuate against these currencies, the practical effect of which has been to re-peg the RMB to the US$. This change in policy resulted in appreciation of the RMB of more than 20% against the US$ over the following three years. As a consequence, the RMB has fluctuated sharply since July 2008 against other freely traded currencies, in tandem with the US$. In August 2015, the PBOC announced that the RMB rate would be fixed to its closing price in the previous day's trading, which was followed by a drop of around 2% against the US$ the next day. However, it remains unclear how this new policy may impact the RMB exchange rate in the future. Fluctuation of the value of RMB will affect the amount of any non-RMB debt service in RMB terms since the Restructured Group would have to convert RMB into non-RMB currencies to service its foreign debt. Any appreciation of the RMB will also increase the value of, and any dividends payable on, the Shares in foreign currency terms. Conversely, any depreciation of the RMB will decrease the value of, and any dividends payable on, the Restructured Group's shares in foreign currency terms, as well as increase the principal amount repayable under any foreign-denominated loans and their associated interest expenses.

Certain facts and statistics in this circular relating to the PRC economy and the oil and natural gas industry in the PRC are derived from various official government publications and may not be fully reliable.

Certain facts and statistics in this circular relating to the PRC economy and the oil and natural gas industry and other related sectors of the PRC are derived from various governmental official publications. However, the quality or reliability of such official government publications cannot be guaranteed. While reasonable care has been taken to ensure that the facts and statistics presented are accurately reproduced and extracted from such official government publications, they have not been independently verified by the Offeror or the Board. The Offeror and the Board therefore make no representation as to the accuracy of such facts and statistics from these publications, which may not be consistent with other information compiled within or outside the PRC.

Possibly due to inadequate or ineffective collection methods or discrepancies between governmental publications and market practice and other problems, the official statistics in this circular relating to the PRC economy and the oil and gas industry and other related sectors in the PRC may be inaccurate, or may not be comparable to statistics produced for other economies, and thus should not be unduly relied upon. Furthermore, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy, as may be the case in other countries. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such official facts or official statistics.

Labor laws and regulations in the PRC may materially and adversely affect the Restructured Group's results of operations.

On 29 June 2007, the PRC government promulgated the Labor Contract Law of the PRC, which became effective on 1 January 2008 and was later amended on 28 December 2012 with such amendment becoming effective on 1 July 2013. The Labor Contract Law imposes various liabilities on employers, including provisions which significantly impact the cost of an employer's decision to reduce its workforce. In the event the Restructured Group decides to significantly change or decrease its workforce, the Labor Contract Law could adversely affect its ability to enact such changes in a manner that is advantageous to its business or in a timely and cost-effective manner, thus materially and adversely affecting its financial condition and results of operations.

Any future outbreak of H1N1 influenza, avian influenza or severe acute respiratory syndrome in the PRC, or similar adverse public health developments, may severely disrupt the Restructured Group's business and operations.

As recently as 2014, occurrences of H1N1 influenza were reported throughout the PRC. Since 2005, there have been reports on the occurrences of avian influenza in various parts of the PRC, including a number of confirmed human cases that resulted in fatalities. In addition, from December 2002 to June 2003, China and other countries experienced an outbreak of a highly contagious form of atypical pneumonia now known as severe acute respiratory syndrome, or SARS. During May and June of 2003, many businesses in the PRC were temporarily closed by the PRC government to prevent transmission of SARS. Any prolonged recurrence of H1N1, avian influenza, SARS or other adverse public health developments in the

PRC could require the temporary closure of the Restructured Group's development and production facilities. Such closures could severely disrupt the Restructured Group's business operations and materially and adversely affect its results of operations.

HISTORY OF THE PRC TARGET

History

The PRC Target was established in the PRC by Hongbo Investment (then named 上海宏博投資管理有限公司 (Shanghai Hongbo Investment & Management Co. Ltd.*)) on 29 July 2008, with a registered capital of RMB5,000,000.

On 14 April 2009, the registered capital of the PRC Target was increased to RMB15,000,000. The new capital was contributed entirely by Hongbo Investment (then named 上海宏博投資管理有限公司 (Shanghai Hongbo Investment & Management Co. Ltd.*)), which remained the sole shareholder of the PRC Target after the increase in capital.

On 3 September 2009, the registered capital was increased to RMB50,000,000. The additional capital for this increase was contributed by 上海宏盛投資發展有限公司 (Shanghai Hongsheng Investment Development Co. Ltd.*) ("**Shanghai Hongsheng**"), and upon completion of the capital increase it became a 70% shareholder of the PRC Target.

On 25 June 2010 both shareholders contributed capital in equal proportions for an increase of registered capital to RMB100,000,000. Subsequent to the increase in registered capital, the equity interests of the PRC Target were owned as to 40% by Hongbo Investment and 60% by Shanghai Hongsheng.

On 28 February 2011, Shanghai Hongsheng sold a 20% interest in the PRC Target to Hongbo Investment for RMB20,000,000 in cash and a 40% interest to Lida Investment for RMB40,000,000 in cash. The basis of the consideration was in proportion with the registered capital of the PRC Target. After this change in shareholding, the entire equity interests of the PRC Target were held by Hongbo Investment and Lida Investment as to 60% and 40% respectively.

On 26 April 2011, the registered capital of the PRC Target was increased to RMB200,000,000 via contributions from Hongbo Investment and Lida Investment in proportion to their existing shareholdings using funds in the PRC Target's capital reserve account.

Pursuant to a capital contribution agreement dated 15 June 2012 entered into among Hongbo Investment, Lida Investment and 上海吉盈投資諮詢有限公司 (Shanghai Jiying Investment Advisory Co. Ltd.*) ("**Shanghai Jiying**"), further contributions to the capital of the PRC Target were made in the following proportions: RMB26,340 contributed by Hongbo Investment, RMB17,560 contributed by Lida Investment, and RMB24,750,000 contributed by Shanghai Jiying. RMB3,356,100 of Shanghai Jiying's capital contribution and the entirety of Hongbo Investment's and Lida Investment's capital contributions were used to increase the PRC Target's registered capital pursuant to a resolution passed by Hongbo Investment and Lida Investment on 13 June 2012, while the remaining RMB21,393,900 of Shanghai Jiying's capital contribution was credited to the PRC Target's capital reserve account. The increase in registered capital was completed on 19 June 2012. Subsequent to the increase in registered capital, the registered capital of the PRC Target was RMB203,400,000, and the equity interests of the PRC Target were held as to 59.01% by Hongbo Investment, 39.34% by Lida Investment, and 1.65% by Shanghai Jiying.

On 6 May 2015, Shanghai Jiying sold a 0.66% interest in the PRC Target to Lida Investment for RMB15,543,000, and on 8 May 2015 sold a 0.99% interest in the PRC Target to Hongbo Investment for RMB23,314,500. The consideration for the transfers of interests in the PRC Target was agreed between the parties based on Shanghai Jiying's original investment of RMB24,750,000. After the registration of the change in shareholding on 13 May 2015, the equity interests in the PRC Target were held by Hongbo Investment and Lida Investment as to 60% and 40%, respectively.

On 22 May 2015, the registered capital of the PRC Target was increased to RMB434,920,000, through the capitalisation of the amounts of RMB138,912,000 and RMB92,608,000 due to Hongbo Investment and Lida Investment respectively. Additional details of the debt capitalisation are set out in the section headed "Financial Information of the PRC Target" in this circular. The capital contribution was made in proportion to the shareholders' then shareholdings. Subsequent to the capital contribution, the PRC Target had a paid-up registered capital of RMB434,920,000 in which the equity interests were held by Hongbo Investment and Lida Investment as to 60% and 40% respectively.

The PRC Target has been engaged in upstream crude oil exploration and development in the Area under the EPCC.

Prior to the crude oil exploration permits being granted to Yanchang for the Area, 寧夏天普礦業投資諮詢有限公司 (Ningxia Tianpu Mining Investment Consulting Co. Ltd.*) (the "**Previous Owner**") owned the coalbed methane exploration permits for the Area. The Previous Owner was independent of and not connected to the PRC Target at the time, however, Shi Jianji (石建極) and Shi Wei (石為), common ultimate beneficial owners of the PRC Target, acquired the entire equity interest of the Previous Owner in around August 2008 (as further elaborated below). It was the intention of Hongbo Investment to obtain and convert the coalbed methane exploration permits held by the Previous Owner into crude oil exploration permits, so that it could explore for, develop and produce crude oil in the Area. As a private enterprise, Hongbo Investment could not hold crude oil exploration permits, necessitating a tripartite arrangement with Yanchang (which is entitled to hold crude oil exploration permits) and the Previous Owner, which the PRC Target understands to be a common market practice.

In view of the above intention, pursuant to an agreement entered into between Hongbo Investment and the Claimant, an independent third party and which was the agent of the Previous Owner, on 15 June 2008 (supplemented by a supplemental agreement on 5 August 2008) (the "**Hongbo Investment Agreement**"); and an agreement entered into between the Previous Owner and Yanchang dated 24 May 2008, in consideration for Yanchang agreeing to cooperate in exploration and development of the Area with the Previous Owner's designated party, Hongbo Investment, the Previous Owner transferred, for no cash and other consideration, its mineral rights in respect of the Area to Yanchang for Yanchang to apply for crude oil exploration permits and Yanchang thus subsequently entered into the EPCC with the PRC Target (as designated by Hongbo Investment and agreed by the Previous Owner). Yanchang was granted the exploration permits for crude oil in the Area in November 2008 in respect of Block 378 and in February 2009 in respect of Block 212, and in 2010 Yanchang entered into the EPCC with the PRC Target. Out of an abundance of caution, in case there were any problems with the transfer of the mineral right in the Area by the Previous Owner to Yanchang (which in practice involved Yanchang applying for the crude oil exploration permits for Block 212 and Block 378 which were first granted in 2009 and 2008 respectively), Shi Jianji (石建極) and Shi Wei (石為) in August 2008 acquired the entire equity interest of the Previous Owner to ensure that there would be no impediment to Yanchang's application for exploration permits for crude oil in the Area.

Since the entire equity interest in the Previous Owner has been transferred to the beneficial owners of the PRC Target, the Claimant has been claiming that it is entitled to the transfer fees under the Hongbo Investment Agreement comprising a fixed fee of RMB30 million and a contingent fee dependent on the profits of certain wells to be determined based on certain criteria set out in the Hongbo Investment Agreement. Hongbo Investment has paid RMB30 million as transfer fee for the acquisition. As the cooperation right is owned by the PRC Target, the PRC Target reimbursed the same amount to Hongbo Investment. As at the Latest Practicable Date, the Claimant has an ongoing legal action against Hongbo Investment, the PRC Target and Yanchang materially concerning the said contingent fee under the Hongbo Investment Agreement. Further details of the legal action are set out in the sub-section headed "Litigation" in this section below.

The PRC Target began its exploration and development work in the Area prior to the signing of the first EPCC on 1 July 2010. According to the memorandum dated 29 June 2016 of Haiwen & Partners, the PRC legal advisors to the Company, this could be considered to give rise to two legal issues as set out below, but neither of them pose a material risk of the PRC Target having to face legal consequences.

- Prior to Yanchang obtaining crude oil exploration permits for Block 378 in 2008 and for Block 212 in 2009, the PRC Target's exploration work in the Area was conducted under the Previous Owner's coalbed methane exploration permits. While no production or sale of crude oil occurred during this period, the PRC Target could potentially be considered to have conducted crude oil exploration activities without a crude oil exploration permit, which would be in contravention of the Regulation on the Administration of Geological Survey Qualifications. However, according to the memorandum dated 29 June 2016 of Haiwen & Partners, the PRC legal advisors to the Company, as the limitation period of two years for administrative penalties has expired under PRC law, there should not be any administrative penalties against the PRC Target in relation to this issue.

- The Hongbo Investment Agreement and the agreement between Yanchang and the Previous Owner did not clearly state that Hongbo Investment's subsidiary, the PRC Target, could carry out exploration work in the Area. The PRC Target's cooperation right allowing it to carry out exploration work in the Area was first set out in the EPCC in 2010. The PRC Target could potentially be considered to have conducted exploration work in the Area without clearly possessing a cooperation right prior to the signing of the first EPCC in 2010. This would arguably affect the rights of third parties, i.e. the Previous Owner's rights under its coalbed methane exploration permits or Yanchang's rights under its crude oil exploration permits. However, according to the memorandum dated 29 June 2016 of Haiwen & Partners, the PRC legal advisors to the Company, since the limitation period of two years for civil litigation has expired under PRC law, neither the Previous Owner nor Yanchang shall have the right to demand the PRC Target to assume civil liability.

After the completion of the Transactions, the Company will become the sole shareholder of the PRC Target and the PRC Target will become a member of the Restructured Group.

Business milestones

The following table sets forth the PRC Target's business development milestones:

2008	• The PRC Target was established. • Yanchang obtained the oil mineral rights in respect of Block 378 pursuant to an exploration permit granted by MOLR.
2009	• Yanchang obtained the oil mineral rights in respect of Block 212 pursuant to an exploration permit granted by MOLR. • The first oil producer in Block 212 commenced pilot production.
2010	• The EPCC was signed between Yanchang and the PRC Target. • The oil gathering station was built at Block 212. • The sale of crude oil from Block 212 commenced. • Yanchang's exploration permit for Block 212 was renewed by MOLR until 2013.
2011	• Yanchang's exploration permit for Block 378 was renewed by MOLR until 2013. • Water injection commenced at Block 212 to stimulate oil production.
2012	• The EPCC was renewed up to June 2014.
2013	• Yanchang's exploration permits for the Area were renewed by MOLR until 2015.
2014	• The reserve report submitted by Yanchang in respect of Unit 2 and Unit 19 in Block 212 was approved by MOLR.
2015	• The EPCC was renewed up to June 2016. • Yanchang's exploration permits for the Area were renewed by MOLR until 2017. • Yanchang commenced the process of applying for a production permit for Unit 2 and Unit 19 in Block 212.
2016	• The EPCC was renewed up to June 2018.

BUSINESS OVERVIEW

The PRC Target is principally engaged in the exploration, development and production of crude oil in the PRC. Under the EPCC, Yanchang (as the mineral right owner) and the PRC Target (as the operator) cooperate to explore for oil in the Area; the crude oil produced from the Area, which belongs to Yanchang, is sold by the PRC Target (as entrusted by Yanchang) to the customer designated by Yanchang and the PRC Target and Yanchang are entitled to share 80% and 20% of the sale proceeds (net of any sales related taxes). Yanchang holds the mineral right in respect of the Area pursuant to two exploration permits granted to it by MOLR in 2008 (in respect of Block 378) and 2009 (in respect of Block 212). The current exploration permit of Yanchang in respect of Block 212 will expire on 5 March 2017, and the current exploration permit of Yanchang in respect of Block 378 will expire on 9 November 2017. Both exploration permits are renewable after expiry for terms of two years each time. Further details in relation to the renewal of exploration permit and the application for a production permit are set out in the sub-section headed "Relationship with Yanchang" in this section below. During the Track Record Period, the PRC Target's work in Block 212 was in the exploration and development stage.

The PRC Target has carried out extensive exploration works in certain areas in Block 212 referred to as Unit 2 and Unit 19 by the PRC Target.

The PRC Target has formulated a plan to move the development of Unit 2 and Unit 19 to commercial production, details of which are set out in the sub-section headed "Future Plans for Commercial Production" in this section. Up to the Latest Practicable Date, no material exploration work in Block 378 has been carried out, and no proved reserve can be estimated for Block 378. The consideration for the Acquisition does not reflect any value of Block 378.

As at the Latest Practicable Date, there were 101 oil producers and 23 water injectors at Block 212. The following table sets out the proved and probable reserves for Block 212 as at 31 December 2015.

	Estimated reserves as at 31 December 2015	
	Proved reserves (1P)	**Proved plus probable reserves (2P)**
	(MMstb)	*(MMstb)*
Gross	10.1	14.2
Net attributable to the PRC Target	8.1	11.4

The crude oil produced from the Area contains less than 0.5% sulfur. The average gravity of the crude oil produced from the Area is 0.87, which translates to an API gravity of 31 degrees. The above indicators show that crude oil produced from the Area can generally be described as "light" to "medium".

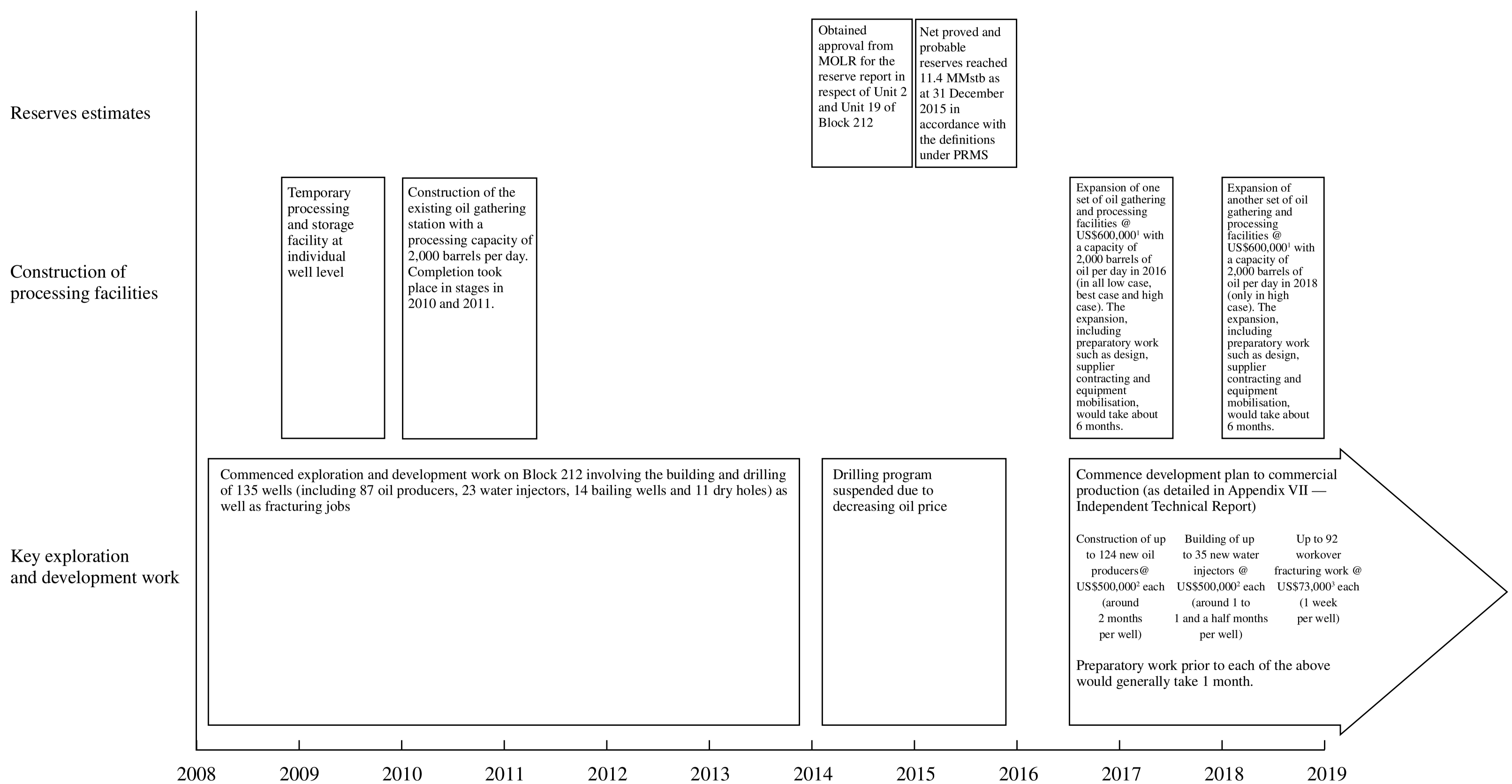
For the three financial years ended 31 December 2013, 2014 and 2015, the revenue of the PRC Target amounted to approximately RMB232.2 million, RMB191.3 million and RMB98.8 million, respectively; and the net loss of the PRC Target amounted to approximately RMB25.4 million, RMB13.1 million and RMB24.6 million, respectively.

For the three financial years ended 31 December 2013, 2014 and 2015, the gross production of crude oil by the PRC Target amounted to approximately 497,525 barrels, 433,141 barrels and 416,862 barrels, respectively; and the gross sales volume of the PRC Target amounted to approximately 511,800 barrels, 433,307 barrels and 406,356 barrels, respectively.

As the Acquisition Completion shall take place simultaneously with, among other things, the Divestment Completion, the Restructured Group will no longer be engaged in the existing hotel and restaurant business carried on through the Divestment Group and will principally be engaged in the new business of the exploration, development and production of crude oil in the PRC through the PRC Target immediately after the Divestment Completion and the Acquisition Completion.

The following diagram sets out key stages of the development of Block 212 to commercial production. Further details of the PRC Target's future development plan are set out in the sub-section headed "Future Plans for Commercial Production" in this section.

Major construction work/benchmark



Notes:

1. Equivalent to approximately RMB3,774,000.

2. Equivalent to approximately RMB3,145,000.

3. Equivalent to approximately RMB459,170.

COMPETITIVE STRENGTHS

The Company and the Offeror believe that following the Acquisition Completion, the following strengths will contribute to the growth of the Restructured Group and differentiate it from its competitors:

High reserve-to-production ratio enables substantial growth potential, and further exploration potential provides additional upside

Block 212 is currently being operated at a development stage. The current recovery is still low and the majority of the reserve potential is yet to be recovered in the future as indicated by its reserve-to-production ratio. As at 31 December 2015, its gross production is 1,180 barrels per day, and the Competent Person has estimated that the gross proved reserves amount to 10.1 million barrels, which translates into a reserve-to-production ratio of 23.4 years. The Offeror and the Board (after consultation with the Offeror) believe that the current reserves in Unit 2 and Unit 19 of Block 212 will enable a quick production growth of crude oil in the near term without the need of undertaking further exploration in these areas.

During the Track Record Period, the PRC Target has achieved a high success rate in drilling and establishing active wells. There are contingent resources relating to certain fault compartments in Block 212 other than those in Unit 2 and Unit 19 that have produced oil from some exploration wells. The Competent Person considers that such fault compartments have a high chance to be further appraised and subsequently developed. In addition, the Competent Person has estimated prospective resources for 10 selected areas within Block 212. As such, the Offeror and the Board (after consultation with the Offeror) believe that Block 212 contains oil production potential beyond that embodied in the reserves volumes set out in the Independent Technical Report. However, it should be noted that contingent resources and prospective resources may not ultimately be extracted at a profit.

Seasoned management team with extensive industry experience, operating and business development capability

The Offeror and the PRC Target's new senior management teams together have extensive experience in the management and operation of oil and gas assets. Members of the proposed Directors and new senior management team of the Restructured Group (excluding the proposed non-executive Directors and independent non-executive Directors) on average have approximately 18 years of oil and gas experience.

In relation to technical and operational aspects, the proposed chief executive officer and executive Director, Mr. Wang has extensive work experience in seismic data processing and interpretation. He is one of the inventors of two US patents relating to well drilling and seismic data processing and interpretation. The Offeror and the Board (after consultation with the Offeror) believe that his experience in seismic data processing and interpretation is key to enhance the success rate of development of the Area. The proposed Chief Engineer and executive Director, Lee Khay Kok, has been involved in oilfield operations since the 1990s, with experiences ranging from oil and gas exploration to production projects. His experience in production enhancement technology, especially in multi-stage fracturing, will contribute to ensuring productivity of an oilfield. The proposed Chief Geologist, Kang Weili, is a petroleum geologist with over 30 years' oil and gas exploration and development experience. His expertise in understanding and analysing reservoirs, especially oilfields with low porosity and permeability, together with his track record in locating new oilfields, is of great value to enhance the success rate of locating new reserves and exploratory wells. Apart from Mr. Wang, Lee Khay Kok and Kang Weili, other people with relevant practical experience on oilfield operations will also join the Restructured Group in connection with the Transactions. Background and experience of the proposed senior management team are set out in the section headed "Directors and Senior Management of the Restructured Group" in this circular.

The Offeror and the Board (after consultation with the Offeror) believe that the proposed senior management team of the Restructured Group is well positioned to lead the Restructured Group to achieve commercial production and further business expansion.

Proven ability and track record to develop tight oil resources by applying appropriate technologies and technical know-how

According to past geologic research and analysis done, reservoirs in the Area are thin multi-layered reservoirs, with relatively low porosity and permeability. These characteristics exist among reservoirs of certain conventional oil and gas assets and are much more common among "tight" oil and gas, shale oil and gas, and coalbed methane assets, which are collectively regarded as unconventional oil and gas assets.

The management team of the PRC Target had developed technical competency and know-how to apply mature exploration, drilling and stimulation technologies that are tailored to the local geology of the Area in the past few years. Their ability to develop tight resources using their technical competency and know-how is evidenced by their successful track record of maintaining stable yield and well performance, and migrating reserves into proved and probable categories.

More importantly, the proposed senior management team of the Restructured Group has gained good hands-on practical and on-field knowledge by working on various projects involving different "unconventional" and "tight" oil and gas reserves and reservoirs, and achieved successful exploration and production results. Their ability to design and formulate appropriate drilling plans, stimulation methods and other techniques addressing the "tight" characteristics of a reservoir can lead the Restructured Group to implement its development plan and overcome different challenges in the Area, and move onto commercial production.

In addition, the Restructured Group remains committed to identifying technologies and production techniques that will allow it to enhance performance and recovery rate. The senior management team believes that as they further ramp up production in accordance with the development plan, the management's experience and technical know-how will help better position the Restructured Group to compete for other development opportunities.

Strong support from existing well-known shareholders

The Offeror, being the controlling Shareholder immediately after the S&P Completion, is a portfolio company of IDG Funds. The Company believes that the background of the Offeror and IDG Funds, and their support, will help the Restructured Group achieve its success.

IDG Funds and its affiliated funds, together constitute the IDG Capital Partners ("**IDG**"). IDG primarily focuses on investing in China related venture capital and private equity projects, with offices located in major cities in the PRC, as well as in Hong Kong. As one of the earliest foreign investment funds to enter the Chinese market, IDG has invested in over 400 diverse outstanding companies, and has successfully exited from 80 investments through mergers and acquisitions or initial public offerings in the US, Hong Kong and the PRC. The Company believes that its background will help facilitate the Restructured Group's future activities in the capital market, maintain healthy liquidity and flexibility to the business operation.

In addition to providing financial assistance, IDG also shares its professional expertise, experiences and resources with its portfolio companies to help them attract talent, find strategic partners and facilitate mergers and acquisitions. The professional investment management team of IDG has an in-depth understanding of different markets, investing in high quality companies with long-term growth potential and maintains close relationships with entrepreneurs. The Company also believes that the Offeror and IDG together will share their strategic knowledge on business development and expansion with the Restructured Group.

Excellent operation with good operational standard and management system

Having a high-standard operation model and management system has been essential to the PRC Target's development. The PRC Target has designed and implemented an organisational structure, operation model, management regime and system with a view to ensuring operational excellence.

The Competent Person has conducted a site visit to the field to examine the facilities and operations and assess their condition and state of operability. The Competent Person found the wells and facilities to be appropriately specified and suitable for the type of operation, and the equipment to be in generally good condition with some minor outstanding maintenance items noted.

Apart from bailing wells, the surface equipment and facilities for oil extraction and water injection use mature technology that is completely enclosed and automated thus reducing manpower costs. In the PRC Target's oil gathering station, processed waste water is used for water injection, while the small amount of associate gas produced is used to generate electrical power for the oil gathering station or to heat various processes at the oil gathering station. The PRC Target has also employed a computerised monitoring system which monitors crude oil production.

The Offeror and the Board (after consultation with the Offeror) believe that the PRC Target's infrastructure and management regime and system will help the Restructured Group differentiate itself from other independent oil and gas developers and demonstrate a unique competitive advantage.

BUSINESS STRATEGIES

After the Acquisition Completion, the Company and the Offeror will pursue the following business strategies of the Restructured Group:

Enhance production in core areas by implementation of comprehensive development plan

The Offeror and the Board (after consultation with the Offeror) believe that the PRC Target has reached the development phase in respect of certain core areas in Block 212 (namely Unit 2 and Unit 19). To further explore it and successfully reach the commercial production phase, the PRC Target has prepared, and the Offeror intends to implement, a development plan which involves drilling approximately 100 more development wells (including infill wells and step-out off-set wells), which the Offeror believes will substantially enhance the production yield.

Due to the relatively low porosity and permeability of the rock layers in the oil reservoirs, the PRC Target also plans to build approximately 30 more water injectors, as well as to adopt stimulation methods to complete approximately 100 fracturing jobs to increase possible future production.

As at 31 December 2015, 53% of the PRC Target's proved reserves were classified as undeveloped, which means the Restructured Group has the opportunity to achieve substantial production growth even without the discovery of new reserves.

The Offeror intends to apply approximately HK$800 million (approximately RMB672 million) from the proceeds of the Subscription and the CN Subscription to finance the development plan of the currently explored areas in Block 212. As stated in the Independent Technical Report, the PRC Target intends to invest approximately RMB333 million (low case) to RMB552 million (high case) up to 2019 in capital expenditures and fracturing to increase production capacity. It is estimated that the production will significantly increase as a result of the drilling and stimulation work and will reach the production peak in 2019.

Increase reserves through continued development and delineation of contingent and prospective areas

The Offeror intends to continue to convert the Restructured Group's resources into reserves, and to migrate possible reserves into probable reserves, by further exploration and development activities, including additional drilling of exploration/appraisal wells and step-out wells, further improvements to surface facilities, and the adoption and optimisation of drilling and completion techniques.

According to the Independent Technical Report, Block 212 is estimated to have an amount of approximately 4.7 million barrels of gross possible reserves, approximately 0.49 million to 1.67 million barrels of gross contingent resources and 9.7 million barrels of gross prospective resources as at 31 December 2015. By continuing to drill additional wells, the Restructured Group expects to reduce the uncertainty range of recoverable oil volumes, reduce development risk, increase its aggregate production and increase the expected asset life, all of which could increase the total net present value of its assets.

The Offeror also intends to carry out additional delineation drilling in certain prospective areas to increase the Restructured Group's resource base. Block 212 covers an area of approximately 212 km^2 and because of its large size, the delineation drilling program will continue to be implemented to assess the outer perimeter of the areas that are already being developed or appraised. The Offeror and the Board (after consultation with the Offeror) believe that given the high OIIP (oil-initially-in-place) amount of approximately 82 million barrels at best estimate by the Competent Person, additional delineation drilling could further increase the Restructured Group's resource base and the value of its assets.

Continue to focus on cost control, operational efficiency and application of mature technologies

The geographic characteristics in the oil reservoirs, i.e. low porosity and permeability, make drilling the PRC Target's and the Restructured Group's biggest capital cost. The Offeror and the Board (after consultation with the Offeror) believe that by focusing on reducing drilling time and costs through optimising the drilling process, the PRC Target will be better positioned to bring the crude oil operations in Block 212 to commercial production. The Restructured Group will continue to apply mature drilling and production technologies to specific reservoirs in an efficient manner. The Offeror intends to utilise the Restructured Group's technical capabilities to employ mature drilling and production technologies, and adapt and improve those technologies for its specific requirements in the following major areas:

- continue to efficiently and effectively develop reserves within contract areas, compile development databases and build accurate reservoir models;
- continue to increase production and reserves through conducting geological studies and analysis of drilling pattern and well density; and
- optimise production from marginal wells through techniques such as multi-layer fracturing and water injection, especially in areas of low permeability.

Application of the appropriate technologies to the Restructured Group's operations will help the PRC Target to expand the scope of its exploitation activities, increase development and production efficiencies, and reduce costs. The Offeror and the Board (after consultation with the Offeror) believe the Restructured Group's engineers' skills and experience will distinguish it from many of its competitors.

Capture oil and gas industry reform opportunities to enter new exploration projects in China

The Offeror plans to leverage the ongoing oil and gas industry reform in the PRC to expand the Restructured Group's operations by selectively engaging in new upstream petroleum exploration projects. Although historically oil resources in the PRC have long been dominated by NOCs, the PRC government has been issuing favorable policies to allow smaller privately-owned domestic and foreign enterprises to participate in exploration and development projects, with a goal of gradually liberalising its regulation in the oil industry. According to the Several Opinions of the State Council on Encouraging and Guiding the Healthy Development of Private Investment (國務院關於鼓勵和引導民間投資健康發展的若干意見), a policy issued by the State Council in 2010, the PRC government encourages private capital to (1) engage in oil and gas investments in the PRC, (2) support private capital entering oil and gas exploration and development in the PRC, and (3) cooperate with state-owned petroleum companies. This policy also promotes private capital to participate in the development of infrastructure projects in respect of oil and gas storage, transportation and pipelines. Further to this policy, in 2012, the MOLR and All-China Federation of Industry and Commerce (全國工商聯) published the Opinions on Further Encouraging and Guiding Private Investment in Land and Resources (關於進一步鼓勵和引導民間資本投資國土資源領域的意見), which further encourages and supports private capital to explore and develop unconventional oil and gas assets such as shale oil and gas and coalbed methane. The Offeror and the Board (after consultation with the Offeror) believe that this further moves towards opening up unconventional exploration suggests that the government is considering increasing competition in the oil and gas industry, promoting mixed ownership and diversifying the sources of upstream investment. Going forward, the Offeror and the Board (after consultation with the Offeror) believe that more upstream opportunities will emerge for non-state-owned companies. The Offeror and the Board (after consultation with the Offeror) believe that the Restructured Group will capture such favorable "opening-up" policies and trends by greater participation in the industry, via actively looking for strategically sound exploration projects in the PRC.

Furthermore, based on the "Energy Development Twelfth Five-year Plan" (能源發展「十二五」規劃) issued by the State Council in 2013, the PRC government encourages foreign capital to enter local complex oil exploration in the PRC. The Offeror and the Board (after consultation with the Offeror) believe that the oil and gas industry in the PRC could then be more open to foreign investments from non-state-owned companies. As a result, the Restructured Group could benefit from this policy by being able to bring in additional capital to support potential exploration projects and make these new projects more economically feasible.

Selectively make strategic acquisition of oil assets overseas

Making strategic acquisitions of oil assets overseas is an important driver for growth and enhancing shareholder value. A counter-cyclical acquisition may provide a great opportunity to access world-class assets at a reasonable price. The Offeror and the Board (after consultation with the Offeror) believe the recent relatively low crude oil commodity prices offer investors an attractive risk/return profile and diversification in the current environment.

The Offeror and the Board (after consultation with the Offeror) consider that there will be many potential upstream oil assets in North America, which have large oil reserves and could help provide the Restructured Group with a more diversified and balanced asset portfolio.

The Offeror has defined its long term growth targets, and also has customised screening methodology which will guide it to identify strategic acquisition targets for the Restructured Group. The following criteria would be relevant when selecting and evaluating future acquisition targets:

- an asset value in the range of US$250 million to US$500 million (equivalent to approximately RMB1,630 million to RMB3,260 million);

- a total proved and probable reserves in the range of 30 million to 60 million barrels;
- a working interest net production in the range of 2,500 boe/d to 5,000 boe/d (barrels of oil equivalent per day, a commonly used measure of oil production) with an oil to gas ratio greater than 60%;
- being in production phase with significant future development inventory;
- an aggregate yearly production decline rate of less than 30%; and
- proven source rock with a production history and potential exploration upside.

The Offeror expects to undertake these activities in the form of acquisitions, joint ventures and/or strategic alliances, with the goal of achieving stable, long-term and attractive returns for Shareholders.

EPCC

The principal terms of the current EPCC are summarised below. Details of the implementation practices of the EPCC are further set out in the sub-sections headed "Management and Operation" and "Relationship with Yanchang" in this section below.

Term:	for term of 2 years from 1 July 2014 to 30 June 2016 under the current EPCC which has been early renewed for another 2 years from 1 July 2016 to 30 June 2018*Note*
Subject areas:	The Area, comprising Block 212 and Block 378
Key obligations of the PRC Target:	The PRC Target is responsible for formulating annual investment plans, quarterly production plans and exploration work implementation plans, which shall be submitted to Yanchang for review. The PRC Target is required to make actual work of not less than RMB30,000 per km^2 per year for the Area, which shall include any exploratory works undertaken by the PRC Target, including among other things, seismic appraisal and analysis, well drilling, testing, logging, etc. The amount of actual work of not less than RMB30,000 per km^2 per year for the Area is determined in accordance with the standard management policies of Yanchang. The PRC Target is responsible for all costs and expenses in connection with obtaining the exploration and production permits in respect of the Area in the name of Yanchang.

Note: The EPCC was not renewed immediately upon its expiry on 30 June 2014 due to ongoing negotiations between the PRC Target and Yanchang regarding the payment schedule for outstanding revenue sharing payments due from the PRC Target to Yanchang. After friendly negotiations between the parties, the EPCC was renewed on 23 June 2015 for a two-year term beginning 1 July 2014. The PRC Target did not suffer any loss as a result of the delay in renewal of the EPCC. The EPCC was renewed early on 2 February 2016 for a term from 1 July 2016 to 30 June 2018 while the existing EPCC remains in force.

The PRC Target is responsible for maintaining proper records for the daily crude oil production in the Area and the related sale.

The PRC Target is required to report its finding on the exploration works, including any exploration findings, data gathered, testing results, drilling data and plans, wells records and data, testing reports, pilot production data, etc., to Yanchang semi-annually or on a yearly basis.

Key rights and obligations of Yanchang: Yanchang has the right to review the annual and quarterly investment, production and exploration plans prepared and submitted by the PRC Target.

Yanchang has the right to designate customers to which the PRC Target can sell the crude oil produced from the Area.

Yanchang has the right to review and monitor exploration works in the Area.

With regard to any proven reserves identified, Yanchang has the right to engage qualified parties to gather information on the reserves and report the finding to the relevant authority in the PRC.

Production sharing: The PRC Target is entitled to share 80% of the proceeds from the sale of the crude oil produced from the Area whilst Yanchang is entitled to the remaining 20% of the proceeds (net of any sales related taxes).

Settlement of amounts due to Yanchang by the PRC Target shall be made on a monthly basis.

Under the EPCC, if the PRC Target breaches the EPCC, Yanchang is entitled to claim penalty, not to renew the EPCC or terminate the EPCC, depending on the seriousness of such breach. Pursuant to the EPCC, Yanchang is entitled to terminate the EPCC under the following material circumstances, if, among others, the PRC Target:

— fails to settle the special oil income levy or other state or local government tax or charges;

— uses illegal funding for exploration work;

— fails to meet the minimum actual work requirement under the EPCC;

— does not implement the requirements under the Internal Management Guidelines;

— falsely reports the mineral types, conceals the production volume and sales amount, or falsely reports the sales price;

— carries out work exceeding the scope as agreed in the EPCC without consent of Yanchang;

— explores the Area in an adverse way which causes severe damages to the oil and gas reserves;

— conducts its business without complying with the safety production conditions, fails to ensure the safety production during its business operation or fails to report safety production incidents to Yanchang accurately;

— breaches the state's environmental protection laws and regulation, or otherwise cause pollution to the environment; or

— breaches other state laws or regulations or other terms of the EPCC.

MANAGEMENT AND OPERATION

Major decisions in respect of the PRC Target's day-to-day operations are the responsibility of the general manager, Wang Ping, with the assistance of the chief geologist of the PRC Target and three vice general managers. The general manager is responsible for formulating and planning the overall exploration and development of the PRC Target. He is also responsible for general operation management, business plan, budget management, staff management and public relation management of the PRC Target. The chief geologist is in charge of the geology and exploration department. The vice general managers report to the general manager and are respectively in charge of the following departments as at the Latest Practicable Date: (1) oilfield operations, maintenance and engineering, (2) procurement and materials, and (3) human resources and administration. Each month, the general manager, the chief geologist and the vice general managers of the PRC Target meet to discuss operation matters, such as, among other things, well design, drilling plan and execution, stimulation result review, production plan and review, and sales and inventory monitoring and governing. The general manager, the chief geologist and the vice general managers report to the board of the PRC Target on a semi-annual basis.

After completion of the Transactions, new senior management staff who have extensive practical petroleum exploration and production project experience in the PRC and/or overseas will also join the Restructured Group. Details of the proposed members of the Restructured Group's senior management are set out in the section headed "Directors and Senior Management of the Restructured Group" in this circular.

The Offeror and the Board (after consultation with the Offeror) understand from the PRC Target and Yanchang that save for customer selection, the PRC Target enjoys a high degree of autonomy in the exploration and development of the Area. Exploration and investment plans are formulated by the management of the PRC Target and approved by the board of directors of the PRC Target. After the Acquisition, the annual investment and exploration plan will be approved by the Board and the management of the Company. Pursuant to the EPCC, the PRC Target submits the exploration and development plan to Yanchang for its review and record, and in practice the PRC Target has not received any material comments from Yanchang on the PRC Target's exploration and development plan, and Yanchang is not involved in the day-to-day management and operation of the PRC Target and the Area, save for specifying to whom the crude oil is sold and supervising the sale of crude oil. Investment decisions in respect of the exploration and development works are made by the management of the PRC Target. The Directors expect for the relationship between the Restructured Group and Yanchang to operate along the same lines after the completion of the Transactions.

RELATIONSHIP WITH YANCHANG

Yanchang is a branch company of Shaanxi Yanchang Petroleum (Group) Company Limited ("**Shaanxi Yanchang**"), a state-owned enterprise under the supervision of the State-owned Assets Supervision and Administration Commission of Shaanxi Province, the PRC. Shaanxi Yanchang is one of the four enterprises in the PRC qualified to own mineral rights in respect of upstream oil and gas resources in the PRC. The registered capital of Shaanxi Yanchang was RMB10,000,000,000 as at 31 December 2015, the date which its latest annual report was made up to, and its principal businesses include oil and gas exploration and development, crude oil refining and chemical processing, comprehensive chemical engineering of oil, gas, coal and salt, pipeline transport, product sales, equipment manufacturing and technical research.

The cooperation between Yanchang and the PRC Target is governed by the EPCC as renewed from time to time and the PRC Target is the exclusive partner of Yanchang under the EPCC. Yanchang cooperates with various independent operators, such as the PRC Target, to operate other oilfields in the PRC which Yanchang holds the mineral rights. Under the EPCC and the Internal Management Guidelines of Yanchang, the revenue sharing payments payable by the PRC Target to Yanchang are to be calculated on a monthly basis, and such revenue sharing payments are not contingent on the PRC Target having received payment from the Customer. Yanchang is not liable to pay the PRC Target a revenue sharing payment if the Customer defaults. The credit risk for crude oil sales is therefore borne by the PRC Target. The PRC Target is responsible for collecting payments of sales proceeds from the Customer and then paying Yanchang's share of its sales proceeds. In practice the PRC Target settles the amount payable to Yanchang from time to time and does not strictly follow the EPCC as explained in the sub-section headed "EPCC" in this section above. The PRC Target has confirmed that there has been no bad debt in respect of the sale of crude oil to the Customer.

The PRC Target has a long-standing relationship and a history of close cooperation with Yanchang. During the Track Record Period and up to the Latest Practicable Date, there has been no material disagreement between Yanchang and the PRC Target. Yanchang first entered into the EPCC in July 2010 and then has subsequently renewed the EPCC three times. Since the first EPCC, the PRC Target has not settled the sales proceeds from time to time with Yanchang in accordance with the terms of the EPCC. As of 31 December 2015, approximately RMB74.2 million of revenue shared and payable by the PRC Target to Yanchang under the EPCC was due and outstanding. Yanchang has not set a timetable for the repayment of the outstanding payments as at the Latest Practicable Date, and renewed the EPCC in 2015 and again in 2016 notwithstanding the outstanding payables in respect of revenue sharing. In the Second Confirmation Letter, Yanchang confirmed that it would not terminate the EPCC as a result of the overdue amounts. According to the legal opinion dated 29 June 2016 of Haiwen & Partners, the PRC legal advisors to the Company, the Second Confirmation Letter is legal and valid, and the parties' rights therein are protected by the laws of the PRC. Accordingly, the PRC Target considers that the overdue payment to Yanchang does not constitute a material disagreement between Yanchang and the PRC Target. It is the intention of the Offeror and the PRC Target that the Company will use part of the net proceeds from the Subscription to allow the PRC Target to repay the amount payable to Yanchang after completion of the Transactions takes place once the monies from the Subscription are transmitted from the Company in Hong Kong to the PRC Target in the PRC (which based on the current tentative timetable, the Company estimates that the repayment shall take place in August or September 2016).

Save as described above, as at the Latest Practicable Date, the PRC Target has performed its material obligations under the EPCC and has not received any notification of breach of contract from Yanchang or that it will terminate the EPCC with the PRC Target. Principal responsibilities of the PRC Target under the EPCC include the formulation and implementation of exploration and production plans, sale of oil produced from the Area as entrusted by Yanchang with proper records, regular reporting to Yanchang in respect of the exploration and production work, and sale of crude oil, carrying out the minimum exploration work specified under the EPCC and other regulatory compliance matters. Shareholders may refer to the sub-section headed the "EPCC" in this section for details of the principal terms of the EPCC.

In order to ensure continued compliance with the EPCC, the PRC Target has implemented internal control measures under the direct supervision of the general manager, Wang Ping. Sales and production information, including daily sales volumes, unit prices and total prices, are checked, reviewed and reported to Yanchang to comply with the EPCC. Since 1 January 2016, new revenue sharing payments are calculated and made by the finance department on a strict monthly schedule and reviewed by the general manager, save for the long outstanding amount payable to Yanchang relating to previous sales, which will be settled after completion of the Transactions using the proceeds of the Subscription. Any special circumstance that may cause a delay in payment shall be reported to the general manager of the PRC Target in advance so that he may inform and discuss with Yanchang for consent. Proper records are maintained for sales, settlement and tax. Departmental plans such as production and exploration plans and their corresponding work plans shall be approved at management-level meetings with a view to ensuring the exploration and production works are carried as planned and property reported to Yanchang as required. The general manager shall particularly be responsible for reviewing the amount of exploration work carried out by the PRC Target from time to time in order to ensure that the minimum actual work amount required under the EPCC is met.

According to the Internal Management Guidelines of Yanchang, any exploration and production cooperation contract during the exploration and development stage shall be of a term of no more than two years, which is in line with the requirements of MOLR where exploration permits are renewable every two years. If the projects reach production stage, term of the related exploration and production cooperation contract shall be extended appropriately. Since the signing of the first EPCC in 2010, the PRC Target has renewed its EPCC with Yanchang after expiry of each previous term. Further to the EPCC, Yanchang has issued to the PRC Target the First Confirmation Letter dated 26 May 2015 stating that it has established a history of good working relationship with the PRC Target, and confirmed that it will renew the EPCC equal to the term of the relevant exploration and/or production permit, as long as the PRC Target has performed its obligations under the EPCC. According to the memorandum dated 29 June 2016 of Haiwen & Partners, the PRC legal advisors to the Company, Yanchang is legally obligated to abide by the First Confirmation Letter, and according to the legal opinion dated 29 June 2016 of Haiwen & Partners, the First Confirmation Letter is legal, valid and the parties' rights therein are protected by the laws of the PRC.

Current production operations in Block 212 rely upon the exploration permit held by Yanchang for Block 212, and the PRC Target's development plan depends on Yanchang's successfully applying for and obtaining the production permit in relation to the relevant areas within Block 212. Pursuant to the First Confirmation Letter, Yanchang is to apply for a production permit as soon as possible, and shall renew its exploration permits timely such that the operation of the EPCC is not obstructed. According to the memorandum dated 29 June 2016 of Haiwen & Partners, the PRC legal advisors to the Company, Haiwen & Partners was told in an interview with relevant officers of MOLR that under the current rules and regulations in the PRC, Yanchang shall have the right to continue to renew its exploration permits in respect of the Area and during the term of the exploration permits, MOLR will not accept any application from other applicants for a production permit in respect of the Area and will not sell the production right in respect of the Area via tenders; and these statements by the MOLR officials do not contradict any laws of the PRC. In the interview, the officers of MOLR stated that they were not aware of any case where an applicant whose reserve report was approved by MOLR was subsequently denied a production permit, and stated that MOLR will approve and grant the production permit as long as the required documents are submitted.

Yanchang has made an application to MOLR for a production permit for Unit 2 and Unit 19 of Block 212. The Offeror and the Board (after consultation with the Offeror) consider it reasonable to expect that the production permit will be obtained under an appropriate timescale for the proposed development work schedule. The PRC Target expects the production permit to be obtained by November 2016.

The general manager of the PRC Target, with the assistance of the vice general manager for administration, is responsible for keeping contact with Yanchang's responsible personnel, to ensure that the production permit and other permits as necessary for the PRC Target to carry out its work under the EPCC are obtained on a timely basis; the PRC Target maintains a list of the required licenses and permits and when they need to be obtained or renewed. The management of the PRC Target expects that after the production permit is granted by MOLR to Yanchang, Yanchang will renew the EPCC with the PRC Target with reference to the effective period of the production permit, which is usually 20 years and shall be renewable upon expiration of the initial effective period based on the Measures for the Registration Administration of Mineral Resources Exploitation and the scale of estimated future production of the PRC Target.

According to the memorandum dated 29 June 2016 of Haiwen & Partners, the PRC legal advisors to the Company, having considered the relevant laws regarding the application of production permits and the results of their interview with officers of MOLR, (a) subject to the provision of documents/information required by MOLR, there should not be any legal impediment for Yanchang to be granted the production permit in respect of Unit 2 and Unit 19 of Block 212 and (b) Yanchang shall legally be obligated to renew the EPCC with the PRC Target equal to the term of production permit as per the First Confirmation Letter if the PRC Target has performed its obligations under the EPCC.

Yanchang is independent of and not connected with the PRC Target, the Company, or its subsidiaries, or any of their respective directors, chief executives, senior management or substantial shareholders, or any of their respective associates.

SERVICES AGREEMENT AND THE EARLY TERMINATION RIGHT

With regard to Block 378, the PRC Target entered into an agreement dated 1 May 2015, supplemented by a memorandum dated 1 September 2015, with Hongjin Engineering and Target Sellers pursuant to which Hongjin Engineering would provide all exploration and development services in respect of Block 378. The PRC Target has confirmed that no material work was conducted under the above agreement and memorandum. Such work is expected by the PRC Target to commence by October 2016.

On 19 September 2015, the PRC Target entered into the Services Agreement with Hongjin Engineering and Target Sellers, pursuant to which the exploration and development works in respect of Block 378 will be provided by Hongjin Engineering, superseding the agreement and memorandum mentioned above in order to amend certain terms. Save for 2D seismic survey and analysis carried out in 2013, no material exploration work on Block 378 has been carried out up to the Latest Practicable Date. As such, as at the Latest Practicable Date there are no reserves as defined under PRMS in Block 378, and the Independent Technical Report does not cover Block 378. The principal terms of the Services Agreement are set out as follows:

Term:	Equal to the term of the EPCC (as renewed or re-signed thereafter), subject to early termination as set out in the Services Agreement
Subject area:	Block 378
Key rights and obligations of the PRC Target:	To pay Hongjin Engineering a fixed fee of RMB30,000,000 within 3 years from the date of the Services Agreement based on the progress of the exploration and development works as agreed between the PRC Target and Hongjin Engineering.
Key rights and obligations of Hongjin Engineering:	To provide all exploration and development services in respect of Block 378 as instructed by the PRC Target using the abovementioned fixed fee of RMB30,000,000 as funding. Up to 31 December 2015, the PRC Target has paid RMB3,000,000 as deposit. To provide services according to the PRC Target's exploration and development scheme and specific plan. To timely report to the PRC Target its exploration and testing data and results. To conform with the obligations of the PRC Target under the EPCC when performing its responsibilities under the Services Agreement. To seek the PRC Target's written consent prior to execution of or conducting any material operating plans or events.

Additional investment:	After Hongjin Engineering has spent the fixed fee of RMB30,000,000 on the exploration work on Block 378, Hongjin Engineering can choose to terminate the Services Agreement based on its judgment of Block 378's commercial value.

Upon termination of the Services Agreement, all rights and obligations of each party thereunder shall then be terminated and released.

If Hongjin Engineering does not decide to terminate the Services Agreement, it will be responsible to finance any further exploration and development work of Block 378 thereafter at its own cost and expenses. The consideration for such additional investment by Hongjin Engineering is its right to terminate the Services Agreement and obtain a success fee upon meeting the benchmark exploration results as set out below.

Early termination: If, within the term of the Services Agreement, any exploration well drilled in Block 378 achieves the following benchmark exploration results:

- a reservoir thickness of logging interpretation equal to or greater than 5 metres;
- after the relevant well completion, the exploration well's average daily production is equal to or greater than 1 tonne per day per 1,000 metre of well depth for a period of 15 consecutive days during pilot production; and
- the identification of a hydrocarbon trap with an area over 2 km^2 in Block 378;

each of the PRC Target and Hongjin Engineering will have the right to terminate the Services Agreement. Upon termination, the PRC Target shall pay Hongjin Engineering a success fee of RMB200,000,000, and Hongjin Engineering shall transfer any fixed assets, intangible assets and rights relating to the works done on Block 378 to the PRC Target. For the avoidance of doubt, Hongjin Engineering does not itself possess an exploration right or exploration permit in respect of Block 378.

The success fee of RMB200,000,000 is determined after arm's length negotiation between the PRC Target and Hongjin Engineering with reference to, and is lower than, the value of any potential resources that may be identified in Block 378 if the target exploration results are reached as assessed internally by the PRC Target. As confirmed by the PRC Target, when the PRC Target estimates the value of the potential resources in Block 378, it has considered different principal factors including, among other things, that the estimated fair market value of Block 212 and an estimation of potential oil resources of Block 378 adopting certain industry guidance in the PRC with reference to (i) the parameters of the exploration targets to be achieved under the Services Agreement, (ii) geophysical characteristics of Block 212 due to the sedimentary structure similarity and physical proximity of the two blocks which are located 147 km apart within the same basin and share the same target formation; (iii) understanding of potential oil traps based on the seismic work carried out in Block 378, and (iv) an estimated exploration success rate after having considered the estimated success rates as suggested by the Competent Person in respect of the exploration of certain prospects identified in Block 212 as set out in the Independent Technical Report, and some other market research in respect of the basin where Block 212 and Block 378 are located.

Others: The parties to the Services Agreement agree that the Services Agreement does not constitute a transfer of, or otherwise affect, the PRC Target's rights and obligations under the EPCC.

It is agreed among the parties to the Services Agreement that the rights/ obligations of each party under the Services Agreement shall be subject to compliance with applicable laws, listing rules of the applicable stock exchange or other relevant regulations (which shall include compliance with the Listing Rules after the PRC Target has become and for so long thereafter continues to be a subsidiary of the Company).

If any provision in the Services Agreement cannot be satisfied due to any reason, the parties to the Services Agreement shall use their best endeavours to agree an alternative arrangement with a view to achieving the economic result closest to that originally anticipated under the relevant provision(s) under the Services Agreement as permitted under the applicable laws, listing rules of the applicable stock exchange or other relevant regulations.

The PRC Target considers that the Services Agreement will allow the PRC Target to focus on the development of Block 212. As far as the management of the PRC Target are aware, there are other oilfield service providers which charge their service fees partly on a success fee basis based on the results achieved. Prior to the entering into of the Services Agreement, no material exploration work, other than seismic analysis, has been performed in

Block 378. Based on the experience of the management of the PRC Target and the Offeror, initial exploration work is usually relatively riskier. The Offeror and the Board (after consultation with the Offeror) believe that the success fee arrangement will also encourage Hongjin Engineering to invest more resources in the exploration of Block 378 with a view to reaching the pre-agreed benchmark initial exploration results. As the contingent success fee is agreed by the PRC Target with reference to its estimated value of the potential resources in Block 378 that would be indicated if the exploration benchmark results set out in the Services Agreement were achieved, and the potential of increase in the resources through further development works after the initial breakthrough, the PRC Target, the Offeror and the Board (after consultation with the Offeror) consider the terms and arrangements under the Services Agreement to be reasonable.

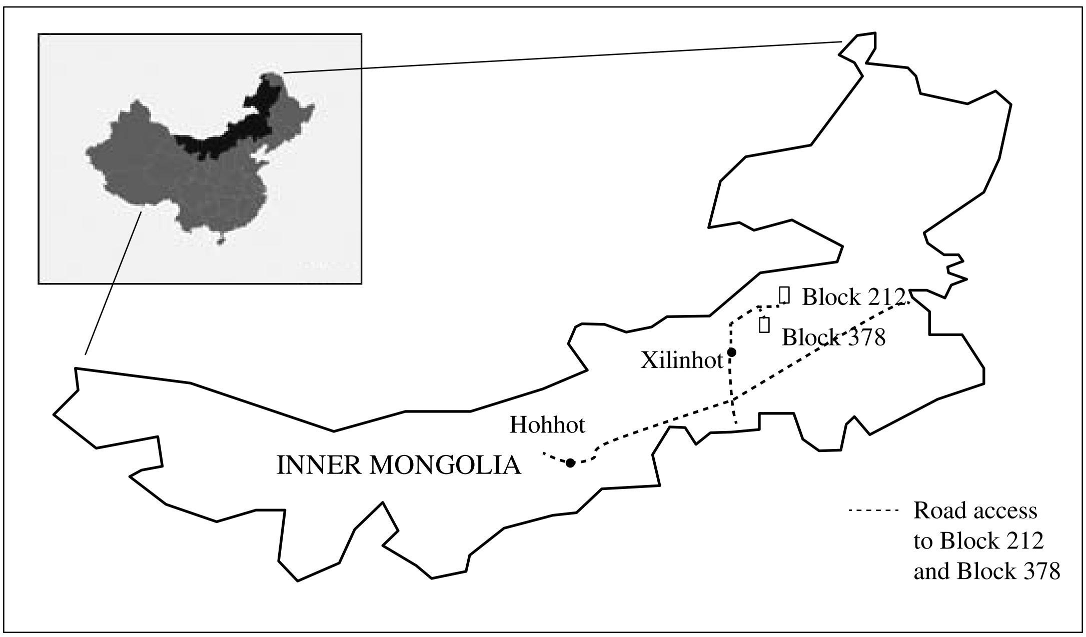
The Company will comply with the applicable requirements under the Listing Rules regarding the Services Agreement should Hongjin Engineering become a connected person of the Company for any reason after completion of the Transactions.

THE AREA

Overview

The Area covers a region of approximately 591 km^2 in East Ujimqin Banner and West Ujimqin Banner, Xilin Gol League, Inner Mongolia of the PRC. The map below shows the locations of Block 212 and Block 378 within Inner Mongolia.

Location of Block 212 and Block 378 within Inner Mongolia and the PRC



The Area can be accessed from the nearest major city, Xilinhot, via provincial road S101, and then by a dirt road to Block 212 and Block 378. The capital of Inner Mongolia, Hohhot, can be accessed from Xilinhot by expressway.

The nearest main roadway to Block 212 is only about 2 km away from the centre of operations. This road is passable all year round.

The PRC Target has carried out in-depth geophysical and geological studies in Block 212 based on the 135 existing wells and 3D seismic data. Within Block 212, pilot production of oil has focused on five fault compartments, which are collectively referred to as Unit 2 and Unit 19. The PRC Target's estimated reserves relate to Unit 2 and Unit 19 only. Yanchang has made an application to MOLR for a production permit covering Unit 2 and Unit 19 in Block 212. Crude oil has also been produced from exploration/development wells located in other fault compartments in Block 212, but further appraisal drilling will be required before reserves estimates can be made.

The following table illustrates key data relating to Block 212. No data is available for Block 378 as no material exploration and development work has taken place as at the Latest Practicable Date.

Total number of wells drilled	135
Oil producers	87
Water injectors	23
Bailing wells	14
Dry holes	11
Gross production volume *(bbl)*	
2013	497,525
2014	433,141
2015	416,862
Average unit production cost *(RMB/bbl)*[(Note)]	
2013	312.8
2014	273.3
2015	220.5

Note: Gross production volume was used in the calculation of average unit production cost which includes the share of 20% production volume of crude oil to Yanchang.

Characteristics

The Area is located more particularly in the Uliastai depression of the Erlian basin, which is an established crude oil province that has produced crude oil since 1989. In the Area, crude oil is mainly produced from the lacustrine mudstones of the Lower Cretaceous Upper Arshan Formation with an average porosity of 14% to 15% and average permeability of 15.5 mD to 83.7 mD. Well logging data and drilling cores data of Block 212 show characteristics of multi-layered rocks, with complex mineralogy, and low porosity and permeability of the reservoirs compared to conventional oil fields. Due to the relatively low porosity and permeability of the oil reservoirs in Block 212, they are regarded as tight oil and more generally as unconventional oil assets. The PRC Target uses stimulation methods including water injections and fracturing with a view to improving and maintaining daily production rates.

Oil reserves disclosure

In the preparation of the Independent Technical Report, the Competent Person used definitions contained within PRMS, which was approved by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists and the Society of Petroleum Evaluation Engineers in March 2007. A summary of the PRMS definitions is annexed to the Independent Technical Report.

According to PRMS, reserves are defined as those quantities of petroleum (in the case of Block 212, crude oil) that are anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions.

According to PRMS, reserves are further categorised in accordance with the level of certainty associated with the estimates. Proved reserves are those quantities of crude oil which, by analysis of geosciences and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods and government regulations. Probable reserves are those additional reserves which analysis of geosciences and engineering data indicate are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves. Possible reserves are those additional reserves which analysis of geosciences and engineering data indicate are less likely to be recoverable than probable reserves.

The following tables set forth the PRC Target's reserves data for Block 212 in MMstb as of 31 December 2015 based on an expected production life of 20 years. The net reserves figures below represent the PRC Target's 80% revenue interest under the EPCC.

	As of 31 December 2015	
	Gross	**Net**
	(MMstb)	*(MMstb)*
Proved (1P)	10.1	8.1
Proved + Probable (2P)	14.2	11.4

	As of 31 December 2015	
	Gross	**Net**
	(MMstb)	*(MMstb)*
Possible	4.7	3.8

The following table sets forth the PRC Target's resources data for Block 212 in MMstb as of 31 December 2015.

	As of 31 December 2015	
	Gross	**Net**
	(MMstb)	*(MMstb)*
Contingent resources (1C)	0.49	0.39
Contingent resources (2C)	0.71	0.57
Contingent resources (3C)	1.67	1.34
Prospective resources *(Note)*	9.7	7.76

Note: These are the estimates under the best case according to the Independent Technical Report set out in Appendix VII in this circular.

As explained above, currently no reserves have been estimated for Block 378, as material exploration work has yet to commence there as at the Latest Practicable Date.

There are numerous uncertainties inherent in estimating reserves. The accuracy of reserves estimates is a function of the quality of the available data and of engineering and geological interpretation. Estimates of oil reserves or resources prepared by other parties may differ materially from those prepared by the Competent Person. Results of drilling, testing and production that post-date the preparation of these estimates may justify revisions, some or all of which may be material. Accordingly, the estimates above may differ from the quantity of oil ultimately recovered, and the timing and cost of the volume that is recovered may vary from that assumed.

According to the Independent Technical Report set out in Appendix VII to this circular, the NPV estimates of the PRC Target's proved plus probable reserves as of 31 December 2015 calculated based on the Competent Person's base case oil price scenario (that Brent Crude will average US$40.90 per barrel (equivalent to approximately RMB266.7 per barrel) in 2016, US$47.58 per barrel (equivalent to approximately RMB310.2 per barrel) in 2017, US$60 per barrel (equivalent to approximately RMB391.2 per barrel) in 2018 and US$70 per barrel (equivalent to approximately RMB456.4 per barrel) in 2019) are summarised below:

	Estimated NPV of proved plus probable reserves as at 31 December 2015	
	US$ million	*RMB million*
Discount rate		
8.0%	133	875
10.0%	115	757
12.0%	100	658
15.0%	82	540

Crude oil market prices fell significantly in the years ended 31 December 2014 and 31 December 2015 which in turn led to a decrease in the PRC Target's selling price. Whilst the PRC Target considers that the market price of crude oil will climb back up in the long term as supported by the view of the Competent Person and Wood Mackenzie, the independent industry consultant, for illustrative purposes a sensitivity analysis has been conducted by the Competent Person using crude oil price of US$32/bbl (based on the selling price adjusted down in January 2016, and the lowest selling price of crude oil by the PRC Target between 1 January 2013 and the most recent practicable date prior to the issue of the Independent Technical Report and Competent Evaluator's Report of RMB208.7, which represents the actual selling price per barrel received from the Customer) and two sets of corresponding net present value estimates of the PRC Target's proved plus probable reserves as of 31 December 2015 (without and with the assumption that the PRC Target can reduce its operating and capital expenditure by 10% in such low oil price environment) excerpted from the Competent Evaluator's Report are summarised below:

	Estimated NPV of proved+probable reserves as at 31 December 2015 based on US$32/bbl oil price (No cost reduction) (Drilling scheduled for commencement in 2016 delayed to 2018)	
	US$ million	*RMB million*
Discount rate		
8.0%	81	533
10.0%	69	454
12.0%	58	382
15.0%	46	303

	Estimated NPV of proved+probable reserves as at 31 December 2015 based on US$32/bbl oil price (10% cost reduction) (Drilling scheduled for commencement in 2016 delayed to 2018)	
	US$ million	*RMB million*
Discount rate		
8.0%	96	632
10.0%	82	540
12.0%	71	467
15.0%	57	375

As explained in the sub-section headed "Future Plans for Commercial Production — Economic Viability of the Development Plan" below in this section, the PRC Target will adjust the development plan by deferring new well drilling and construction if market oil price remains at a relatively low level for an unexpected period of time. As such, both sets of NPV estimates under the US$32 per barrel (the PRC's Target's lowest selling price of crude oil since 2013 was RMB208.7 per barrel (equivalent to US$32 per barrel) case assume that drilling scheduled for 2016 is delayed to 2018. The above sensitivity analyses are stated for reference only.

Apart from the oil price, cost and timing assumptions stated above, other major assumptions underlying the NPV estimates above include, among others, (1) Yanchang will be able to obtain a production permit for Unit 2 and Unit 19 of Block 212 and the PRC Target will continue to be the operator of the oil operation in the Area under the EPCC for another 20 years up to 2035, (2) the production forecast based on the successful implementation of the PRC Target's development and production plan, (3) there will not be any unexpected material increase in the production and operating costs, and (4) there will not be any material change to the legal, political and economic environments. Further details on the assumptions and basis and analysis on the NPV estimates attributable to the PRC Target's reserves are set out in "Appendix VII — Independent Technical Report" to this circular.

Independent Shareholders should refer to the risk factor "The crude oil reserve data in this circular are only estimates and the actual production, revenue and expenditure with respect to the PRC Target's net reserves under the EPCC may differ materially from these estimates" as further explained in the "Risk Factors" section in this circular. Independent Shareholders should also make reference to "The Restructured Group's results of operations are affected by the volatility of global crude oil prices" in the section headed "Risk Factors" of this circular.

Independent Technical Report

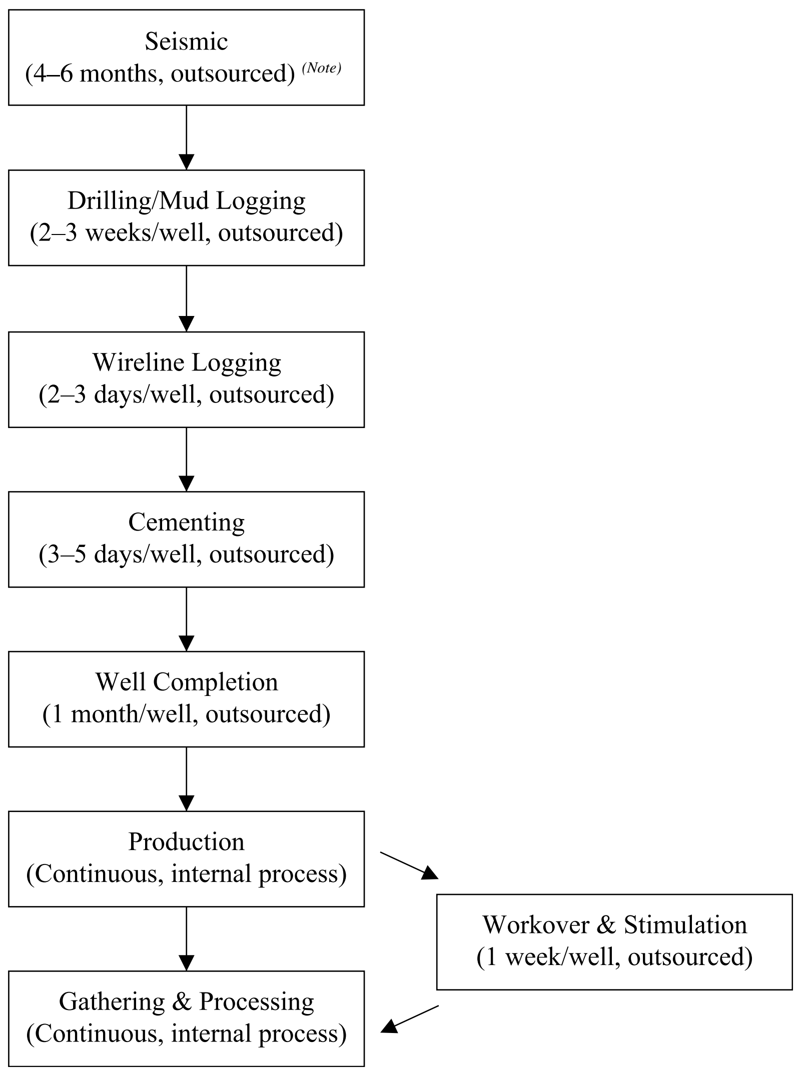
The Independent Technical Report has been prepared by the Competent Person, Gaffney, Cline & Associates, in accordance with the applicable requirements of Chapter 18 and Appendix 25 of the Listing Rules. The Competent Person is an international energy advisory group of over 50 years' standing, whose expertise includes petroleum reservoir evaluation and economic analysis. The Directors confirm that no material changes have occurred since the effective date of the Independent Technical Report.

The Competent Person, who is responsible for preparing the reserves and resources estimates presented herein, meets the requirements regarding qualifications, independence, objectivity and confidentiality set forth in the Society of Petroleum Engineers Standards and the requirements under Rule 18.22 of the Listing Rules. The Competent Person is an independent third party of the PRC Target and the Company.

EXPLORATION, DEVELOPMENT AND PRODUCTION

Workflow diagram

The following diagram sets out the major steps in the PRC Target's exploration, development and production of crude oil. Overall planning of exploration, development and production is carried out internally by the PRC Target, and the PRC Target closely monitors all outsourced work, gathering and analysing data obtained at various stages for further planning.



Note: The PRC Target also carries out analysis and interpretation of seismic, and other exploration and production data internally, and updates and revises its exploration and development plans depending on the results.

Exploration and development

The PRC Target engages service providers to conduct underground surveys of Block 212 via 2D and 3D seismic reflection. The 2D and 3D seismic data is acquired, processed and interpreted to better understand the reservoir formation and locate suitable locations for drilling exploration wells. Core samples are drawn from exploration/appraisal wells to provide evidence of underground conditions. An exploration/appraisal well is then further logged with electronic wireline (well logging) to more precisely locate the oil reservoir and investigate the reservoir's characteristics, in terms of formation depth, properties of the rocks, etc. The well can then be completed by running in with steel pipe casing, cementing, perforating to create holes, and then using fracturing stimulation to allow crude oil to flow towards the surface.

On top of individual wells, the PRC Target plans the exploration of Block 212 as a whole, including well siting, well pattern and well spacing design, the number and pace of wells to be drilled, the appropriate method of drilling, the stimulation methods to be used etc.

Technical and engineering work necessary for exploration and development from the seismic stage onwards is conducted by contractors procured and managed by the PRC Target. Further details of the PRC Target's contractors are set out in the sub-section headed "Suppliers and Customer" in this section. The PRC Target maintains a team of management and technical staff members to carry out planning of the exploration and development work, procurement of suppliers and contractors, management and monitoring of the project and contractors' work and analysis of various data, like seismic, logging, testing, production etc.

Due to cold winter weather conditions in the locality, certain types of exploration and development work such as drilling and well construction are only carried out from March to November each year by the PRC Target.

The following table shows the PRC Target's drilling activities in Block 212 for each of the years indicated:

Year	2008	%	2009	%	2010	%	2011	%	2012	%	2013	%
Dry holes	2	40%	3	23%	2	7%	0	0%	3	9%	0	0%
Oil producers/bailing wells/water injectors	3	60%	10	77%	28	93%	39	100%	29	91%	15	100%
Total	5	100%	13	100%	30	100%	39	100%	32	100%	15	100%

In order to reduce capital expenditure and maintain cash flow under the low oil price environment at the time, the PRC Target did not conduct any drilling of new wells for the years ended 31 December 2014 and 31 December 2015. After completion of the Transactions, the PRC Target plans to drill between 69 and 124 new oil producers up to 2019 in Unit 2 and Unit 19. The PRC Target also plans to carry out further exploration and development work of other areas in Block 212 with a view to migrating resources into reserves and identifying new reserves. Details of the PRC Target's plan to achieve commercial production are set out in the sub-section headed "Future Plans for Commercial Production" in this section below.

Exploration and development work during the Track Record Period

As at the Latest Practicable Date, 135 wells have been drilled within Block 212, including 87 oil producers and 23 water injectors. The remaining 25 wells include 14 bailing wells and 11 dry holes (10 of which were drilled by the PRC Target as set out in the table above, and 1 of which was already present within Block 212 before the PRC Target commenced drilling operations there). The exploration expenses of the PRC Target are summarised as follows:

	For the year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Geological and geophysical costs	18,141	4,233	—
Staff costs	8,046	7,005	1,225
Dry hole costs	—	—	—
Others	—	—	(10)
	26,187	11,238	1,215

The exploration expenses above, totaling approximately RMB38.6 million for the Track Record Period, covered the drilling of exploration and appraisal wells in Block 212, and other major exploration costs including the engagement of specialised consultants to help analyse various data gathered from exploration activities, like well logging, pilot production, seismic prospecting, processing and interpreting and well construction. For the years ended 31 December 2014 and 2015, the PRC Target did not engage contractors for seismic surveys.

Due to the relatively low porosity and permeability of the rock layers in the oil reservoirs in Block 212, the PRC Target has been considering various stimulation methods that can be adopted with a view to increasing estimated reserves and possible future production. The stimulation methods used by the PRC Target in Block 212 include water injection and fracturing. These expenses are classified as part of extraction costs included in production costs.

As set out in the sub-section headed "Future Plans for Commercial Production" in this section below, the PRC Target currently plans to resume substantial development work, including drilling of new wells and building of water injectors, in 2016.

While the PRC Target has been focusing on exploration and development work in Block 212 during the Track Record Period, there was crude oil produced from the exploration, appraisal and development wells drilled. The sale of such crude oil is described further in the sub-section headed "Suppliers and Customer — Customer" in this section below.

Production and processing

Crude oil is extracted from the PRC Target's wells with the use of pump jacks or extracted manually by bailing at intervals of several days where some wells have lower flow rates. Most crude oil is pumped directly to the PRC Target's oil gathering station. In the case of for bailing wells and some especially distant oil producers, crude oil is pumped and then delivered to the oil gathering station by trucks.

Water injectors are used to pump water into the oil reservoirs to increase the pressure of the oil reservoirs with a view to increasing the oil flow rate and the quantity of crude oil that can be extracted. To reduce the use of water drawn from the surrounding area, water separated from the crude oil is reused in the extraction process. On 31 December 2015, the daily crude oil production from Block 212 was 1,180 barrels.

Crude oil produced in Block 212 has an average water cut of about 47%. At the PRC Target's oil gathering station, crude oil is processed in a 3-phase separator, which separates crude oil, natural gas and water. The 3-phase separator has a designed processing capacity of 2,000 barrels per day. Water separated from the crude oil is reused for water injection, while the small amount of associate gas separated from the crude oil is used by the PRC Target to generate electrical power for the oil gathering station or to heat various processes at the oil gathering station. The processed crude oil is then passed from the 3-phase separator to storage tanks for collection by the customer.

As the PRC Target has installed heating facilities at drilling locations and at the oil gathering station, production at Block 212 continues year-round.

The following table shows the PRC Target's gross production volume, average unit selling price and average unit production cost for the periods indicated. Breakdowns of the PRC Target's production cost and total cash operating cost are set out in the section headed "Financial Information of the PRC Target" in this circular.

	For the year ended 31 December		
	2013	**2014**	**2015**
Gross production volume *(bbl)*	497,525	433,141	416,862
Average unit selling price *(RMB/bbl)*[(Note 1)]	567.1	552.0	303.8
Average unit production cost *(RMB/bbl)*[(Note 2)]	312.8	273.3	220.5

Notes:

(1) Revenue divided by net sales volume (i.e. excluding Yanchang's 20% share), which represents the actual unit selling price per bbl received from the Customer.

(2) 100% of the cost of production divided by gross production volume (i.e. including Yanchang's 20% share).

The table below sets out details of the capacity and utilisation of the oil gathering station for the periods indicated:

	For the year ended 31 December		
	2013	2014	2015
Average gross production volume *(bbl/day)*	1,363	1,187	1,142
Designed capacity of the oil gathering station *(bbl/day)*	2,000	2,000	2,000
Utilisation rate of the oil gathering station *(%)*	68%	59%	57%

Abandonment

The EPCC does not set out which party bears the responsibility for costs incurred for abandonment of wells that are no longer economical and the related facilities (i.e. the oil gathering station). However, the PRC Target considers that it will be responsible for taking down and removing those wells when they are abandoned and the facilities when they are no longer needed, as well as recovering the land when a well is abandoned and any related abandonment expenditure. The PRC Target estimates an abandonment expenditure of approximately RMB1.8 million for its current facilities removal and approximately RMB474,000 for each well. As at the Latest Practicable Date, the PRC Target has not incurred any abandonment expenses.

Rehabilitation costs, which are estimated by the PRC Target at a flat rate of RMB30,000 per well, are included in the PRC's estimate of per-well abandonment expenditure. Details of the relevant laws and regulations regarding rehabilitation are set out in "Appendix II — Regulatory Overview" to this circular.

The initial provision of abandonment cost of a well represents the discounted present value of the estimated final abandonment cost. After the initial recognition of a provision of abandonment cost, further provision will be made in each subsequent year and an equivalent amount of which will be charged as expenses to the income statement based on the discount rate.

For illustrative purposes, based on the development plan under the best case, and the currently estimated abandonment cost per well and the related discount rate used as at 31 December 2015, the initial provision of abandonment cost for all wells in total are estimated to amount to approximately RMB5.0 million, RMB3.8 million, RMB4.2 million and RMB5.0 million from 2016 to 2019 respectively. The initial provisions will be capitalised as part of oil and gas properties and the subsequent provisions and expenses each year will gradually increase from approximately RMB0.3 million in 2017 to RMB3.6 million in 2036.

Utilities

Electricity for the PRC Target's operations in Block 212 is provided in part by the PRC Target's own generation facilities, utilising natural gas drawn from the PRC Target's oil wells. The PRC Target also obtains electricity from a public utility for its operations in Block 212.

Water required in drilling is partially sourced from waste water from processing crude oil at the PRC Target's oil gathering station, and partially drawn from the surrounding area. During the Track Record Period, the PRC Target's operations have not been materially interrupted by a shortage of electricity or water supply, although there have been temporary shortages of electricity that caused short suspensions of exploration and production work. The management of the PRC Target is not aware of any other suppliers of electricity or water available to support the operations in Block 212. The PRC Target stores waste water from crude oil processing in tanks for use during shortages.

FUTURE PLANS FOR COMMERCIAL PRODUCTION

The development plan, together with the forecast cost, future production and reserve data in this sub-section below are only estimates and the actual production, revenue and expenditure with respect to the PRC Target's net reserves under the EPCC may differ materially from these estimates, as further explained in the "Risk Factors" section in this circular.

The Company shall issue updates to the Shareholders regarding the development of Block 212, and the utilisation of proceeds from the Subscription and the CN Subscription, in each year's interim results announcement and annual results announcement. The Company shall also make announcements on a timely basis in respect of any major development of Block 212 which constitutes inside information.

Development plan for Unit 2 and Unit 19

The PRC Target has formulated a development plan leading to commercial production which involves the building of more oil producers and water injectors and carrying out additional fracturing work (workovers) in the next few years to be completed by the fourth quarter of 2019 by when the daily production volume will reach over 3,000 bbl in the low case, over 4,000 bbl in the best case and about 5,500 bbl in the high case before a gradual natural decline in production level.

As part of the development plan to achieve commercial production in Block 212, the PRC Target focuses on the development on Unit 2 and Unit 19 in Block 212 and intends to invest an additional approximately RMB333 million to RMB552 million up to 2019 to increase production capacity, involving drilling of over 100 new wells and expansion of water injection and workovers (mainly fracturing jobs). The development plan is expected to be funded by the net proceeds from the Subscription, on the schedule set out in the sub-section headed "Letter from the Board — Reasons for and Benefits of the Transactions". The Subscription will provide the PRC Target with substantial funding amounting to approximately HK$800 million for the development of Unit 2 and Unit 19 of Block 212 to commercial production. It is expected that the abovementioned investment, together with other working capital requirements, will be sufficiently financed by the future operating cash flow and net proceeds from the Subscription and the CN Subscription. The PRC Target currently has no plans for significant capital expenditure in Unit 2 and Unit 19 after 2019, and will evaluate whether any further investment will be justified based on its growing understanding of conditions in the relevant units as development and production continue during the course of the existing development plan.

The particulars of the well drilling and workover plan are set out below, showing the total number of new workovers, oil producers and water injectors, followed by the breakdown of new works per year.

	Low case	Best case	High case
New workovers (WO)	63 wells	92 wells	92 wells
New oil producers (OP)	69 wells	99 wells	124 wells
New water injectors (WI)	26 wells	29 wells	35 wells

	2016			2017			2018			2019		
	WO	**OP**	**WI**	**WO**	**OP**	**WI**	**WO**	**OP**	**WI**	**WO**	**OP**	**WI**
Low	14	20	11	15	19	6	17	15	4	17	15	5
Best	20	27	12	21	22	6	25	24	5	26	26	6
High	20	32	16	21	27	7	25	30	6	26	35	6

The estimated total investment will vary according to the scale of the development plan. An estimated range of the PRC Target's capital expenditure in Block 212 is extracted from the Independent Technical Report and set out below. In all 3 cases, additional processing facilities with the capacity to process 2,000 barrels of crude oil per day are assumed to be required and installed in 2016 at a cost of RMB3.8 million. A second set of facilities with the same processing capacity and cost is assumed to be installed in 2018 for the high case.

	PRC Target's capital expenditure in Block 212		
	Low case	**Best case**	**High case**
Year	**Proved (represented by the low case)** *(RMB'million)*	**Proved + Probable (represented by the best case)** *(RMB'million)*	**Proved + Probable + Possible (represented by the high case)** *(RMB'million)*
2016	104.4	135.9	164.8
2017	89.3	98.1	117.0
2018	67.9	103.2	128.9
2019	71.1	113.2	141.5
Total	332.7	450.4	552.1

Notes:

1. The figures above are converted from US$ at the rate of US$1 to RMB6.29 as used in the Independent Technical Report.

2. Low case, best case and high case are referred to in the Independent Technical Report corresponding to different development plans and the expected production levels.

The Competent Person has also estimated operating expenditure for Block 212. The forecast has been built up as the sum of an annual fixed cost covering facilities maintenance and general and administrative expenses, an annual maintenance cost per active well covering well servicing work plus a variable cost per barrel of oil produced based on an analysis of the PRC Target's historical costs since 2012. The operating expenditure is further assumed to escalate at 2% per annum from 1 January 2017 onwards. An estimated range for the forecast operating expenditure (which does not include non-income taxes, royalties and other governmental charges) is extracted from the Independent Technical Report and set out below.

Years	**Proved (represented by the low case)** *(RMB'million)*	**Proved + Probable (represented by the best case)** *(RMB'million)*	**Proved + Probable + Possible (represented by the high case)** *(RMB'million)*
2016–2035	1,326.7	1,628.3	1,966.3

Note: The figures above are converted from US$ at the rate of US$1 to RMB6.5 as used in the Independent Technical Report.

The table below sets out the breakdown of the forecast operating expenditure and the non-income tax, royalties and other governmental charges ("**Governmental Charges**") for 2016–2019 (unescalated at 2016 real US dollar term).

		Proved (represented by the low case)		**Proved + Probable (represented by the best case)**		**Proved + Probable + Possible (represented by the high case)**	
		(US' million)	*(RMB' million)*	*(US' million)*	*(RMB' million)*	*(US' million)*	*(RMB' million)*
2016	Workforce Employment	2.9	18.9	3.1	20.2	3.3	21.5
	Consumables	0.6	3.9	0.6	3.9	0.6	3.9
	Fuel, electricity, water & other services	3.3	21.5	3.5	22.8	3.8	24.7
	On & off site Administration	1.6	10.4	1.6	10.4	1.8	11.7
	Environmental Protection & monitoring	0.8	5.2	0.7	4.6	0.8	5.2
	Product marketing & transport	0.1	0.7	0.1	0.7	0.1	0.7
	Governmental Charges	1.6	10.4	1.8	11.7	2.0	13.0
	Total	10.9	70.9	11.5	74.8	12.4	80.6

		Proved (represented by the low case)		Proved + Probable (represented by the best case)		Proved + Probable + Possible (represented by the high case)	
		(US' million)	*(RMB' million)*	*(US' million)*	*(RMB' million)*	*(US' million)*	*(RMB' million)*
2017	Workforce Employment	3.6	23.4	4.0	26.0	4.7	30.6
	Consumables	0.6	3.9	0.8	5.2	0.9	5.9
	Fuel, electricity, water & other services	4.1	26.7	4.6	29.9	5.3	34.5
	On & off site Administration	1.9	12.4	2.1	13.7	2.5	16.3
	Environmental Protection & monitoring	0.9	5.9	1.0	6.5	1.2	7.8
	Product marketing & transport	0.1	0.7	0.2	1.3	0.2	1.3
	Governmental Charges	2.6	16.9	3.0	19.5	3.8	24.7
	Total	14.0	91.0	15.7	102.1	18.6	120.9
2018	Workforce Employment	4.1	26.7	4.9	31.9	5.8	37.7
	Consumables	0.8	5.2	0.9	5.9	1.1	7.2
	Fuel, electricity, water & other services	4.7	30.6	5.6	36.4	6.7	43.6
	On & off site Administration	2.2	14.3	2.6	16.9	3.1	20.2
	Environmental Protection & monitoring	1.0	6.5	1.2	7.8	1.5	9.8
	Product marketing & transport	0.2	1.3	0.2	1.3	0.3	2.0
	Governmental Charges	3.9	25.4	4.9	31.9	6.3	41.0
	Total	16.9	109.9	20.4	132.6	24.8	161.2
2019	Workforce Employment	4.5	29.3	5.7	37.1	6.9	44.9
	Consumables	0.9	5.9	1.1	7.2	1.3	8.5
	Fuel, electricity, water & other services	5.2	33.8	6.5	42.3	7.9	51.4
	On & off site Administration	2.5	16.3	3.0	19.5	3.7	24.1
	Environmental Protection & monitoring	1.2	7.8	1.5	9.8	1.7	11.1
	Product marketing & transport	0.2	1.3	0.3	2.0	0.4	2.6
	Governmental Charges	5.1	33.2	6.7	43.6	8.6	55.9
	Total	19.5	126.8	24.8	161.2	30.5	198.3

Notes:

1. The above data is extracted from the Independent Technical Report which are stated in US$ and then translated into RMB at the rate of US$1 to RMB6.5 as used in the Independent Technical Report. The total sum may not add up due to rounding and currency translation (for illustration purposes).

2. Low case, best case and high case are referred to the Independent Technical Report corresponding to different development plans and the expected production level.

Among the forecast cash operating expenditures and Governmental Charges, workforce employment, fuel, electricity, water and other services, and Governmental Charges account for the most significant part of the total related expenditures, which together account for approximately 73.0%, 73.9%, 75.5% and 76.2% for the years ending 31 December 2016, 2017, 2018 and 2019 in the best case scenario. The level of total operating expenditures and Governmental Charges generally increase from low case to high case and from 2016 to 2019 as the proposed level of development activities increase and the projected level of production increases.

Based on the historical production data and trend of the existing wells, the production of crude oil by the PRC Target is expected to increase in tandem with the number of new oil producers drilled and the completion of more water injectors and workovers. We understand that the Competent Person has reviewed the development plan and considers the best case to be realistic. Based on the Independent Technical Report, the level of production in the best case scenario will increase from 583,000 barrels in 2016 to 869,000 barrels in 2017, 1,108,000 barrels in 2018 and 1,339,000 barrels in 2019 and the total forecast operating expenditure and Governmental Charges per barrel remains relatively stable at about RMB117 to RMB128. As such, the unit cost for each item of operating expenditures and Governmental Charges is not projected to materially fluctuate from year to year.

Economic viability of the development plan

Increase in production and reserve to achieve economies of scale

The above development plan is formulated by the management of the PRC Target after having considered, among other factors, the current market environment, available technology, understanding of the reservoirs and available funding. During the Track Record Period, one of the focuses of the PRC Target was to carry out exploration work and gather sufficient exploration and pilot production data for the preparation of the reserve report to be submitted to the MOLR in 2014. The development work of the PRC Target in respect of Block 212 was then affected by the decrease in the market oil price in 2014 and 2015 which led to the PRC Target ceasing to carry out new drilling work for new oil producers but instead increased its effort on production enhancement through fracturing workovers. The PRC Target considers that the lack of economies of production scale and the relatively low oil market price as major reasons for the relatively high unit production cost exceeding the PRC Target's share of unit selling price (exclusive of sales related taxes).

The total capital and operating cost per unit of production is essentially a function of the amount of development activities (including the number of wells drilled and water injectors built) and the level of production. More development activities generate a higher expected level of crude oil production and thus lower the average fixed cost per unit production (including, among other things, the exploration cost capitalised, cost of production and storage facilities, and other fixed operating costs). The related capital expenditures are projected to be approximately RMB135.9 million in 2016, RMB98.1 million in 2017, RMB103.2 million in 2018 and RMB113.2 million in 2019 (in the best case scenario). Under the development plan, the PRC Target will focus on building 69 to 124 new production wells, 26 to 35 water injectors and 63 to 92 fracturing workovers, aiming at significantly increasing crude oil production scale and enlarging reserve base. The increase in production scale and reserve base will help lower the cost by reducing the fixed cost and depreciation expenses per unit production and therefore enabling the PRC Target to enjoy economies of scale. As financed by the proceeds from the Subscription, the PRC Target will have the financial strength to build up its scale of production which will help bring down the average unit production cost in long term.

Average production cost

Whilst the best case (i.e. the development plan supporting the proved and probable reserves) is considered by the management of the PRC Target and the Competent Person to be realistic, for the purposes of illustrating the economic viability of the PRC Target's development plan of Unit 2 and Unit 19 of Block 212, the production cost under the low case scenario (i.e. the development plan supporting the proved reserves) is considered below for prudence. The average production cost in the best case will be lower than that in the low case. The Shareholders may refer to the Independent Technical Report for details.

As set out in the Independent Technical Report, under the low case scenario, the total average unit cost (including all capital and operating expenditures (which in turn include all production cost, selling and administration expenses) to be spent) per barrel of oil produced during the estimated life of the reserves for the purposes of the Independent Technical Report is approximately RMB153.6 per barrel in 2016 real dollar terms (as the costs are assumed to escalate by 2% per annum in the Independent Technical Report, to get the 2016 real dollar value of the cost, a 2% discount rate is applied). The above expenditures have not taken into account the depreciation expenses of oil and gas properties as at 31 December 2015 carried forward. Based on the carrying value of the oil and gas properties of RMB352.8 million as at 31 December 2015 and the aggregate forecast production under low case scenario of 10.1 million barrels (equal to the amount of the proved reserves), the average depreciation charge of oil and gas properties would be approximately RMB34.9 per barrel. By adding the above estimated future expenditures and the depreciation charge of oil and gas properties carried forward, the total average unit cost (including production, operation, selling and administration expenses) under the low case scenario is estimated to be approximately RMB188.5 per barrel in 2016 real dollar terms.

The PRC Target considers that the above average cost structure under its development plan will allow the PRC Target's business to be commercially viable and more competitive. On a cash basis, if the average selling price (exclusive of sales related tax and levy) exceeds approximately RMB192.0 per barrel (in 2016 real dollar terms), based on a 80% share of the revenue (i.e. approximately RMB153.6 per barrel) the PRC Target will be able to cover its cash capital and operating expenditures under its development and production plan in the low case.

Brent Crude has been relatively volatile having fallen from US$62.01 per barrel (equivalent to approximately RMB404.31 per barrel) in the beginning of the second half of 2015 to a low of US$26 per barrel (equivalent to approximately RMB169.5 per barrel) and increasing back to US$48.41 per barrel (equivalent to approximately RMB315.63 per barrel) as at the Latest Practicable Date. As explained in the industry overview report, in view of the decrease in crude oil price, many oil producers will defer their exploration and development plans, leading to a decrease in demand for oilfield services and therefore a decrease in exploration and development costs, and upstream capital expenditure worldwide has been cut as a result of a significant drop in oil prices. Exploration and production companies have been pushing the oilfield service providers to reduce their margins and lower their costs. The management of the PRC Target believes that it will be able to reduce its capital expenditure and operating expenses, and bring down its overall development cost. Based on the quotations received by the PRC Target in 2016 from the same suppliers in the earlier years during the Track Record Period for drilling and fracturing services (which are major components of the capital expenditure of the development plan), the quotations are generally lower than the previous contract price by approximately 10% to approximately 33%. The PRC Target plans to control and reduce its production cost by selecting suppliers through bidding with a ceiling price. The PRC Target relocated its headquarters from Shanghai to East Ujimqin Banner in late 2014 to reduce business travels and rental expenses of office premises. In 2016, the management of the PRC Target plans to further reduce its operating expenses by reducing headcounts in departments like administration, general affairs, finance, sales, procurement, supervision and maintenance. In order to maintain operation and production work, the headcount of field management and field production will not be affected. The price of gasoline and diesel in the PRC decreased by RMB0.49 per liter and RMB0.63 per liter respectively in 2015. This helped lower the fuel cost expenses for the PRC Target's oilfield operation. In view of the above, the management of the PRC Target believes that the above cost cutting plans can help bring down the estimated capital expenditure and operating expenses, if the oil market price remains low for an extended period of time. The management of the PRC Target considers that both capital and operating expenditure in each of the low case and best case scenarios can be further reduced by 10% as compared to those stated in sections 7.2 Capital Expenditure and 7.3 Operating Expenditure of the Independent Technical Report. The Competent Person has reviewed and accepted these plans and considers that the further cost reduction measures reasonable.

As set out in the Independent Technical Report, under the cost reduction plan, before taking into account of any depreciation charges of any depreciable assets held by the PRC Target and net of sales tax and levy, the aggregate unit capital and operating cost would be approximately RMB138.8 per barrel (in 2016 real dollar terms). The management of the PRC Target believes that this will help it remain financially viable if the crude oil price remains low and volatile.

A summary of various average unit cost per barrel of oil produced under the low case scenario is as follows:

	Before taking into account of the cost reduction measures *RMB*	After taking into account of the 10% cost reduction measures *RMB*
Average unit cost per barrel (including all capital and operating expenditures) (in 2016 real dollar terms) as set out in the Independent Technical Report — which represents the incremental cash cost	153.6	138.8
Average depreciation charges per barrel based on the carrying value of the oil and gas properties as at 31 December 2015 — which represents the historical sunk cost *(Note)*	34.9	34.9
Total average unit cost per barrel	188.5	173.7
Total average unit cash cost per barrel	153.6	138.8

Note: Assuming the average 2016 realised selling price of the PRC Target is US$32 per barrel (the PRC's Target's lowest selling price of crude oil since 2013 was RMB208.7 per barrel (equivalent to US$32 per barrel) as the low oil price scenario in the Independent Technical Report, the estimated total production would remain unchanged at 10.1 million barrels.

The above analysis on the unit cost per barrel is compiled based on 100% of the development and operating cost and expenses, and the gross production amount projected by the Competent Person as set out in the Independent Technical Report (20% of the sales proceeds shall be shared with Yanchang).

Selling price and long term oil price

During the Track Record Period, the average unit selling price of the PRC Target amounted to approximately RMB567 for the year ended 31 December 2013, approximately RMB552 for the year ended 31 December 2014 and approximately RMB304 for the year ended 31 December 2015. Since 1 January 2016, the lowest selling price of the PRC Target was approximately RMB208.7 per barrel (exclusive of sales related tax) (equivalent to approximately US$32 per barrel). As at the Latest Practicable Date, the selling price of the PRC Target was approximately RMB279.45 per barrel (exclusive of sales related tax) (equivalent to approximately US$43 per barrel).

Under the EPCC, Yanchang shares 20% of the proceeds from the sale of crude oil produced (net of related sales tax) and the PRC Target is only entitled to 80% of the sales proceeds.

Whilst the market price of crude oil has recently dropped significantly, the management of the PRC Target considers that crude oil price will increase in the long term. As supported by the respective view of the Competent Person as stated in the Independent Technical Report and Wood Mackenzie, the independent industry consultant, as set out in the section headed "Industry Overview" in this circular, the PRC Target believes that market oil price will increase in the long term from the currently relatively low oil price environment. The Competent Person has forecast Brent Crude price to increase to an average of approximately US$40.90 (equivalent to approximately RMB266.7) per barrel in 2016; US$47.58 (equivalent to approximately RMB310.2) per barrel in 2017, US$60 (equivalent to approximately RMB391.2) per barrel in 2018; US$70 (equivalent to approximately RMB456.4) per barrel in 2019; US$71.40 (equivalent to approximately RMB465.5) per barrel in 2020; and thereafter escalating at 2% per annum. Wood Mackenzie has forecast a recovery from an average of US$52.24 (equivalent to approximately RMB340.6) per barrel in 2016 to an average of approximately US$67.10 (equivalent to approximately RMB437.5) per barrel in real terms for 2017 rising slowly to an average of US$87 (equivalent to approximately RMB567.2) per barrel in real term for 2020. As the PRC Target's selling price is principally linked to the market oil price, an increase in the market oil price will also increase the selling price of the PRC Target's sale of crude oil. This will enhance the commercial prospect of the development plan of the PRC Target in Block 212.

Selling prices of domestic fuels in the PRC are regulated with reference to the crude oil price. The PRC National Development and Reform Commission announced in January 2016 that the price of domestic fuels will not be further adjusted downward even if the international oil price falls below US$40 per barrel (equivalent to approximately RMB260.8 per barrel). According to a press release of the PRC National Development and Reform Commission, this policy aims to, among other objectives, promote long term national energy security (by supporting the use of domestic crude oil). Whilst this is not a policy of setting a price floor for domestic crude oil, the management of the PRC Target considers that this would support indirectly the selling price of domestic crude oil in China.

Estimated positive return based on the Independent Technical Report

As illustrated in the Independent Technical Report, based on the forecast of the Competent Person on the market oil price and the development and production plan of the PRC Target in Unit 2 and Unit 19 of Block 212, it is estimated that the PRC Target's share in Unit 2 and Unit 19 of Block 212 has an estimated post-tax NPV of US$115 million (equivalent to approximately RMB757 million) as at 31 December 2015 (under the best case scenario and based on a discount rate of 10%). This substantial estimated post-tax NPV also helps illustrate that the PRC Target's development plan in Block 212 is commercially viable having a stream of net cash inflow from the project under normal market expectation.

Based on the Independent Technical Report, the results of the various sensitivity analysis on the net present value, payback period and internal rate of return are summarised in the table below.

	Best case for production		Low case for production	
	The case based on the Competent Person's oil price forecast in 2016 (GCA 1Q 2016)	The case based on the lowest selling price of the PRC Target since 1 January 2013 (and assuming 10% cost reduction by the PRC Target)	The case based on the Competent Person's oil price forecast in 2016 (GCA 1Q 2016)	The case based on the lowest selling price of the PRC Target since 1 January 2013 (and assuming 10% cost reduction by the PRC Target)
Estimated NPV based on a discount rate of 10%[Note]	RMB757 million	RMB586 million	RMB500 million	RMB382 million
Payback period from 2016, after taking into account of the Acquisition consideration	6.2 years	7.0 years	7.5 years	9.2 years
Internal rate of return	13.3%	9.8%	7.6%	3.6%

The Company understands that the price assumptions used by the Competent Person in the GCA 1Q 2016 are generally consistent with other market expectations. Whilst the selling price of the PRC Target's oil fell to RMB208.7 per barrel (equivalent to approximately US$32 per barrel) after 2015 as Brent Crude (being a major reference for setting the selling price of the PRC Target's oil) fell, once to as low as US$26 per barrel (equivalent to approximately RMB169.5 per barrel) on 20 January 2016. Brent Crude then gradually increased back to about US$48.41 per barrel (equivalent to approximately RMB315.63 per barrel) as at the Latest Practicable Date. Accordingly, despite the further drop in Brent Crude in January 2016, the Company considers that the prevailing actual lowest selling price in 2016 (up to the Latest Practicable Date), does present a worst case scenario. In view of the general market forecast on oil price, the Company believes that oil price will increase in longer term.

The best case scenario is considered to be realistic by the Competent Person. Based on the above analysis, under the best case, the Company expects to generate a substantial return from its investment in the investment in the Area and the related development plan of Unit 2 and Unit 19 of Block 212. Whilst the net present value and internal rate of return decrease and the payback period lengthens under the low case as compared with the best case, the Company still expects to generate a positive return under various sensitivity scenarios.

The Competent Evaluator has calculated that as at 31 December 2015 the fair market value of the PRC Target's 80% revenue interest in Unit 2 and Unit 19 of Block 212 ranges from approximately RMB790 million to RMB855 million. This fair market value is determined by the Competent Evaluator after having considered a wide range of various post-tax NPV estimates which in turn are calculated by the Competent Evaluator based on a specific set of market oil price assumptions, costing assumptions and discount rates. The Competent Evaluator recognises that the lowest selling price scenario shows NPVs significantly lower than the bottom end of the estimated fair market value range, but does not consider that the scenario represents a fair market value case as it is of the opinion that the market would assume higher future oil prices. Independent Shareholders should refer to the Board's discussion of the assumptions and basis underlying the NPV estimates and fair market value estimate set out in the sub-section headed "Letter from the Board — The Acquisition Agreement" of this circular, as well as the Competent Person/Competent Evaluator's analysis set out in "Appendix VII — Independent Technical Report" and "Appendix VIII — Competent Person's Report" to this circular.

Subsequent to the publication of this circular and up to the SGM, if there are any subsequent material changes in the view of the Competent Person/Competent Evaluator in the Independent Technical Report and/or the Competent Evaluator's Report and/or changes to the market conditions, including among the things, the general market view on oil price forecasts which may be material to the Independent Shareholders' assessment of the Transactions, the Company shall issue an announcement and/or a supplementary circular (where appropriate) accordingly.

Economically viable

Based on the above future cost analysis and with reference with the historical average selling price during the Track Record Period, the forecast market price as well as the various analysis in the Independent Technical Report as summarised above, the PRC Target and the Company (after consultation with the Offeror) consider that the current development plan of the PRC Target in respect of Block 212 has a clear path to commercial production in terms of economic viability. Shareholders shall nevertheless note that the above analysis is prepared based on information currently available to the PRC Target, and the actual cost may be higher than currently projected and the PRC Target may also incur other expenses and cost in relation to the development plan.

Possible adjustment to the development plan

It is the current plan of the PRC Target that it shall continue to implement its development as planned to a material extent. However, if the crude oil price falls back and stays below approximately RMB261 per barrel or US$40 per barrel for a long period of time than the management of the PRC Target now anticipates (for about six to nine months), the PRC Target may defer or adjust its development plan by, for example, ceasing to drill new oil producers but continuing to carry out workovers. The management of the PRC Target considers that whilst this will adversely affect the level of production and thus the income of the Restructured Group, this will help the Restructured Group minimise its capital expenditures during the low oil price period to reserve its financial resources for resumption of full scale development work when the market improves. If the adverse market conditions prolong, the PRC Target will also endeavour to control and reduce its development and production cost as described above.

Permits

Current exploration, development and production operations of the PRC Target in Block 212 rely upon the exploration permit held by Yanchang for Block 212, and while the exploration permit does not require any minimum production level and also does not limit the production of crude oil in Block 212 to a particular amount, the continual development plan and commercial production of crude oil in Block 212 depend on Yanchang being able to obtain the production permit in relation to the relevant areas (namely Unit 2 and Unit 19) within

Block 212 or any other area within Block 212 which the PRC Target proposes to develop. Details of the current status of these permits and the EPCC are set out in the sub-section headed "Relationship with Yanchang" in this section above, and details of other permits held by the PRC Target and Yanchang are set out in the sub-section headed "Regulatory Compliance" in this section below.

Potential delay

Delay in EPCC renewal

If the PRC Target fails to renew the EPCC, the PRC Target would be unable to continue operations in the Area and the PRC Target's investments in the Area, including mainly oil and gas properties, any construction in progress relating to oil and gas properties and the intangible assets held would be impaired. The production of crude oil in the Area by the PRC Target would have to entirely cease. However, as described in the sub-section headed "Relationship with Yanchang" in this section above, Yanchang is legally obligated to renew the EPCC with the PRC Target equal to the term of the relevant exploration and/or production permit, as long as the PRC Target has performed its obligations under the EPCC as per the First Confirmation Letter. Although the PRC Target has not strictly followed the terms of the EPCC in paying Yanchang its share of the sale proceeds timely, Yanchang renewed the EPCC in 2015 and again in 2016. During the period from July 2014 to June 2015 when the renewal of the EPCC was delayed, the PRC Target's production and sale of crude oil from the Area continued and was entirely unaffected. During the above period, the PRC Target kept continued communications with Yanchang and the PRC Target has confirmed that Yanchang did not request the PRC Target to discontinue its exploration, development and production work in the Area. When the EPCC was renewed in 2015, the effective period of the EPCC retrospectively covered the period commencing on 1 July 2014. The previous delay in EPCC renewal was due to the overdue payables to Yanchang. The PRC Target expects to timely settle the amount due to Yanchang under the EPCC after completion of the Transactions due to additional funding from the Subscription and thus does not expect the further renewal of the EPCC will be delayed because of this reason. However, if there is a future delay in renewal of the EPCC, the PRC Target expects that exploration, development and production work would again continue if there were any delay in renewal of the EPCC, given the good working relationship between Yanchang and the PRC Target (as explained below), and that it would be in Yanchang's interests for production and sale of crude oil to continue so that they may continue to share and earn the sales monies.

The PRC Target believes that it has established a good working relationship with Yanchang and the risk of Yanchang terminating the EPCC is not material, as evidenced by Yanchang agreeing to renew the latest EPCC early before its scheduled expiry in July 2016, and confirming in the First Confirmation Letter that the EPCC will continue to be renewed going forward. In the Second Confirmation Letter Yanchang further confirmed that it would not terminate the EPCC as a result of the overdue amounts. The PRC Target further believes that it is unlikely that the PRC Target will be unable to settle payments with Yanchang on time in the future given the additional funding from the Subscription. There was one occasion where the EPCC was not renewed timely. The PRC Target considers that a mere delay in renewing the EPCC would unlikely cause a material delay to its development plan provided that it is able to renew the EPCC eventually. If the EPCC was not renewed, the PRC Target would discuss with Yanchang for any potential settlement arrangement, and would consider taking legal action (if possible) against Yanchang depending on the then circumstances and reasons leading to the termination. However, it would be difficult to determine if any compensation would be granted to the PRC Target.

Delay in obtaining production permit

The PRC Target's long-term interests in the Area also depend on the grant of a production permit to Yanchang in respect of the Area. If there is a delay in obtaining a production permit by Yanchang, the PRC Target shall be able to continue its current crude oil development and production work under the existing exploration permits, for which Yanchang can apply for renewals as long as the minimum investment requirement is satisfied. That is, if the exploration permits remain valid, a delay by Yanchang in obtaining a production permit would not have any impact on the PRC Target's production plans in the Area. If Yanchang is for unforeseen reasons unable to obtain the production permit and also unable to renew the exploration permit(s), then the PRC Target would be unable to continue operations in the relevant block(s) and the corresponding investments in the relevant block(s) of the Area, including mainly oil and gas properties, any construction in progress relating to oil and gas properties and the intangible assets held, would be impaired. The production of crude oil in the Area by the PRC Target would have to entirely cease. However as stated in the sub-section headed "Relationship with Yanchang" above in this section, subject to the provision of documents/information required, there should not be any legal impediment for Yanchang to be granted the production permit in respect of Unit 2 and Unit 19 of Block 212 and Yanchang shall have the right to renew its exploration permits in respect of the Area according to the memorandum dated 29 June 2016 of Haiwen & Partners, the PRC legal advisors to the Company.

Extended period of low oil price

As described in the sub-section headed "Future Plans for Commercial Production — Economic Viability of the Development Plan" in this section above, a prolonged unfavorable market in terms of oil market price may also cause delay to the PRC Target's development plan.

Departure of senior management

The senior management team of the Restructured Group will work closely as a team. The PRC Target does not consider that the departure of some of the management personnel will cause a material adverse impact on its development plan. However if there is any material change to the PRC Target's senior management team, progress on the development plan may be delayed until new management personnel with appropriate industry experience and expertise can be identified and hired at acceptable terms.

Impact of a possible delay

As explained above, the PRC Target does not anticipate any material adjustment, to the development plan as a result of (1) a delay in renewing the EPCC with Yanchang, (2) a delay in the granting of a production permit to Yanchang in respect of Block 212 or (3) departure of some of the senior management team members, or other foreseeable factors. If for any reason, the progress of development plan is adversely affected and thus has to be adjusted, the expected level of production during the delayed period will likely not be able to be achieved as projected in the Independent Technical Report. This may adversely affect the income of the PRC Target. On the other hand, the amount of capital expenditures of the PRC Target would also reduced correspondingly.

The table below sets out, for illustrative purposes, the effect on the production volume, capital expenditure and operating expenditure (before taxes, royalties and government changes) during the 5-year development plan if the development plan is, for any reason, adversely affected by any of the above reasons (assuming that the development plan will be slowed down and adjusted downward from the Best case to the Low case as per the Independent Technical Report).

	2016	**2017**	**2018**	**2019**
Production level	*'000 barrel*	*'000 barrel*	*'000 barrel*	*'000 barrel*
Best case	583	869	1,108	1,339
Low case	540	738	879	1,011
Capital expenditure	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Best case	135.9	98.1	103.2	113.2
Low case	104.4	89.3	67.9	71.1
Operating expenditure (before taxes, royalties and government charges)	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Best case	63.1	82.6	100.1	117.0
Low case	59.8	74.1	83.9	93.6

Based on the Independent Technical Report, the NPV of the PRC Target's interest in Unit 2 and Unit 19 of Block 212 as at 31 December 2015 based on the Competent Person's base case GCA 1Q 2016 assumption amounted to US$76 million (equivalent to approximately RMB500 million) and US$115 million (equivalent to approximately RMB757 million) in the low case and the best case respectively (based on a 10% discount rate). In the Competent Evaluator's Report, there is a sensitivity analysis where the development plan in Unit 2 and Unit 19 of Block 212 was delayed from 2016 to 2018. In that case, the NPV of the PRC Target's interest in Unit 2 and Unit 19 of Block 212 as at 31 December 2015 would decrease to approximately US$73 million (equivalent to approximately RMB480 million) and approximately US$108 million (equivalent to approximately RMB711 million) respectively (based on a 10% discount rate), representing a decrease of approximately 4% in the low case and 6% in the best case.

Exploration plan for other areas in Block 212

The above development plan focuses on Unit 2 and Unit 19 in Block 212, which, during the Track Record Period, have contributed the majority of the crude oil pilot production in Block 212. There are other areas in Block 212 that have previously produced oil from exploration wells, but require further appraisal drilling, and still other areas considered to be prospects but which have not had any drilling work conducted as at 31 December 2015. The oil resources that could be contained in such areas are categorised in the Independent Technical Report as contingent resources and prospective resources, and are not considered as part of the PRC Target's reserves as at 31 December 2015.

It is currently planned that the Company will use HK$450 million from the proceeds of the Subscription to finance the further exploration work which will involve, among other things, further 3D seismic survey and analysis, the drilling of exploration and appraisal wells, development and producing wells, the building of water injectors and conducting workovers.

The PRC Target plans to utilise the said funding available from the Subscription as follows:

Year	Major exploration work	Funding planned to be used *HK$'000*
2016	• A further 3D seismic survey and analysis • Drilling of exploration and appraisal wells	152,442
2017	• Drilling of additional exploration and appraisal wells • Drilling of development and producing wells • Building of water injectors	146,156
2018 and 2019	• Drilling of additional development and producing wells • Building of additional water injectors • Workovers	151,402
	Total	450,000

As the other areas of Block 212 are still at a relatively early exploration stage, the exploration plan is subject to a higher degree of uncertainty and thus may have to be updated, revised and changed significantly based on the exploration findings and results obtained from time to time.

KEY RISKS RELATING TO THE OPERATIONS OF THE PRC TARGET

Risk of failure to secure entitlement to development and production activities for Block 212

As disclosed in previous sections, current operations of the PRC Target in Block 212 rely on its right under the EPCC, and the authority of Yanchang to grant such right to the PRC Target under the EPCC arises from the exploration permit held by Yanchang for Block 212. In addition, Yanchang's authority to grant to the PRC Target the right in connection with the continual development and commercial production of crude oil in Block 212 under the EPCC depends on Yanchang being able to obtain the production permit in relation to Block 212.

The current EPCC will expire on 30 June 2018, and the exploration permit held by Yanchang for Block 212 will expire on 5 March 2017. It is expected that the EPCC will be renewed after the expiry of the current EPCC based on Yanchang's existing exploration permits or after the first production permit in Block 212 is granted to Yanchang by MOLR. There is no assurance that Yanchang will be granted a production permit for Block 212. There is also no assurance that Yanchang will renew the EPCC should it be awarded the production permit.

In the event that the EPCC is not renewed or the production permit for Unit 2 and Unit 19 within Block 212 is not granted to Yanchang, the business operation, financial condition and results of operations of the PRC Target will be adversely affected.

However, the PRC Target believes that the possibility of the abovementioned risks are low because according to the memorandum dated 29 June 2016 of Haiwen & Partners, the PRC legal advisors to the Company, (i) Haiwen & Partners was told in an interview with relevant officials of MOLR that under the current rules and regulations in the PRC, Yanchang shall have the rights to continue to renew its exploration permits and during the term of the exploration permits, MOLR will not accept any application from other applicants for a production permit in respect of the Area and will not sell the production right in respect of the Area via tenders; (ii) there should be no legal impediment for Yanchang, subject to the provision of documents/information required by MOLR, to be granted the production permit in respect of Unit 2 and Unit 19 of Block 212; (iii) Yanchang is legally obligated to renew the EPCC provided the PRC Target has performed its obligations in accordance with the EPCC; and (iv) the statements by the MOLR officials at point (i) do not contradict any laws of the PRC.

Risks relating to sales

The PRC Target is entrusted by Yanchang to sell crude oil on Yanchang's behalf pursuant to the crude oil sales agreement entered into between Yanchang and the Customer commencing from 5 August 2014 for a period of two years. As the PRC Target is not a party to such sales agreement, there is a risk that it cannot prevent amendments to the contract terms that may be adverse to the PRC Target (such as lowering the quantity of sales or unit price, or increasing the cost of sales), which could be agreed upon by Yanchang and the Customer without the PRC Target's involvement. However, the PRC Target considers that Yanchang and it have the same material interests in setting selling prices and terms as they both share the revenue from the sale, and thus the risk of Yanchang unfairly setting the selling price and terms jeopardising the PRC Target's interests is not material. In addition, the PRC Target believes that it shall have the right to participate in price negotiation under the Internal Management Guidelines of Yanchang (which form part of the EPCC).

Risks relating to the volatility of global crude oil prices

Crude oil price is affected by a number of factors including supply and demand, political events and expectations, quality of crude oil, transportation costs and the nature of the market in which it is sold. Brent Crude and WTI prices, which fell by about 75% between June 2014 and January 2016, represents one of the major factors that have to date affected the selling price of Block 212 crude oil. The PRC Target does not and will not have control over the factors affecting global crude oil prices, and there is no guarantee that international prices for crude oil will become stable, and any future declines in international prices for crude oil will affect the PRC Target's results of operations adversely. At present, the future price of crude oil is seen as being extremely uncertain, which correspondingly presents a risk to the pricing for Block 212 crude oil. However, based on the Competent Evaluator's Report, the Independent Technical Report and the analysis of Wood Mackenzie as set out in the industry overview report, the Offeror is of the view that crude oil prices are more likely to increase in the long term and, therefore, the risk to which the PRC Target is subject is low to moderate in the long term.

If the crude oil price drops further, the development plan of the PRC Target will also be delayed and adversely affected. In addition, it should be noted that the reserves estimation in Block 212 and the fair market value of the PRC target's working interest in Block 212 as set out in the Independent Technical Report and the Competent Evaluator's Report depend on the long term market crude oil price gradually picking up and increasing. Long term unfavourable market crude oil price development will impose additional uncertainty on the reserves estimate and thus the fair market value of the PRC Target's working interest in the Area.

Risks in relation to reserve estimation

Upstream oil and gas activities by nature carry a certain level of operational risks which may never be eliminated, such as deviation of actual well performance or actual well production quantity from estimation possibly which would impact future operations. Accordingly, the estimates of reserves and resources are subject to revision, upward or downward, and should not be considered a guarantee or prediction of results. In the event that the actual performance or actual well production quantity deviates adversely and substantially from the current estimates, the business operation, financial condition and results of operations of the PRC Target will be adversely affected. Such risks can be reduced with a better understanding of the subsurface from either more seismic data or through the experience of the operator. During its past exploration and development work, the PRC Target believes that it has accumulated a good portfolio of data allowing a better understanding of the structure of the reservoirs in the Area. This will help enhance the exploration success rate. In addition, considering that the estimates of reserves and resources are prepared and reviewed by experienced staff members of the Competent Person based on their professional engineering judgment, the Offeror and the Board (after consultation with the Offeror) expect that the risk in connection with possible deviation is relatively low.

Risk of cost overrun

Operators may get into trouble of cost overrun in connection with well development. There is no assurance that the PRC Target will not encounter any cost overrun issue that would disrupt the plan to develop Block 212 to commercial production. However, the PRC Target does not consider cost overrun to be a major risk after having considered that (i) competition amongst service providers for well development projects is relatively fierce now in particular, in view of the trend of operators in the PRC scaling back their activities due to the recently low oil price environment, (ii) the PRC Target's well exploration and development works in Block 212 in the past has provided it with a good set of historical data for planning more accurately, and (iii) that the wells to be developed by the PRC Target within Block 212 are generally infill or step out wells from existing wells which are relatively simple to develop.

Environmental risks

The PRC Target's crude oil extraction and processing work produce natural gas and waste water. The PRC Target is subject to environmental protection laws and regulations in the PRC. The PRC Target, in the event of violation of such laws and regulations, may be subject to imposition of fees, levy of fines and payments or closure of facilities.

Given that (i) as at the Latest Practicable Date, the PRC Target was not aware of any local community concerns regarding its operations in the Area, or any new environmental regulations and/or programs that could impact the PRC Target's operations; (ii) an environmental protection inspection and acceptance opinion dated 12 July 2012 in relation to the completion of particular wells within Block 212 was issued by the Bureau of Environmental Protection of Xilin Gol League, Inner Mongolia, which confirmed that the Bureau had approved the completion of the construction work subject to the assessment; (iii) the natural gas and waste water produced from the PRC Target's crude oil extraction and processing work is reused; (iv) with regard to the construction and use of the oil gathering station, the lack of certain required approval is a result of the industry specific circumstances and the PRC Target has received a confirmation letter from the Bureau of Environmental Protection of East Ujimqin Banner dated 23 September 2015 stating that the PRC Target may continue using its oil gathering station despite the lack of environmental approval (as further described in the sub-section headed "Environmental Issues" in this section); and (v) the confirmation letter also states that since incorporation, the PRC Target has not been investigated or penalised by the Bureau as a result of breaching any relevant laws and regulations, the PRC Target believes the environmental risks to which the PRC Target is subject are low.

Competent Person's risk assessment

In addition to the risks considered by the Board and the PRC Target above, the Competent Person has also performed a risk assessment analysis as set out in the Independent Technical Report and the Competent Evaluator's Report. A summary of the risk assessment as extracted from the Independent Technical Report is reproduced below.

Hazard/Risk	Likelihood	Consequence Rating	Risk
Operator Capability	Unlikely	Moderate	Low
Facility and Environmental Liabilities	Unlikely	Moderate	Low
Production Permit	Unlikely	Major	Medium
Geological Risk Factors	Possible	Minor	Low
Development & Production Risks	Possible	Moderate	Medium
Cost Increases	Possible	Moderate	Low
Continued Low Oil Price	Possible	Major	Medium
Timing Adjustments	Likely	Minor	Low
Litigation	Unlikely	Minor	Low

Shareholders should refer to Appendix VII and Appendix VIII to this circular for more details regarding the Competent Person's and the Competent Evaluator's risk assessment analysis.

Measures Taken to Manage Certain Key Risks

The PRC Target considers that certain key risks are particularly faced by independent operators relying on exploration and production sharing or other cooperation contracts with Yanchang or other mineral right owners in the PRC. The management of the PRC Target has been closely monitoring such risks and has taken measures to help manage and mitigate the risks. The Company and the proposed Directors consider these risks (in particular the risks of Yanchang not renewing the EPCC, sale to one single customer designated by Yanchang, the risks of Yanchang not being able to obtain and maintain necessary permits and licences, including the exploration permits and production permits, and the PRC Target not being able to renew the temporary land use rights) have been well managed by the PRC Target as follows:

- Yanchang has committed (through the First Confirmation Letter) to timely renewal of the EPCC if the PRC Target fulfils its obligations under the EPCC and has confirmed (through the Second Confirmation Letter) that it will not terminate the EPCC as a result of the outstanding overdue payment from the PRC Target, which will be repaid in full using part of the proceeds from the Subscription as soon as practicable after completion of the Transactions takes place.

- The PRC Target has entered into a long term contract with the Customer under which, and as further confirmed by the Customer, the Customer will purchase all crude oil produced by the PRC Target, and the Customer has purchased all of the PRC Target's crude oil produced during the Track Record Period. Under such agreement, the Customer has no right to unilaterally terminate the sales agreement with the PRC Target. Crude oil is a commodity with a sustainable demand in the PRC, and the PRC Target believes that it would be able to find other customers for its crude oil even if the Customer was unwilling or unable to buy crude oil from the PRC Target. Whilst the PRC Target is only allowed to sell crude oil to customers designated by Yanchang under the EPCC, Yanchang has confirmed (through the Second Confirmation Letter) that the PRC Target may sell crude oil to other customers in future subject to its then approval. The PRC Target further believes that Yanchang has the same commercial interests as itself and would ensure that appropriate customers are designated to buy the PRC Target's crude oil.

- Current development and production operations in Block 212 are limited to Unit 2 and Unit 19. The PRC Target believes that the majority remaining area of Block 212 and all of Block 378 have substantial potential of further exploration and development to expand its oil reserves and resources as funded by part of the proceeds from the Subscription.

- Whilst the wells of the PRC Target are built on land with temporary land use rights, such temporary land use rights have been renewed previously. The related land bureau has confirmed that it will duly process the PRC Target's renewal applications subject to the approval of on-site inspection and the PRC Target does not anticipate any impediment to continued renewals.

- Yanchang has confirmed that it will timely renew the exploration permits when they expire and apply for the production permit as soon as practicable. According to the memorandum dated 29 June 2016 of Haiwen & Partners, the PRC legal advisors to the Company, (i) Haiwen & Partners was told in an interview with relevant officials of MOLR that under the current rules and regulations in the PRC, Yanchang shall have the right to continue to renew its exploration permits and during the term of the exploration permits, MOLR will not accept any application from other applicants for a production permit in respect of the Area and will not sell the production right in respect of the Area via tenders; (ii) subject to the provision of documents and/or information required by MOLR, there is no legal impediment for Yanchang to be granted the production permit in respect of Unit 2 and Unit 19 of Block 212, as it has already successfully submitted a reserve report to MOLR; and (iii) the statements by the MOLR officials on point (i) do not contradict any laws of the PRC. If there is a delay in obtaining a production permit, the PRC Target's existing exploration, development and production work, as well as its future development plans, can continue pursuant to the exploration permits, which can be renewed.

Option to sell the entire equity interest in the PRC Target to the Offeror

In light of the risk of Yanchang being unable to obtain and/or maintain the exploration permits and production permit in respect of Block 212, the Offeror has granted to the Company an option (the "**Option**") to sell the PRC Target to the Offeror, exercisable at the discretion of the Company (with the consent of the independent non-executive Directors) if, at any time within the two years after completion of the Acquisition:

(i) the exploration permit for Block 212 (covering the entire area in Block 212, including, among other units of the area, Unit 2 and Unit 19) is not renewed; and

(ii) a production permit is not granted in respect of Unit 2 and Unit 19 and/or any particular area in Block 212 with proven reserves (together, the "**Triggering Event**").

Upon occurrence of the Triggering Event, the Company shall then use its reasonable endeavour and effort by taking appropriate actions, depending on the circumstances, such as communicating with the relevant authority, understanding the reasons for the Triggering Event, making appropriate submissions, providing necessary information and carrying out work required by the relevant authority, carrying out appropriate review/appeal procedures, etc., to remedy the Triggering Event in the six months after the occurrence of the Triggering Event. If the Company fails to remedy the Triggering Event within the six-month period the Company shall have the right to exercise the Option within 120 days after expiry of the six-month period. The Option requires the Offeror to purchase the entire equity interest in the PRC Target from the Company, for a cash consideration of RMB558,880,000, being the consideration payable by the Company to the Target Sellers under the Acquisition. The Board shall inform all independent non-executive Directors immediately upon occurrence of the Triggering Event. The then independent non-executive Directors will consider whether the exercise of the Option will be in the best interests of the Company and the Shareholders as a whole, for example that they may consider whether there are other possible buyers for the investment in the PRC Target and whether this will give the Company a better return than selling the PRC Target to the Offeror under the Option. The exercise or non-exercise of the Option and the disposal of the PRC Target by the Company to the Offeror shall be reviewed and approved by the independent non-executive Directors and/or shall be subject to any applicable disclosure and Shareholders' approval requirements under the Listing Rules. The Company believes that this Option can help provide certain monetary protection to the Company's proposed investment in the PRC Target under the Acquisition in the case the value of the PRC Target is materially and adversely affected if the development of the Area cannot be continued due to the lack of a valid exploration permit and production permit. The Joint Sponsors agree with the Company that the Option effectively provides the Company with an additional protection against the proposed investment in the PRC Target in respect of the major risk that the PRC Target will not be able to continue its production in the Area as a result of the Triggering Event.

However, if upon completion of the disposal pursuant to the exercise of the Option, the Stock Exchange considers the Company's assets consist wholly or substantially of cash or short dated securities, trading in the Shares may be suspended. Shareholders may refer to the risk factors headed "Upon exercise of the Option, the Company may be considered a cash company by the Stock Exchange and trading in the Shares may be suspended" in the "Risk Factors" section.

SUPPLIERS AND CUSTOMER

Suppliers and outsourcing arrangements

The PRC Target outsources oilfield technical and engineering requirements including seismic survey, drilling, coring, logging, casing, cementing, perforating, fracturing, testing and workover in Block 212 to independent third parties. The PRC Target's suppliers are mainly service providers that provide oil and gas technical and engineering services. The table below sets out the number of major third party service providers engaged by the PRC Target for each category of work during the Track Record Period.

Work Category	Number
Seismic and related services	3
Drilling and related services	15
Well completion and related services	5
Field operation and related services	15
Surface construction and related services	13

The PRC Target typically procures independent third party oilfield service providers by requesting service providers to submit tenders or provide fee quotations. The PRC Target will then rate the suppliers in terms of technical experience (such as amount of registered capital, past experience and certification) and business standard (such as price quote, timing and warranty period) and make a decision based on the overall rating of the suppliers. With a view to managing the risks associated with outsourcing and reliance on contractors, the PRC Target maintains close supervision over third party service providers, with on-site monitoring and assessments at the end of each job. Each year, the PRC Target holds an overall works meeting with third party service providers to review workplace safety, work quality and supervision issues.

The PRC Target's agreements with third party service providers are normally signed and commence in spring, usually in April or May, each year, and cover works to be carried out until winter of the same year, with the term ending in October, November or December. However, certain services such as well and facilities maintenance are carried out year-round. The agreements set out principal terms including unit price, scope of work and payment schedule. The service providers generally provide all necessary manpower and materials as included in the cost of their works. However, certain materials like well casings and tubings may be provided by the PRC Target. The PRC Target will supervise the progress of work and receive progress reports from the service provider in line with the work schedule. The payment terms with our suppliers may vary from one supplier to another. Typically suppliers may request an initial deposit, which may be a fixed amount or a percentage of the contract fee.

Subsequent payments may be based on the percentage of works completed (e.g. reaching a certain well depth or for each completed well) and are subject to the PRC Target's inspection and acceptance, with the balance to be paid at the end of the year. The agreements generally do not specify a particular credit period. The agreements set out that a defaulting party generally must compensate the other party for any loss caused by its default, and normally the PRC Target additionally benefits from a liquidated damages clause setting out specified damages for the service provider's failure to meet particular standards specific to each type of work, such as completion deadlines or reporting requirements. Such liquidated damages may be withheld from service fees due to the service provider. With a view to promoting work quality of the service providers, service providers are required to compensate the PRC Target in respect of any sub-standard work. The agreements require the service providers to comply with relevant occupational health and safety and environmental protection laws, and maintain proper insurance for workers. The PRC Target's agreements with service providers generally do not provide for automatic renewal.

As a result of a substantial decline in market oil price during the Track Record Period and thus the PRC Target's selling price, leading to tight funding and liquidity issues, the PRC Target has deferred making payments to some suppliers, which led to a lengthened trade payable turnover as further explained in the section headed "Financial Information of the PRC Target" in this circular. During the Track Record Period, the PRC Target received a demand letter dated 7 December 2013 from one of its suppliers (being one of the top five suppliers for the year ended 31 December 2013) demanding payment of outstanding service fees under one of its contracts with the PRC Target amounting to approximately RMB4.3 million and such amount has been fully settled as at the Latest Practicable Date. Based on communication with the management of the relevant supplier to the effect that the supplier does not intend to pursue legal action against the PRC Target, the management of the PRC Target considers that there is no material risk of legal action against the PRC Target arising from this matter. Furthermore, a portion of the Subscription proceeds shall be used to repay the outstanding sum.

During the Track Record Period, the PRC Target did not experience any material delays, quality issues or safety issues with its suppliers. If any of the PRC Target's existing service providers was unwilling or unable to provide their services to the PRC Target, the Directors believe that replacement service providers could be identified to provide similar services on similar terms.

For each of the three years ended 31 December 2013, 2014, and 2015, purchases from the PRC Target's five largest suppliers of each of the relevant year accounted for approximately 51.1%, 53.0% and 68.1%, and purchases from the PRC Target's largest supplier of each of the relevant year accounted for approximately 15.6%, 26.2% and 33.2%, of its total cost of materials, construction and other services of approximately RMB133.5 million, RMB60.4 million and RMB39.4 million respectively. During the Track Record Period, the total costs of materials, construction and other services incurred were approximately RMB233.3 million.

So far as it is known to the Directors and/or the proposed Directors, none of the Directors, proposed Directors, their respective close associates or Shareholders who are interested in 5% or more of the issued share capital of the Company, and the Offeror had any interest in the five largest suppliers of the PRC Target during the Track Record Period.

Customer

Background

Under the Measures for the Administration of the Crude Oil Market by the Ministry of Commerce, one of requirements for obtaining such a crude oil sales permit is the holding of a production permit which will only be granted to the four state-owned oil companies in the PRC. Accordingly, the PRC Target does not have a permit to sell crude oil produced in the PRC, like all other privately-owned companies in the PRC. In accordance with the EPCC, the PRC Target is entrusted by Yanchang (which possesses a crude oil sales permit) to sell crude oil to customer(s) designated by Yanchang. Since entering into the EPCC, Yanchang has only designated one customer to whom the PRC Target can sell crude oil produced from the Area. The Customer is a privately-owned limited company located in Inner Mongolia with a registered capital of RMB51,360,000 and is an independent third party of the PRC Target. The Customer's principal business is crude oil refining, and the production and sale of gasoline and diesel products. So far as it is known to the Directors and/or the proposed Directors, none of the Directors, proposed Directors, their respective close associates or Shareholders who are interested in 5% or more of the issued share capital of the Company, and the Offeror had any interest in the Customer during the Track Record Period.

Sales agreements

Before August 2014, the PRC Target's sale of crude oil was governed by a crude oil sales agreement between the PRC Target (as a party entrusted by Yanchang) and the Customer, which was entered into by the PRC Target as the party entrusted by Yanchang to sell crude oil from the Area. This crude oil sales agreement does not have a stated duration or an expiry date. This crude oil sales agreement does not have a termination clause and expressly states that the Customer cannot stop or delay its collection of crude oil from the PRC Target save in cases of force majeure such as natural disaster.

As stated in the legal opinion dated 29 June 2016 of the Company's PRC legal advisors, the PRC Target had obtained all material licenses and permits necessary to conduct its business activities during the Track Record Period and up to the Latest Practicable Date. Whether or not the PRC Target possesses a crude oil sales permit does not affect the validity of the crude oil sales agreements, as the PRC Target is entrusted to conduct the sales activity on behalf of the actual seller (and holder of a crude oil sales permit), Yanchang.

According to the memorandum dated 29 June 2016 of Haiwen & Partners, the PRC legal advisors to the Company, Yanchang has issued a written confirmation of the existence of the entrustment arrangement whereby the PRC Target was entrusted to sell crude oil to the Customer by way of the crude oil sales agreement between the PRC Target and the Customer, and as such they are of the opinion that the crude oil sales agreement between the PRC Target and the Customer is legal, valid and binding, and the parties' rights under such agreement are protected by the laws of the PRC.

At Yanchang's request, Yanchang and the Customer signed a crude oil sales agreement commencing from 5 August 2014 for a period of two years. The PRC Target understands from Yanchang that the purpose of entering into a separate sales agreement between Yanchang and the Customer is to unify Yanchang's internal management practice with its various cooperation partners, including the PRC Target. Yanchang has acknowledged the sales agreement entered into between the PRC Target and the Customer continues to be binding and effective. The PRC Target is not a party to this agreement and was not privy to the negotiations leading to such agreement between Yanchang and the Customer. This sales agreement will expire on 4 August 2016. The PRC Target understands that Yanchang intends to renew the sales agreement with the Customer. In accordance with both the sales agreement between the PRC Target and the Customer, and between Yanchang and the Customer, the Customer agrees to purchase crude oil produced in the Area, at the prevailing market price of crude oil from time to time (with reference to local prices). The PRC Target performs Yanchang's obligations under the crude oil sales agreement as entrusted by Yanchang. The crude oil sales agreement also sets out the required standard of the crude oil.

The sales agreement between Yanchang and the Customer does not state that it supersedes the crude oil sales agreement between the PRC Target and the Customer; in addition, in the legal opinion dated 29 June 2016 of Haiwen & Partners, the PRC legal advisors to the Company, the PRC legal advisors are of the view that Yanchang did not amend or supersede the crude oil sales agreement between the PRC Target and the Customer by way of signing the crude oil sales agreement between itself and the Customer, based on Yanchang's letter to the PRC Target dated 25 March 2016 stating that the PRC Target has been always entrusted by Yanchang to sell crude oil, and the crude oil sales agreement between the PRC Target and the Customer remains legal and valid.

Despite Yanchang's stated intention of unifying its internal management practice with its various cooperation partners, the PRC Target has not been made aware of Yanchang's arrangements with all of its cooperation partners. Apart from Yanchang, the PRC Target understands that other state-owned oil companies also enter into production sharing contracts with independent operators. Accordingly, Yanchang's practices cannot be assumed to represent the industry as a whole. To the best of the PRC Target's knowledge, crude oil sales arrangements involving two sales agreements may not be common in the industry.

According to the memorandum dated 29 June 2016 of Haiwen & Partners, the PRC legal advisors to the Company, both crude oil sales agreements do not violate any PRC laws, and are binding as between Yanchang (as the mineral rights owner), the PRC Target (as the entrusted seller) and the Customer (as the customer); if there is any future dispute between the parties, the comparative validity of the two crude oil sales agreements and the nature of the legal relationship between Yanchang, the PRC Target and the Customer under the agreements may be subject to different interpretations as they cannot be determined from the express terms of the two agreements. The PRC legal advisors also stated in its memorandum dated 29 June 2016 that it cannot be determined whether the agreement between the PRC Target and the Customer prevails over the agreement between Yanchang and the Customer or vice versa. Regardless, as stated above in this sub-paragraph, the Company understands from its PRC legal advisors that the sales agreement between the PRC Target and the Customer is legal, valid and binding, and the PRC Target's rights under the sales agreement are protected by PRC laws. Accordingly, the legal protection available to the PRC Target shall not be limited by the uncertainties with respect to the sales agreements, and the PRC Target shall have the right to pursue legal action and seek legal recourse in the case of the Customer breaching its obligations under the sales agreement.

Despite the differences between the crude oil sales agreements, up to the Latest Practicable Date, the PRC Target's sales process has been smooth, and there have been no disagreements among the parties arising from the presence of two crude oil sales agreements. The PRC Target's crude oil sales process did not change as a result of the signing of the second crude oil sales agreement, and as at the Latest Practicable Date all crude oil sales from the Area have been made through the PRC Target. The PRC Target considers that it has established a good working relationship with each of Yanchang and the Customer. If there is any future disagreement, the PRC Target will endeavour to discuss and resolve the disagreement by mutual discussions with Yanchang and/or the Customer.

Up to the Latest Practicable Date, neither Yanchang and the Customer has requested to sign a tripartite agreement among the Customer, the PRC Target and Yanchang to conform the differences between the two sales agreements.

Further, pursuant to a written confirmation dated 23 May 2016, Yanchang confirmed that the crude oil sales agreement between Yanchang and the Customer was a standard form agreement of Yanchang, its content had adequately taken into account the cooperation partners' (the PRC Target's) interests and Yanchang would not easily change the standard form agreement nor change any terms of the sales agreement such that the interests of the PRC Target would be damaged. According to the legal opinion dated 29 June 2016 of Haiwen & Partners, the PRC legal advisors to the Company, this confirmation is legal and valid, and the parties' rights therein are protected by the laws of the PRC. Yanchang's confirmation explained that it has taken into account interests of its cooperation partners when drafting the standard form agreement. In a further interview, an officer of Yanchang verbally indicated that it will consult and agree with, among others, the PRC Target before revising the sales agreement with the Customer.

Terms of the sales agreements

The terms of the current sales agreement between Yanchang and the Customer and the one between the PRC Target and the Customer are materially consistent. The EPCC states that the selling price is to be determined based on market price with reference to the basis as set out in the Internal Management Guidelines of Yanchang, whilst the Internal Management Guidelines of Yanchang state that selling price should be determined with reference to the market price and negotiated between Yanchang, the local government, the PRC Target and the Customer, the crude oil sales agreement between the PRC Target and the Customer states that the selling price is to be set with reference to the market price at the time of sale, and the crude oil sales agreement between Yanchang and the Customer states that the selling price is to be set with reference to the market transaction price at the time of sale. In practice, the selling price for the crude oil is agreed between the Customer and the PRC Target from time to time after arm's length negotiation with reference to local and international market prices, as well as the transportation cost of the Customer. The price agreed upon is reported to Yanchang for its record. During the Track Record Period, the PRC Target has not received any intervention from Yanchang when agreeing the selling prices with the Customer.

During the Track Record Period, selling price was significantly affected by the market crude oil price and it is expected that market crude oil price may continue to be volatile. A sensitivity analysis on changes in the average selling price of the PRC Target in relation to the PRC Target's profit/loss is set out in the section headed "Financial Information of the PRC Target" in this circular.

In June 2013, a supplementary agreement was signed by the PRC Target and the Customer, pursuant to which, a guarantee deposit of RMB35,000,000 was paid by the Customer to the PRC Target in return for a 180-day credit period with a maximum amount of RMB35,000,000. There is no provision for a credit period in the current sales agreement between Yanchang and the Customer. Nevertheless, the PRC Target and the Customer continue to practise such credit period policy and the PRC Target has not received any notification from Yanchang objecting to this. In practice, the Customer generally pays for crude oil purchased in intervals of 10 days or less.

Capacity of the Customer

The management of the PRC Target expects that based on its understanding that the production capacity of the Customer is 300,000 tonnes of bitumen per year, the Customer shall be able to take up all output of the PRC Target even after expansion of the PRC Target's production in accordance with the development plan to achieve commercial production. Assuming that barrels of crude oil convert into tonnes of bitumen at a rate of 1:0.165 (the rate used by Wood Mackenzie), the production of 300,000 tonnes of bitumen would require around 1.8 million barrels of crude oil. This is in excess of all yearly production forecasts under the low, best and high cases in the Independent Technical Report. The management of the PRC Target is also of the view that the existing transportation network, including the new concrete road being built, is sufficient to support sale of crude oil after the implementation of the development plan. The management of the PRC Target also considers that it should be able to identify other customers for crude oil, though transportation costs may be higher and any new customers would be subject to Yanchang's agreement.

Sales arrangement

The PRC Target notifies the Customer of the amount of oil produced and available for sale at the end of each day. The Customer will then arrange for trucks to collect the crude oil the next day which transport the crude oil to the Customer's premises in East Ujimqin Banner, Xilin Gol League, Inner Mongolia, the PRC, about 190 km away. Upon receipt of the crude oil at the PRC Target's oil gathering station, the Customer will test the water content of the crude oil on the spot, and the PRC Target will weigh the amount of oil sold. Staff members of the PRC Target and the Customer will sign on the delivery record, which will then be passed to the finance department of the PRC Target. The Customer is responsible for insurance in respect of the transportation of the crude oil. During the Track Record Period, snowy conditions during winter occasionally caused road closures, causing interruption to the transport of crude oil from Block 212 to the Customer. The management of the PRC Target considers that these interruptions have not caused material disruption to the PRC Target's operations.

According to the sales agreement between the PRC Target and the Customer, save in instances of force majeure, the Customer cannot for any reason delay or stop sending trucks to collect oil (and thus purchase oil from the PRC Target), or it will be liable to compensate the PRC Target's loss arising therefrom, and the PRC Target may choose another purchaser for the crude oil. There is no such provision in the current sales agreement between Yanchang and the Customer.

Benefits of the current sale arrangement

The PRC Target has been selling its crude oil from the Area to the Customer pursuant to the sales agreements between the PRC Target and Customer, and between Yanchang and the Customer. The Customer is in relatively close proximity to the PRC Target's oilfield and has the capacity to purchase all crude oil that the PRC Target estimates that it may produce under the development plan of Unit 2 and Unit 19 of Block 212. The Company considers that like other crude oil take-or-pay agreements, the sale arrangement with the Customer does provide the Group with a secured and reliable sales channel.

Single customer risk

While there are risks associated with the concentration of sales to a single customer, the Offeror and the Board (after consultation with the Offeror) consider that the risks are acceptable. As only four state-owned enterprises in the PRC are qualified to own mineral rights in respect of oil natural resources in the PRC, it is a common practice for the PRC Target, being a privately-owned company in the PRC, to work with one of the four enterprises, which is Yanchang in the case of the Area and abide by the business model of Yanchang, following the terms of the EPCC in selling crude oil produced in the Area to Yanchang's designated customer(s). The PRC Target understands that it is a standard practice of Yanchang to require its cooperation partners to sell the crude oil produced to customers designated by it. In addition, the Customer has entered into long-term purchase agreements with each of Yanchang and the PRC Target in relation to the sale of the crude oil produced in the Area at prices to be agreed with reference to market price. The management of the PRC Target considers it unlikely that the PRC Target would be unable to sell all or substantially all of its crude oil to the Customer. The management of the PRC Target contacted some potential customers in the past and they indicated interests in buying crude oil from the PRC Target. In the event that the Customer is unable to purchase from the PRC Target, the PRC Target is of the view that it and/or Yanchang should be able to identify other customers paying market price, as crude oil is a commonly traded commodity with an established market. In the Second Confirmation Letter, Yanchang acknowledged that the PRC Target may solicit new customers depending on its business needs and may sell crude oil to other customer(s) in future, subject to its approval. An officer of Yanchang indicated in an interview that such approval will normally be subject to the prospective customers having a proper business license and sales channel.

After the completion of the Transactions, the Offeror intends for the Restructured Group to pursue oil and gas opportunities in other locations, which may help to reduce the reliance of the Restructured Group on the present single customer in the future.

Credit risk

While there is a risk of default by the Customer, the PRC Target considers that the level of risk is not significant as (i) the PRC Target has obtained a deposit from the Customer of RMB35,000,000, representing approximately 81.1% of the trade receivables as at 31 December 2015, and (ii) there has been no bad debt owed by the Customer to the PRC Target since sales to the Customer began. The PRC Target only extended credit to the Customer after a few years of a satisfactory sale and purchase relationship and obtained a significant deposit as part of the credit sale arrangement. Prior to the credit sale arrangement, payments in advance were required from the Customer before the Customer obtained crude oil from the PRC Target. The PRC Target, in cooperation with Yanchang, will endeavour to follow similar arrangement with any other customer designated by Yanchang. Based on the working history with the customer and the deposit arrangement, the PRC Target is satisfied that the credit risk of the Customer is acceptable.

MARKET AND COMPETITION

Under the terms of the EPCC, the PRC Target is only permitted to sell crude oil to customers designated by Yanchang. During the Track Record Period and up to the Latest Practicable Date, Yanchang has only designated one customer to the PRC Target. The PRC Target considers that it has established a good working relationship with this designated customer. The PRC Target currently has no intention to negotiate with Yanchang with a view to selling crude oil produced to other customers.

As explained in the section headed "Industry Overview" in this circular, China has been a net importer of crude oil since 1993 and Wood Mackenzie expects this to continue. Domestic supply in the PRC is still not expected to be sufficient to meet domestic demand. Crude oil is a commodity product. Accordingly, the Offeror believes that it would not be difficult for the PRC Target to identify other potential customers to purchase the PRC Target's crude oil at market price if necessary. The upstream petroleum market is opening up for smaller independent companies, like the PRC Target. Whilst the PRC Target may not face significant competition in securing sales, the PRC Target will need to continue to control its production efficiency and keep its lifting cost down in order to remain competitive.

The Restructured Group may also encounter competition if it sought to acquire new properties, secure additional production sharing contracts with state-owned oil and gas companies or hire trained personnel. Potential competitors include state-owned oil companies, other independent upstream oilfield operators, and foreign oil companies. The Offeror and the Company are of the view that the Restructured Group's competitive advantages include:

- favourable reserve-to-production ratio;
- good further exploration potential;

- experienced management team;
- proven ability to develop tight oil resources;
- strong support from shareholders; and
- excellent operational standard and management system.

The Excluded Project, in which certain of the Controlling Shareholders have an interest, may potentially compete with the business of the PRC Target and the Restructured Group. Please refer to the section headed "Relationship between the Restructured Group and the Controlling Shareholders" in this circular for details of the measures taken to mitigate such potential competition.

TECHNOLOGY AND KNOW-HOW

The PRC Target does not own or develop any technologies used in its operations and principally relies on mature technologies currently available in the market such as hydraulic fracturing, which is considered a common stimulation technique for unconventional reservoirs, and water injection, a process used to increase formation pressure and oil flow. However, the PRC Target may instruct and discuss with the service providers that carry out the various oilfield services to adopt certain methods to suit the areas in the blocks being explored and developed, to achieve optimal performance.

Since commencement of its operations, the main types of technology used by the PRC Target for different stages of the PRC Target's operation include:

—	2D and/or 3D seismic	This may involve the acquisition of 2D and/or 3D underground reservoir characteristics, processing and interpreting the 2D and/or 3D results to understand the target reservoir formation and is used to identify favourable areas for drilling.
—	Vertical drilling	An oil well that is drilled vertically with little deviation and not turned horizontally at depth, allowing access to oil and gas reserves located directly beneath the surface access point.
—	Directional drilling	A drilling technique in which a well is bored at multiple angles. Directional drilling most often refers to drilling at non-vertical angles, including horizontally. It is used to retrieve oil and natural gas buried underground, and is useful in situations in which the shape of the reservoir is abnormal.
—	Perforating	Holes punched in the casing or liner of an oil well using explosive charges to connect the wellbore to the reservoir.

— Hydraulic fracturing: A procedure of creating fractures in rocks and rock formations by injecting a mixture of sand and water into the cracks to force underground fissures to open further. The larger fissures allow more oil and gas to flow out of the formation and into the well bore, from where it can be extracted. This is a method which efficiently improves the liquid flow and enhances the production from the low porosity and permeability reservoir.

— Water injection: This is a method used in the oil industry where water is injected into reservoirs, usually to increase pressure and thereby stimulate production.

Extraction and injection systems are completely enclosed and automated, which reduces manpower costs. With a view to further increasing efficiency, the PRC Target has accumulated a dynamic database and application platform to gather production data.

In addition to the various techniques described above and used by the PRC Target for its operations, an important part of the PRC Target's success has been a result of the technical know-how of the management allowing them to apply suitable technologies and successfully explore and develop the block. Further information on the proposed directors and senior management is set out in the section headed "Directors and Senior Management of the Restructured Group" in this circular.

ENVIRONMENTAL ISSUES

The PRC Target's crude oil extraction and processing results in natural gas and waste water, both of which are reused by it. An environmental protection inspection and acceptance opinion dated 12 July 2012 in relation to the completion of particular wells within Block 212 was issued by the Bureau of Environmental Protection of Xilin Gol League, Inner Mongolia, which confirmed that the Bureau had approved the completion of the construction work subject to the assessment. A further environmental assessment commissioned by the PRC Target in relation to Block 212 (including all wells and the oil gathering station) is currently in progress.

As set out in the sub-section headed "Non-compliance Incidents" in this section below, because the construction plan for the oil gathering station of the PRC Target could not be filed with the East Ujimqin Banner Development and Reform Committee before a production permit is issued to Yanchang in respect of Block 212, the oil gathering station has not received the required approval from the Bureau of Environmental Protection of East Ujimqin Banner.

The PRC Target has received a confirmation letter from the Bureau of Environmental Protection of East Ujimqin Banner dated 23 September 2015 stating that the Bureau is aware of the operational situation of the oil gathering station, and in view of the industry specific circumstances, the PRC Target can continue using the oil gathering station until filing and/or the relevant approval become possible. The confirmation letter further states that since incorporation, the PRC Target has not been investigated or penalised by the Bureau as a result of breaching any relevant laws and regulations. The Bureau additionally issued a confirmation letter dated 17 March 2016 stating that the PRC Target has complied with the relevant laws under its jurisdiction since the PRC Target's date of establishment, and has not been investigated or penalised by the Bureau as a result of breaching any relevant laws and regulations.

As at the Latest Practicable Date, the PRC Target was not aware of any local community concerns regarding its operations in the Area, or any new environmental regulations and/or programs that could impact the PRC Target's operations.

The PRC Target has established a Health, Safety and Environmental (HSE) policy — a system of measures, practices and work procedures in respect of various exploration, extraction, processing and storage activities (including the operation of the oil gathering station) promoting environmental protection and compliance with the related laws. The HSE policy emphasises hazard identification and risk assessment. In order to raise the general concept and awareness of the related staff members regarding environmental protection, the PRC Target has prepared a comprehensive manual on hazard identification and corresponding mitigation measures for different operation procedures, and step-by-step instructions on appropriate usage of different equipment at the oil gathering station, including the operation, pre- and post-operation inspection, replacement, disassembling and common malfunctions of the equipment. The PRC Target has also compiled an extensive set of safety regulations consisting of three main sections, namely, (1) safety precautions and prohibitions (including the necessary personal protective equipment, staff member's health and weather condition) in respect of different operation situations, such as working at heights, operation of lifting cranes and handling of crude oil, (2) contingency plans for fire, flooding, oil leakage, and various accidents which set out the responsible personnel, procedures to be taken and first aid measures, and (3) a clear delineation of the responsibilities of each employee involved in the operation and supervision of the oil gathering station. The PRC Target's environmental protection guidelines include (1) prohibitions on certain occurrences, like leakage of waste oil and waste water, driving vehicles off marked roads and improperly disposing of general rubbish; (2) general measures for preventing such prohibited occurrences; (3) directions to reuse waste materials where possible; and (4) requirements for third party service providers, among other things.

An appropriate review and appraisal system has been put in place for monitoring any breach of internal environmental protection regulations by employees and subcontractors and promoting the required work standards. In particular, when the PRC Target signs contracts for drilling and other construction services, such contracts shall specify the environmental protection responsibility of the PRC Target and the service providers. Staff are also required to prepare an environmental protection responsibility handover document in conjunction with the service providers, which serves as a basis for settling the accounts of the project and for any pollution compensation payable by the service providers to the PRC Target. The PRC Target's staff shall explain to the service provider the environmental situation at site handover, and supervise the service provider's cleanup work at the end of the project. After completion of the project, environmental protection staff from both sides are to conduct the site handover and jointly inspect the works. Management staff of the PRC Target will conduct regular and spot checks of environmental protection responsibility handover documents. Additionally, cash fines are levied against employees who improperly dispose of waste water/oil or damage the surrounding grassland. Such fines are administered by the PRC Target's workplace safety team as well as the vice general manager for administration. The management of the PRC Target as led by the general manager will keep regular contacts with the relevant authorities in the locality to keep update on the latest applicable environmental laws, regulations and practices and thus revise, improve and/or enhance the PRC Target internal work measures, practices and procedures in this regard.

EMPLOYEES AND WORKPLACE HEALTH AND SAFETY

As at 31 December 2013, 2014, and 2015, the PRC Target employed 264, 228 and 102 full-time employees, respectively. The following table sets forth the number of the PRC Target's employees by function as at the Latest Practicable Date.

Upper management (including 2 proposed senior management staff members of the Restructured Group)	5
Operational	47
General administration	18
Total	70

As the PRC Target has materially completed its exploration work, and the related reserve report in respect of Block 212 was approved by MOLR in August 2014, the PRC Target has entered the development stage which it expects to be relatively more capital intensive and relatively less human capital intensive. The PRC Target will continue to outsource to professional service providers certain work, including but not limited to technical, engineering, maintenance and consulting work. A substantial number of the PRC Target's employees were either transferred to Hongbo Investment or otherwise left the PRC Target between the years ended 31 December 2014 and 2015. This helped the PRC Target control the overall cost. The PRC Target has made the necessary severance payments in relation to the reduction in the number of employees.

All of the PRC Target's employees are based in Inner Mongolia of the PRC. The PRC Target's full-time employees are duly registered under the PRC's social insurance programme, which includes pension, unemployment insurance, medical insurance, workplace injury insurance and childbirth insurance. All of the PRC Target's employees have signed employment contracts which set out, among other things, employee's responsibilities, remuneration and grounds for termination of employment. During the Track Record Period, the PRC Target did not encounter any material difficulties in recruiting and retaining its employees, and the PRC Target did not experience any material interruption to its operations as a result of labour disputes. Details of the PRC Target's non-compliance in relation to social insurance payments and housing fund contributions during the Track Record Period are set out in the sub-section headed "Non-compliance Incidents" in this section below.

Based on industry and technological developments, the PRC Target arranges employee training as necessary. The PRC Target has prepared a comprehensive manual on hazard identification and corresponding mitigation measures for different operation procedures, and step-by-step instructions on appropriate usage of different equipment at the oil gathering station, including the operation, pre- and post-operation inspection, replacement, disassembling and common malfunctions of the equipments. An appropriate review and appraisal system has been put in place for monitoring any breach of internal health and safety regulations by employees and promoting the required work standards.

The PRC Target's workplace safety team comprises 13 members of staff, including a firefighting team equipped with 2 fire engines. The PRC Target has established a system of measures, practices and work procedures in respect of various exploration, extraction, processing and storage activities (including the operation of the oil gathering station) promoting health and safety and compliance with the related laws. For instance, there are guidelines on pre-and-post operation safety checks for various pieces of equipment, step-by-step instructions on appropriate usage and lists of necessary personal protective equipment. The PRC Target emphasises raising the general concept and awareness of the related staff members regarding the importance of health and safety measures. The PRC Target has prepared workplace safety guidelines and conducted regular safety training for its employees. The management of the PRC Target as led by the general manager will keep regular contacts with the relevant authorities in the locality to keep update on the latest applicable work safety laws, regulations and practices and thus revise, improve and/or enhance the PRC Target internal work measures, practices and procedures in this regard. The PRC Target keeps a daily record of work safety issues, and staff undergo yearly medical checkups.

During the Track Record Period and up to the Latest Practicable Date, no material accidents involving any personal injury or property damage had been reported to the PRC Target's management, and the PRC Target has not been subject to any claims arising from any material accidents involving any personal injury or property damage that have had a material adverse effect on the PRC Target's business. The PRC Target's employees have established a labour union, which was granted legal person status by the Xilin Gol League Labour Union on 16 September 2013. The legal representative of the labour union is the vice president for administration of the PRC Target, Pan Qiliang. During the Track Record Period and up to the Latest Practicable Date, the PRC Target has not engaged agencies to assist in hiring employees.

PROPERTIES

The PRC Target owns land use rights for two parcels of land located in East Ujimqin Banner, with a total site area of 150,347.67 m^2. These two properties are currently used by the PRC Target for the oil gathering station and a logistics centre (mainly comprising an office and dormitory complex and a warehouse). The PRC Target has obtained the relevant state-owned land use rights certificates for both parcels of land. According to the legal opinion dated 29 June 2016 of Haiwen & Partners, the PRC legal advisors to the Company, the PRC Target has proper legal titles to these two parcels of land. The PRC Target does not possess building ownership certificates for certain structures at the site of the logistics center. Further details of those structures without building ownership certificates are set out in the sub-section headed "Non-compliance Incidents" in this section below.

The PRC Target uses one property located in East Ujimqin Banner as its headquarters. Previously, the tenant ("**Tenant**") to the aforementioned property was majority-owned by, and the landlord to the aforementioned property was ultimately majority-owned by, Hongbo

Investment. The PRC Target, Hongbo Investment and the Tenant entered into a tri-partite agreement on 29 December 2014, whereby the PRC Target was granted the right to use the property leased by the Tenant for an annual rental of RMB800,000 until the expiry of the lease on 31 December 2015 which would be offset by a rental prepayment by the PRC Target of RMB800,000 for its previous headquarters (which are now used by the Tenant). On 30 December 2015, the PRC Target directly entered into a lease agreement with the landlord for 2 floors of the same property. The term of the lease is from 1 January 2016 to 31 December 2016. The annual rental is RMB804,000. Save for the interest in the Company to be held by League Way (which is a company related to the PRC Target's existing shareholders) in the Company after completion of the CN Subscription, the landlord of the property and the Tenant are third parties independent from the Company and its connected persons as at the Latest Practicable Date.

The PRC Target has obtained from the Bureau of Land and Resources of East Ujimqin Banner the temporary land use rights for a total of approximately 739,973.44 m^2 of agricultural land. The PRC Target carries out its oil exploration and development activities on this agricultural land. The term of the temporary land use rights is from 26 May 2016 to 26 May 2018. Based on the observations of the Company of other resources companies listed on the Stock Exchange with mining assets in the PRC and the PRC Target's industry knowledge, the Company, the proposed Directors and the Joint Sponsors understand that the use of temporary land use rights is quite a common practice among oil and gas, and other mining companies in the PRC. The PRC Target considers that it more economical and cost effective to use temporary land use rights as (1) the risk of being unable to renew is considered low; (2) the application for long-term land use rights takes a much longer time; and (3) the cost of getting long-term land use rights is expected to be substantially higher than the payments required for temporary land use rights. After expiry of the temporary land use rights, the PRC Target may apply to the relevant authority for renewal of the rights pursuant to relevant PRC laws and regulations. The Bureau of Land and Resources of East Ujimqin Banner has confirmed that in practice it grants temporary land use rights with a term of two years. According to the legal opinion dated 29 June 2016 of Haiwen & Partners, the PRC legal advisors to the Company, the Bureau of Land and Resources of East Ujimqin Banner is legally competent to issue this confirmation, and this confirmation does not contradict any laws of the PRC.

The PRC Target has signed various agreements with the rights holders of this agricultural land for the payment of compensation.

On 28 September 2015, the PRC Target was issued a confirmation letter by the Bureau of Land and Resources of East Ujimqin Banner confirming that (i) it is aware of the PRC Target's use of the agricultural land for oil and gas exploration construction, (ii) the PRC Target has never received any administrative penalties for such use, (iii) up to the date of the confirmation letter the PRC Target has complied with the relevant laws and regulations, and (iv) the PRC Target has fully paid all relevant land use and other fees. According to the legal opinion dated 29 June 2016 of Haiwen & Partners, the PRC legal advisors to the Company, as at the Latest Practicable Date the PRC Target had not materially breached the relevant laws and the terms of the temporary land use permit, and provided that the PRC Target complies with the applicable requirements, there is no legal impediment to the renewal of the temporary land use rights.

INTELLECTUAL PROPERTY

The PRC Target may continue using its existing trademarks after Acquisition Completion as the Offeror and the Company consider that such trademarks have already been recognised by stakeholders.

As at the Latest Practicable Date, the PRC Target was granted a non-exclusive licence to use each of the following registered trademarks in the PRC at nil consideration pursuant to a licence agreement dated 22 June 2015 and entered into between Hongbo Investment as licensor and the PRC Target as licencee for an indefinite term ending on the earlier of the date on which Hongbo Investment ceases to be the registered owner of such trademarks or the expiry of the registration.

No.	Trademark	Place of registration	Class	Registration no.	Expiry date
1.		PRC	37	8983353	20 January 2022
2.	宏博	PRC	36	8983325	13 October 2022

REGULATORY COMPLIANCE

The following table sets out the permits relevant to the exploration, development and production of crude oil in Block 212 and Block 378 held by Yanchang and the PRC Target.

	Authorised		Effective period		
Type	entity	Issuing authority	From	To	Description
Exploration permit	Yanchang	MOLR	6 March 2015	5 March 2017	Allows oil and gas exploration work in Block 212
Exploration permit	Yanchang	MOLR	10 November 2015	9 November 2017	Allows oil and gas exploration work in Block 378
Temporary land use permit	PRC Target	Bureau of Land and Resources of East Ujimqin Banner	26 May 2016	26 May 2018[Note]	Allows temporary use of approximately 739,973.44 m^2 of agricultural land for an oil/gas exploration construction project for two years. The user of the land must not construct permanent structures, and must rectify any damage to the land in accordance with law. The PRC Target's oil wells are built on this land.

Type	Authorised entity	Issuing authority	Effective period		Description
State-owned land use permit	PRC Target	Bureau of Land and Resources of East Ujimqin Banner	23 May 2014	10 February 2054	Allows usage of 90,000 m^2 of state-owned land for industrial purposes. The PRC Target's oil gathering station is built on this land.
State-owned land use permit	PRC Target	Bureau of Land and Resources of East Ujimqin Banner	11 October 2011	October 2050	Allows usage of 60,347.67 m^2 of state-owned land for commercial purposes. The PRC Target's logistics centre is built on this land.
Water permit	PRC Target	East Ujimqin Banner Water Resources Bureau	4 December 2014	3 December 2017	Allows the use of 50,000 m^3 of groundwater from Erengaobi Gacha Village, Gahaile Sumu town for industrial use
Production safety permit	Yanchang	Shaanxi Province Administration of Work Safety	13 July 2015	23 July 2018	Required for crude oil exploration, development and production work
Certificate for the approval of sale of crude oil	Yanchang	Ministry of Commerce	24 October 2007	N/A	Required for sale of crude oil

Note: The Bureau of Land and Resources of East Ujimqin Banner has confirmed that in respect of the use of certain agricultural land by the PRC Target under temporary land use rights, it will process any renewal application if the PRC Target wishes to renew the temporary land use rights in future subject to approval of the inspection process, which mainly involves a site visit. According to the legal opinion dated 29 June 2016 of Haiwen & Partners, the PRC legal advisors to the Company, the Bureau of Land and Resources of East Ujimqin Banner is legally competent to issue this confirmation, and this confirmation does not contradict any laws of the PRC.

According to the legal opinion dated 29 June 2016 of Haiwen & Partners, the PRC legal advisors to the Company, during the Track Record Period and up to the Latest Practicable Date, the PRC Target had obtained all material licences and permits necessary to conduct its business activities.

Application for production permit

The Directors understand that Yanchang, as holder of the mineral rights for the Area, has made an application to MOLR for a production permit for certain areas (Unit 2 and Unit 19) in Block 212. The management of the PRC Target has indicated that they do not foresee any material impediment in respect of the application, and expects the production permit to be granted in the second half of 2016. Based on the industry knowledge of the management of the

PRC Target, the PRC Target estimates that the production permit in respect of Unit 2 and Unit 19 of Block 212 will be granted by November 2016. The management of the PRC Target expects that after the production permit is granted by MOLR to Yanchang, Yanchang will renew the EPCC with the PRC Target with reference to the effective period of the production permit, which is usually 20 years and shall be renewable upon expiration of the initial effective period based on the scale of estimated future production of the PRC Target. According to the memorandum dated 29 June 2016 of Haiwen & Partners, the PRC legal advisors to the Company, having considered the related laws regarding the application of production permits and the results of its interview with officers of MOLR, (a) subject to the provision of documents/information required, there should not be any legal impediment for Yanchang to be granted the production permit in respect of Unit 2 and Unit 19 of Block 212, and (b) Yanchang shall legally be obligated to renew the EPCC with the PRC Target equal to the term of production permit as per the First Confirmation Letter if the PRC Target has performed its obligations under the EPCC.

Risk of not being able to obtain or renew permits

If the production permit is not granted in respect of Unit 2 and Unit 19 of Block 212, current crude oil development and production work could continue so as long a valid exploration permit is maintained though exploration permits can be renewed from time to time.

If the exploration permits are not renewed and the production permit is not granted or temporary land use permit is not renewed, operations would have to cease in the relevant locations and the business operation, financial condition and results of operations of the PRC Target will be adversely affected.

However, for the reasons set out in the sub-section headed "Relationship with Yanchang" above, the Offeror and the Board (after consultation with the Offeror) believe that the risk in relation to failure to obtain a production permit, or to renew the exploration permits, is low.

NON-COMPLIANCE INCIDENTS

Except as disclosed below, the PRC Target complied with the laws and regulations applicable to it in all material respects during the Track Record Period and up to the Latest Practicable Date. The table below sets forth summaries of certain incidents of historical non-compliance with applicable laws and regulations during the Track Record Period. Given the follow-up measures that have been taken, the Offeror and the Board (after consultation with the Offeror) consider that those incidents, whether individually or collectively, will not have a material impact on the business, financial conditions and results of operation of the PRC Target or the Restructured Group.

According to the legal opinion dated 29 June 2016 of Haiwen & Partners, the PRC legal advisors to the Company, the below-mentioned confirmation letters issued to the PRC Target by the Bureau of Human Resources and Social Security of East Ujimqin Banner, the Xilin Gol League Housing Provident Fund Management Centre, East Ujimqin Banner Management Bureau, the East Ujimqin Banner Development and Reform Committee, the Bureau of Environmental Protection of East Ujimqin Banner, the Bureau of Production Safety of East Ujimqin Banner and the East Ujimqin Banner Fire Department do not contradict any laws of the PRC.

Non-compliance incident	Reason for non-compliance	Actual/potential consequences	Follow-up measures
During the Track Record Period, the PRC Target did not pay the full amount of social insurance contributions as required in accordance with the actual wages of its staff as required by the Social Insurance Law of the PRC.	The PRC Target was following its understanding of the practice of other local enterprises in calculating the amount of social insurance contributions payable. In addition, some staff members asked that their social insurance contributions (which were to be withheld from their salaries in accordance with law) be reduced in order to increase their take-home pay.	A company that does not pay the full sum of social insurance contributions may be charged a penalty of 0.05% a day on the outstanding contribution, which may be followed by an additional penalty of one to three times the outstanding contribution in the case of continued non-payment.	On 10 March 2016, the PRC Target was issued a confirmation letter by the Bureau of Human Resources and Social Security of East Ujimqin Banner confirming that the PRC Target has duly registered its staff for social insurance, and has made all necessary contribution payments in accordance with law. According to the legal opinion dated 29 June 2016 of Haiwen & Partners, the PRC legal advisors to the Company, the confirmation letter establishes that the chance of any penalty or request for payment of social insurance contributions or the imposition of late fees by the Bureau of Human Resources and Social Security of East Ujimqin Banner is relatively low. The PRC Target has assigned the vice general manager for administration, Pan Qiliang, to monitor future compliance in this area.

Non-compliance incident	Reason for non-compliance	Actual/potential consequences	Follow-up measures
During the Track Record Period, the PRC Target did not pay the full amount of housing provident fund contributions as required in accordance with the actual wages of its staff in accordance with the Regulations on Management of Housing Fund.	The PRC Target was following its understanding of the practice of other local enterprises in calculating the amount of housing provident fund contributions payable. In addition, some staff members asked that their housing fund contributions (which were to be withheld from their salaries in accordance with law) be reduced in order to increase their take-home pay.	Where the PRC Target is overdue in the payment and deposit of or underpays the housing provident fund contributions, the Housing Provident Fund Management Centre shall order it to make the payment and deposit within a prescribed time limit; where the payment and deposit have not been made after the expiration of the time limit, an application may be made by the Housing Provident Fund Management Centre to a people's court for compulsory enforcement.	On 15 March 2016, the PRC Target was issued a confirmation letter by the Xilin Gol League Housing Provident Fund Management Centre, East Ujimqin Banner Management Bureau, confirming that the PRC Target has duly registered for the housing provident fund in accordance with law, and since the date of the PRC Target's incorporation up to the date of the confirmation letter, has not been in breach of the relevant housing fund laws and regulations, and has paid its housing fund contributions on time and in full. According to the legal opinion dated 29 June 2016 of Haiwen & Partners, the PRC legal advisors to the Company, based on this confirmation letter, the chance of a demand for compensation by the Housing Provident Fund Management Centre is relatively low. The PRC Target has assigned the vice general manager for administration, Pan Qiliang, to monitor future compliance in this area.

Non-compliance incident	Reason for non-compliance	Actual/potential consequences	Follow-up measures
The PRC Target has erected structures with a total floor area of 760.4 m^2 for which it has not obtained planning or construction permission, has not filed completion records, and did not obtain building ownership certificates. The structures are used as pump and machinery rooms.	Inadvertent oversight by the member of staff responsible.	Parties commencing construction without planning or construction permission may be levied a fine based on the contract sum of the construction, or ordered to take remedial measures. If completion records are not filed within 15 days of the acceptance of completed works, a fine of RMB200,000 to RMB500,000 may be imposed.	The management of the PRC Target intends to apply for building ownership certificates for the structures that currently do not have them. In the event that the relevant authorities order that the relevant structures be dismantled, the PRC Target will move the functions of those structures to other structures of the PRC Target that have building ownership certificates. The PRC Target has designated the vice general manager for administration, Pan Qiliang, to review the legal ownership title of all properties from time to time with a view to ensuring that the related laws will be complied with going forward. After considering (i) the proposed follow-up measures and the alternative plan of the PRC Target as stated above which shall allow the PRC Target to continue to use the facilities currently placed in the related structures, and (ii) the legal opinion dated 29 June 2016 of Haiwen & Partners, the PRC legal advisors to the Company, in respect of the potential legal consequences as stated in this table, the Board agrees with the management of the PRC Target and considers that this non-compliance incident will not have a material impact on the operation of the PRC Target or the Restructured Group.
During the period from 1 January 2011 to 31 December 2012, the PRC Target did not report, pay and/or withhold individual income tax for its employees, and, to much smaller amounts, certain other taxes, in accordance with the applicable laws.	Inadvertent oversight by the member of staff responsible.	The PRC Target has paid back the related taxes (including the employees' individual income taxes) and paid a penalty, with a total of RMB4,101,820.59.	Apart from paying the penalty, the PRC Target has provided training to the relevant staff members in respect of the related requirements and has designated the general manager, Wang Ping, to be responsible for such compliance matters.

Non-compliance incident	Reason for non-compliance	Actual/potential consequences	Follow-up measures
The construction plan for oil gathering station of the PRC Target has not been filed with the East Ujimqin Banner Development and Reform Committee, and completion and operations have not been approved by the production safety, environmental protection and fire departments as required.	The relevant filing cannot be conducted and relevant completion approvals cannot be obtained until Yanchang obtains a production permit for Block 212.	The PRC Target could be ordered to take remedial action, cease usage of the oil gathering station, or pay a fine, the maximum amount of which is not provided for in statute law. According to the legal opinion dated 29 June 2016 of Haiwen & Partners, the PRC legal advisors to the Company, given that an environmental assessment on Block 212 is ongoing, that the relevant authorities have not previously taken action against the PRC Target and that they have each issued confirmation letters confirming the PRC Target's compliance with the relevant laws, the chance of regulatory measures being taken against the PRC Target is relatively low.	The East Ujimqin Banner Development and Reform Committee and the Bureau of Environmental Protection of East Ujimqin Banner are aware of the situation, and have each issued confirmation letters on 23 September 2015 stating that (i) in view of the industry specific circumstances, the PRC Target can continue to use the oil gathering station until filing and/or the relevant approval become possible, and (ii) the PRC Target has complied with the relevant laws under their respective jurisdiction since the PRC Target's date of establishment. The Bureau additionally issued a confirmation letter dated 17 March 2016 stating that the PRC Target has complied with the relevant laws under its jurisdiction since the PRC Target's date of establishment, and has not been investigated or penalised by the Bureau as a result of breaching any relevant laws and regulations. The Bureau of Production Safety of East Ujimqin Banner and East Ujimqin Banner Fire Department are aware of the lack of approval, and nonetheless have each issued confirmation letters on 17 March 2016 and 11 March 2016 respectively stating that the PRC Target has complied with the relevant laws under their respective jurisdiction since the PRC Target's date of establishment. The PRC Target will follow up with the relevant departments as soon as a production permit is obtained by Yanchang for Block 212. The vice president for administration, Pan Qiliang, has been designated to follow upon the application for the necessary approvals and making the necessary filings, as well as to ensure that all future construction plans are duly filed and necessary permits are obtained if practicable.

Non-compliance incident	Reason for non-compliance	Actual/potential consequences	Follow-up measures
During the Track Record Period, the PRC Target borrowed funds from related parties (as set out in note 20 of Section B to "Appendix III — Accountants' Report on the PRC Target" to this circular and a third party. In contravention of the PRC General Lending Provisions, the related parties and the third party were not approved by People's Bank of China.	The borrowings were made for short term working capital liquidity and capital expenditure purposes. Such non-compliance was mainly due to a lack of understanding of the PRC General Lending Provisions by members of staff responsible.	According to the PRC General Lending Provisions, if enterprises engage in lending and borrowing or lending and borrowing in a disguised form between themselves without authorisation, the People's Bank of China shall impose a fine on the lender ranging from one to five times the interest income gained in violation of the Provisions. As the fine in the PRC General Lending Provisions relates only to lenders, and the Supreme People's Court has issued a favorable interpretation, the management of the PRC Target believes that it would be unlikely for the PRC Target to face legal consequences for the relevant loans. On 6 August 2015, the Supreme People's Court of the PRC issued a judicial interpretation recognising the validity of inter-company loans required for production or business operation.	Given that 1) the PRC Target was not the lender in these transactions; 2) that the relevant sums have been fully repaid and that the relevant loan agreements with the related parties have come to an end; and 3) in respect of the third party loans, the PRC Target has arranged an entrusted loan with the third party via a bank in the PRC and repaid the said outstanding third party borrowing, and does not intend to enter into new third party borrowing arrangements in the future, the management of the PRC Target considers that there is no need to take follow-up measures in relation to this non-compliance incident. The management of the PRC Target and the Company (after consultation with the Offeror) confirm that the Restructured Group will not enter into similar arrangements in the future.

LITIGATION

In September 2011, the Claimant commenced legal action against Hongbo Investment, the PRC Target and Yanchang. The claim made by the Claimant was for Hongbo Investment, the PRC Target and Yanchang to pay it (i) outstanding mineral rights transfer fees of RMB20,000,000; (ii) RMB16,800,000 in respect of the profit of two particular oil wells in Block 212, being a contingent fee representing its share of the profits of the said two oil wells from August 2009 to August 2011; and (iii) a further contingent fee to be assessed representing its share of the profits of the said two oil wells up to the date of judgment. The Claimant further claimed that it was entitled to a share of the profit and management rights in respect of the said two oil wells. The PRC Target is not a party to any agreement with the Claimant. In relation to this case, the Shaanxi Higher People's Court of the PRC issued a judgment dated 4 April 2014 ((2014) 陝民一終字第00022號), pursuant to which Hongbo Investment was ordered to pay RMB20,000,000 of outstanding mineral rights transfer fees to the Claimant together with penalty interest. The claims for contingent fees, and profit and management rights of the two oil wells were dismissed. Hongbo Investment subsequently paid the RMB20,000,000 and penalty interest in 2014, for which it was subsequently reimbursed by the PRC Target as the cooperation right with Yanchang is owned by the PRC Target.

On 10 August 2015, the Supreme People's Court of the PRC issued an order ((2014)民申字第1925號) granting the Claimant leave to have the same case reheard by the Supreme People's Court of the PRC. Up to the Latest Practicable Date, there is no material development on this case.

According to the legal opinion dated 29 June 2016 of Haiwen & Partners, the PRC legal advisors to the Company, taking into consideration that (1) the conditions for applying for or maintaining an exploration permit do not require a lack of legal proceedings relating to the relevant cooperation area, and the Claimant's case did not challenge the validity of the exploration permit; and (2) the EPCC is a contract between Yanchang and the PRC Target, and the Claimant's case neither constitutes a vitiating factor under section 52 of the PRC Contract Law nor alleges that the EPCC is invalid, from a legal perspective the legal action should not affect Yanchang's lawful right to the exploration permit or the legality and validity of the EPCC.

On 1 July 2015, Hongbo Investment and the PRC Target executed an agreement pursuant to which Hongbo Investment would be responsible for any direct loss suffered by the PRC Target, including but not limited to damages ordered by a court or arbitral tribunal, caused by any dispute with the Claimant and/or related to the agreement between the Claimant and Hongbo Investment dated 15 June 2008.

As at the Latest Practicable Date, save as mentioned above, the PRC Target is not currently a party to any material legal or administrative proceedings, and the management of the PRC Target is not aware of any potential material legal claims or administrative proceedings.

INSURANCE

As protection against operating hazards, the PRC Target has maintained accident injury and medical insurance for its staff during the Track Record Period and as at the Latest Practicable Date. The current policies cover a maximum of RMB60,000 for accident medical fees and RMB400,000 for accident compensation for each insured staff member.

As at the Latest Practicable Date, there are no outstanding claims under the abovementioned insurance policy. The PRC Target does not maintain insurance over its assets or property. The management of the PRC Target considers that the insurance coverage maintained by the PRC Target and not maintaining insurance over its assets is in line with local industry norms.

THE CONTROLLING SHAREHOLDERS

Immediately following the completion of the Transactions, the Offeror will own approximately 51.01% (not taking into account any Shares which may be acquired by the Offeror pursuant to the Offer and assuming all the Subscription Shares are issued to the Subscribers pursuant to the Subscription Agreement and assuming no conversion of the Convertible Bonds, the Convertible Note or the Preferred Shares) or 56.37% (assuming conversion in full of the Convertible Bonds (at the Adjusted CB Conversion Price), the Convertible Note and the Preferred Shares) equity interest in the Company and will become the controlling shareholder of the Company. The Offeror is an investment holding company set up for the purpose of investing in the Company pursuant to the Share Transfer, the Offer and the Subscription.

The entire issued share capital of the Offeror is owned by Titan Gas Holdings. Titan Gas Holdings is an investment holding company set up for the purpose of investing in conventional and unconventional oil and gas projects. As confirmed by Titan Gas Holdings, up to the Latest Practicable Date, it has not invested in any upstream crude oil exploration and/or production project other than its proposed investment in the PRC Target through the Company. Titan Gas Holdings is owned as to approximately 35.13% by Standard Gas, approximately 8.05% by Mr. Wang and approximately 6.87% by Kingsbury (altogether controlling approximately 50.05% voting rights in Titan Gas Holdings as a result of the acting in concert arrangement described below). The other shareholders of Titan Gas Holdings are (i) the IDG Funds which hold an approximately 49.14% equity interest in aggregate; and (ii) two individuals who hold an approximately 0.81% equity interest in aggregate, details of whom are set out in the section headed "Letter from the Board — Information on the Offeror" in this circular. As at the Latest Practicable Date, the board of directors of Titan Gas Holdings comprises Mr. Wang, Lin Dongliang (林棟梁), Shong Hugo (熊曉鴿) and Shi Weiguo. Mr. Wang and Lin Dongliang (林棟梁) are proposed to be appointed as executive Directors and Shong Hugo is proposed to be appointed as a non-executive Director as further detailed in the section headed "Directors and Senior Management of the Restructured Group" in this circular.

On 8 May 2015, Standard Gas, Mr. Wang and Kingsbury, entered into an acting in concert arrangement with respect to their voting rights in Titan Gas Holdings (the "**Arrangement**") for the purpose of facilitating a more efficient decision-making process in connection with the exercise of their shareholders' rights in Titan Gas Holdings. Pursuant to the Arrangement, Standard Gas, Mr. Wang and Kingsbury agree to align with each other in respect of the voting of major actions in respect of Titan Gas Holdings' business and each of Standard Gas, Mr. Wang and Kingsbury will consult each other and reach agreement on material matters of Titan Gas Holdings before it/he exercises its/his respective voting rights in Titan Gas Holdings, provided that Mr. Wang will have a casting vote in the event that a consensus cannot be reached among Standard Gas, Mr. Wang and Kingsbury.

All the issued voting shares in Standard Gas are held by Blazing Success Limited ("**Blazing Success**") which in turn is wholly owned by Lee Khay Kok. On 8 May 2015, Blazing Success granted an irrevocable power of attorney to the board of directors of Standard Gas, or a person designated by the board of directors of Standard Gas, to exercise all the voting rights attached to the 2,500,000 voting shares in Standard Gas held by Blazing Success. The board of directors of Standard Gas, which comprises Mr. Wang, Lin Dongliang (林棟梁) ("**Mr. Lin**") and Shong Hugo (熊曉鴿), designated Mr. Wang as the exclusive attorney-in-fact pursuant to the power of attorney granted by Blazing Success. Further, each of Blazing Success and Lee Khay Kok (in the capacity as the sole shareholder and sole director of Blazing Success) has also given an irrevocable undertaking that it/he will not exercise its/his rights in respect of the shares in Standard Gas held by Blazing Success. Approximately 60% and 40% of the non-voting shares in Standard Gas are held by Neptune Gas Capital Limited and Oceanus Capital Limited respectively. Neptune Gas Capital Limited is held as to 51% by Mr. Lin and 49% by Yang Fei (楊飛).

Kingsbury is owned as to approximately 74.80% by Luo Yuping (羅玉平) and as to approximately 14.15% by Guo Xihong (郭西紅), with the remaining approximately 11.05% equity interest held by six PRC individuals, none of whom is holding more than 10% of the equity interest in Kingsbury or is affiliated with the other shareholders of Titan Gas Holdings and details of whom are set out in the section headed "Letter from the Board — Information on the Offeror" in this circular.

The IDG Funds are under common control of their ultimate general partner, IDG-Accel Ultimate GP. IDG-Accel Ultimate GP is an exempted company incorporated in the Cayman Islands with limited liability and is beneficially owned as to 50% by Ho Chi Sing (何志成), as to 10% by Zhou Quan (周全) and as to 10% by Shong Hugo, with the remaining 30% interest held by three individuals details of whom are set out in the section headed "Letter from the Board — Information on the Offeror" in this circular. IDG-Accel Ultimate GP's board of directors (comprising Ho Chi Sing (何志成) and Zhou Quan (周全)) is responsible for decision-making matters relating to the IDG Funds and their investments, hence controls the exercise of the voting rights attached to the shares that the IDG Funds hold in Titan Gas Holdings.

On the basis set out above, Standard Gas, Mr. Wang, Kingsbury, Titan Gas Holdings and the Offeror will be the controlling shareholders of the Company (the "**Controlling Shareholders**") under the Listing Rules immediately following the S&P Completion and completion of the Transactions.

OVERVIEW OF THE EXCLUDED PROJECT

Directors of each of Standard Gas and Titan Gas Holdings include Mr. Wang and Mr. Lin.

As of the date hereof, 北京泰坦通源天然氣資源技術有限公司 (Beijing Tai Tan Tong Yuan Natural Gas Resources Technology Limited*), ("**Beijing Tai Tan**") has executed a Production Sharing Contract ("**PSC**") with Yanchang, pursuant to which agreement Beijing Tai Tan will invest in and hold interest in a crude oil exploration project located in Alxa Right Banner/Darhan Muminggan Banner/Sonid Right Banner/Bordered Yellow Banner, Inner Mongolia, the PRC in respect of an area of 4,313 km^2 (the "**Excluded Project**"). Under the PSC, Beijing Tai Tan will be the operator and Yanchang will be the mineral right owner similar to the arrangements under the EPCC. Beijing Tai Tan is owned as to 94.05% by 廣州義數天企業管理諮詢有限公司 (Guangzhou Yishutian Enterprises Management Consulting Co., Ltd.*) ("**Guangzhou Yishutian**"), 5% by Kingsbury and 0.95% by 廣州啓夏企業管理諮詢有

限公司 (Guangzhou Qixia Enterprises Management Consulting Co., Ltd.*) ("**Guangzhou Qixia**", together with Beijing Tai Tan and Guangzhou Yishutian and Kingsbury, the "**Excluded Companies**"). Guangzhou Yishutian is owned as to 70% by Mr. Lin, 24% by Mr. Wang and 6% by Yang Fei. Guangzhou Qixia is owned as to 50% by Hou Langji (侯朗基), who is independent from the Offeror and the Company, and 50% by Yang Fei.

Save for the above Excluded Project, none of Mr. Wang, Mr. Lin, Lee Khay Kok, Luo Yuping, Guo Xihong, Standard Gas, Kingsbury, Titan Gas Holdings, and the Offeror has, directly or indirectly, invested in other crude oil exploration or production projects. Beijing Tai Tan is an investment company which has also invested in some other conventional and unconventional gas projects in the PRC.

Description of the business and management of the Excluded Project

The Excluded Project is situated in Inner Mongolia, the PRC and no exploration work has been carried out up to the date of this circular. Beijing Tai Tan and Yanchang have been working together to apply for the exploration permit for the Excluded Project which has been granted to Yanchang. Under the PSC, Mr. Lin, Mr. Wang and Kingsbury will be interested in the Excluded Project through their respective shareholding interests in Beijing Tai Tan. None of the Directors, proposed Directors nominated to be appointed after completion of the Transactions and the other members of the existing or proposed senior management team of the PRC Target (as set out in the section headed "Directors and Senior Management of the Restructured Group" in this circular) will be involved in the Excluded Project.

No immediate competition between the Restructured Group and the Excluded Project

The Directors consider that the Excluded Project will not be in direct competition with the Restructured Group after taking into account the following factors:

1. the Excluded Project is not located in close proximity to the PRC Target. These two projects are more than 550 km apart from each other. Given that no oil pipeline has been built in the area, the Company and the PRC Target consider that this distance is far enough to avoid any direct competition between the Excluded Project and the PRC Target, as it is not economically feasible to sell the crude oil by truck to a customer over such long distance;

2. the product of both the PRC Target and the Excluded Project is expected to be crude oil, which is a commodity whose selling price is mainly affected by the market. The Company and the PRC Target believe that the sale and distribution of commodities like crude oil will not, generally, be directly affected by the operation of one or two specific market players (like the PRC Target or Beijing Tai Tan). As mentioned in the section headed "Industry Overview" in this circular, the PRC is a net importer and this is expected to continue according to Wood MacKenzie. Domestic demand in the PRC is expected to exceed domestic supply of crude oil. Accordingly, the output level and sale of the PRC Target, as well as the price and distribution of its product, is not expected to be affected by the operation of the Excluded Project;

3. it is not expected that there will be any material competition between the PRC Target and the Excluded Project for service providers; and

4. it is proposed that a deed of non-competition will be entered into by the Relevant Covenantors (which is defined the sub-section headed "Non-Competition Deed" in this section below) allowing the Company to choose to acquire the Excluded Project (directly or indirectly) at fair market value in future after completion of the Transactions. Please refer to the sub-section headed "Non-Competition Deed" for further details in this section below.

Reasons for the exclusion of the Excluded Project from the Restructured Group

The Offeror has confirmed that no material exploration work has been carried out in respect of the Excluded Project. The Excluded Project is a very early stage investment without any proved reserves. Accordingly, the Offeror does not consider it in the interests of the Company and the Shareholders to invest in the Excluded Project now. The Board will evaluate the development of the Excluded Project from time to time and the Company will exercise its right under the Non-Competition Deed (which is detailed in the sub-section headed "Non-Competition Deed" in this section below) to acquire (directly or indirectly) Beijing Tai Tan's interest in the Excluded Project as and when it considers appropriate.

NON-COMPETITION DEED

In order to protect the interests of the Company, the Offeror, Titan Gas Holdings, Standard Gas, Kingsbury, Mr. Wang and Mr. Lin (collectively, the "**Covenantors**") has entered into the Non-Competition Deed in favour of the Company.

Pursuant to the Non-Competition Deed, each of the Covenantors has undertaken to the Company (for itself and for the benefit of its subsidiaries) that, save and except as disclosed in this circular, he/it will not, and would procure that his/its close associates (except any members of the Restructured Group (including any subsidiaries of the Company from time to time)) would not, during the effective period of the Non-Competition Deed set out below, directly or indirectly, either on his/its own, through any company controlled by him/it or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or hold interests in or engage in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise) any business which is involved in any upstream crude oil exploration and/or production project in Inner Mongolia (saved for the Excluded Project) (the "**Restricted Business**"). Such non-competition undertakings shall not restrict each of the Covenantors (or any of their respective affiliates other than the Restructured Group), either by itself or through any other person, from:

(a) holding interests in the shares of a company which is listed on a recognised stock exchange provided that:

    (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 5% of that company's consolidated turnover or consolidated assets, as shown in that company's latest audited accounts; or

(ii) the total number of the shares held by the Covenantors and/or their respective close associates in aggregate does not exceed 5% of the issued shares of that class of the company in question and such Covenantors and/or their respective close associates are not entitled to appoint a majority of the directors of that company and/or at any time, there should exist at least another shareholder of the company; and

(b) holding any direct or indirect interests in the Excluded Project.

Option/rights of first refusal

In order to protect the interests of the Company, each of Kingsbury, Mr. Wang and Mr. Lin (the "**Relevant Covenantors**") has, under the Non-Competition Deed, granted the Company: (1) an option to acquire its/his interests, direct or indirect, in the Excluded Companies in whole if the Company considers that the Excluded Project has become competing with the business of the Restructured Group (subject to compliance with the relevant legal and regulatory requirements); and (2) rights of first refusal to purchase the Excluded Project or its/his direct or indirect interests in the Excluded Companies in the situation where any of them or any of their nominees wish to sell the whole or any part of their direct or indirect interests in the Excluded Companies or otherwise in the Excluded Project on the same terms as they are proposing to sell.

Each of the Covenantors has also, under the Non-Competition Deed, granted the Company the rights of first refusal to invest in any potential opportunity in upstream crude oil exploration and/or production in Inner Mongolia (other than the Excluded Project) that he/it is offered or has an access and a plan to pursue ("**Opportunity**"). Each of the Covenantors has undertaken that if he/it or his/its affiliates other than the Restructured Group is offered or becomes aware of any Opportunity, he/it will and he/it shall procure that his/its affiliates will notify the Company in writing of the Opportunity and use his/its best endeavours to procure that the Opportunity is first offered to the Company on terms and conditions no less favourable than those offered to him/it or his/its affiliates. If the Company declines any such offer (which is subject to the approval of the independent non-executive Directors), the Covenantor who is offered the Opportunity shall then be allowed to acquire the interests offered on terms no more favourable than those offered to the Company. The exercise of such option will be subject to the approval of the independent non-executive Directors. If any of the transactions fall within the definition of notifiable transactions under the Listing Rules, the Company will disclose the transaction to the Shareholders and obtain approval from the Shareholders (if necessary) in accordance with the Listing Rules.

Any decision on whether to exercise such option or rights of first refusal will be made by the independent non-executive Directors only (as agreed by the majority of them). In the event that the Company decides to exercise or not to exercise such option or rights of first refusal, the Company will have to comply with the relevant requirements under the Listing Rules including disclosing such decision in announcements setting out the details as required under the Listing Rules and/or seeking approval from the independent Shareholders at the Company's general meeting. Each of the Covenantors has undertaken to provide such information as may be reasonably required by the Company to consider properly whether the Excluded Project has become competing with the business of the Restructured Group or whether to exercise the said option or rights of first refusal.

The obligations of a Covenantor under the Non-Competition Deed will cease (i) upon the cessation of listing of the Ordinary Shares on the Stock Exchange (except suspension of listing of the Ordinary Shares pursuant to the Listing Rules); or (ii) regarding such Covenantor, when he/it (or his/its close associates) ceases to hold any equity interest, whether directly or indirectly, in the Company; or (iii) when the Covenantors become jointly entitled to exercise or control the exercise of less than 30% (or such other percentage of shareholdings as stipulated in the Listing Rules to constitute a controlling Shareholder) of the voting power at general meetings of the Company.

The undertakings contained in the Non-Competition Deed are conditional upon the completion of the Transfer and the Transactions.

The Company will adopt the following procedures to ensure the Non-Competition Deed is being observed:

a. the Company will organise semi-annual working meetings with the Covenantors to review their business portfolios and to enable the Company to consider whether there is any opportunity to operate a Restricted Business which shall be offered to the Company; and

b. each of the Covenantors has undertaken to provide and use reasonable endeavours to procure the provision to the Company such information as may be reasonably required by the Company to consider properly whether any business constitutes a Restricted Business, whether the Excluded Project has become competing with the business of the Restructured Group or whether to exercise the said option or rights of first refusal.

Each of the Covenantors has undertaken to provide an annual confirmation for inclusion in the Company's annual report whether he/it and his/its close associates has complied with the Non-Competition Deed and provide all information necessary for the independent non-executive Directors to review the compliance with the Non-Competition Deed. The independent non-executive Directors will report their findings in the Company's annual reports.

The independent non-executive Directors may appoint an independent financial advisor to provide advice in the exercise/non-exercise of the option or the first rights of refusal under the Non-Competition Deed.

INDEPENDENCE OF THE RESTRUCTURED GROUP

The Offeror and the Board (after consultation with the Offeror) believe that the Restructured Group is capable of carrying on its business independent of the Controlling Shareholders and their respective close associates after completion of the Transactions based on the following reasons:

Management Independence

The Board, after completion of the Transactions (and as soon as the appointment of the Directors nominated by the Offeror is permitted under the Takeovers Code), will consist of seven Directors, comprising two executive Directors, two non-executive Directors and three independent non-executive Directors. The day-to-day management of the business of the Restructured Group will primarily lie with the executive Directors as well as the senior management team. For more details on the Directors and senior management of the Restructured Group, please refer to the section headed "Directors and Senior Management of the Restructured Group" in this circular.

Each of the proposed Directors is aware of his fiduciary duties as a director which require, among other things, that he acts for the benefit and in the best interests of the Company, and does not allow any conflict between his duties as a director and his personal interest to exist. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between the Restructured Group and the proposed Directors or their respective close associates after completion of the Transactions, the interested Director(s) shall abstain from voting at the relevant Board meeting in respect of such transaction and shall not be counted in the quorum. The independent non-executive Directors will also bring independent judgment to the decision-making process of the Board. In addition, the Restructured Group will have an independent senior management team with the relevant industry expertise and experience to implement the Restructured Group's policies and strategies.

Based on the above, the Offeror and the Board (after consultation with the Offeror) are of the view that the Board as a whole together with the senior management team are able to manage the Restructured Group independently from the Controlling Shareholders and their respective close associates after completion of the Transactions.

Operational Independence

The Restructured Group will establish its own organisational structure comprising individual departments, each with specific areas of responsibilities. The Restructured Group will not share its operational resources, such as suppliers, customers, marketing sales and general administration resources with the Controlling Shareholders and their respective close associates.

The Restructured Group will not rely on the Controlling Shareholders for any licences necessary for carrying on its businesses and have sufficient capital (subject to further capital to be raised from the Subscription and/or CN Subscription), equipment and employees to operate its business independently of the Controlling Shareholders. It will also establish and implement various internal control procedures to ensure that its business operations are being run effectively and efficiently. Based on the above, the Offeror and the Board (after consultation with the Offeror) consider that the operation of the Restructured Group does not rely on the Controlling Shareholders and their respective close associates.

Financial Independence

The Restructured Group will have its own independent financial system and it will make financial decisions according to its business needs. The Restructured Group will also have its own internal control and accounting systems and accounting and finance department to perform independent treasury function for cash receipts and payments and independent accounting and reporting functions. The Restructured Group will be able to obtain financing from third parties or from its internally generated funds without reliance on the Controlling Shareholders. Based on the above, the Offeror and the Board (after consultation with the Offeror) believe that the Restructured Group is able to maintain financial independence from the Controlling Shareholders or any of their respective close associates after completion of the Transactions.

BOARD OF DIRECTORS

The Offeror currently proposes that as soon as the proposed changes are allowed under the Takeovers Code, after completion of the Transactions (and as soon as the appointment of the Directors nominated by the Offeror is permitted under the Takeovers Code), the Board will consist of seven Directors, comprising two executive Directors, two non-executive Directors and three independent non-executive Directors. Save for Chen Zhiwu who is an existing independent non-executive director appointed on 31 July 2015, all other members of the proposed Board are to be appointed subject to completion of the Transfer and the requirements under the Takeovers Code, the Listing Rules and the Bye-laws.

The following table sets out certain information of the proposed new Board and, subject to the appointment of the proposed Directors to the Board, their roles and responsibilities in the Company:

Name	Age	Position	Principal responsibilities	Relationship with other Directors or Proposed Directors
WANG Jingbo	38	Executive Director and chief executive officer	Responsible for the overall business development of the Restructured Group	None
LEE Khay Kok	50	Executive Director and chief engineer	Responsible for overall technical and engineering management of the Restructured Group	None
LIN Dongliang	53	Non-executive Director	Provides guidance and advice in major decisions of the Restructured Group	None
SHONG Hugo, alias Hugo Hsiung	60	Non-executive Director	Provides guidance and advice in major decisions of the Restructured Group	None
SHI Cen	40	Independent non-executive Director	Provides independent judgement and scrutinises the performance of the Restructured Group	None
CHAU Shing Yim, David	52	Independent non-executive Director	Provides independent judgement and scrutinises the performance of the Restructured Group	None
CHEN Zhiwu	53	Independent non-executive Director	Provides independent judgement and scrutinises the performance of the Restructured Group	None

Executive Directors

WANG Jingbo (王靜波), aged 38, is proposed by the Offeror to be appointed as an executive Director and the chief executive officer of the Company and a director of the PRC Target after completion of the Transactions (and as soon as his appointment is allowed under the Takeovers Code). Mr. Wang will be responsible for developing overall business strategy and plans (including the exploration, development and production plan of Block 212 and Block 378), overseeing execution of the plans, leading major investment and acquisition and senior management recruitment.

Mr. Wang graduated with a bachelor's degree in Engineering from the Mechanical Engineering Department of Tsinghua University, and obtained a master's degree in Science, and a Ph.D in Mechanical Engineering from Cornell University and master's degree in Business and Administration from New York University. Mr. Wang has approximately 10 years of experience in research, management and investment in upstream oil and gas industry and other energy sectors, including around 5 years of practical experience in upstream oil and gas companies.

Mr. Wang is a founder of Titan Gas Holdings, the immediate holding company of the Offeror, and has been its executive director, managing director and chief executive officer of Titan Gas Holdings since 2012. Titan Gas Holdings is principally engaged in development and investments in oil and gas upstream assets globally. During his tenure with Titan Gas Holdings, Mr. Wang has led sourcing, technical assessment, commercial negotiation, and development of a number of investment and acquisition opportunities in oil and gas sector in Mainland China, Middle East and North America.

From September 2005 to September 2008, Mr. Wang was a senior engineer at ExxonMobil Research and Engineering Company's Complex Systems Science section of the Corporate Strategic Research (CSR) Department where he gained experience and knowledge in, among other things, well drilling optimisation and seismic data processing and analysis as well as co-invented two patents which relate to these two areas.

From October 2008 to April 2011, Mr. Wang worked at D. E. Shaw & Co, a US investment institution, during which period he was involved in several major energy investment projects, including investment projects in (i) First Wind, a wind power company in the US; (ii) Deepwater Wind, an offshore wind developer in the US; and (iii) Greenrock Energy, an industrial coal gasification company.

Since April 2011 to date, Mr. Wang has also worked at IDG Capital Partners as a partner and has been in charge of the firm's energy investments, where he led the investments in Freestone International, a US-based LNG facility developer, United Guar, a Houston-based oilfield service company; and several other energy investments.

Since July 2013 to date, in addition to Mr. Wang's investment and management career track, he has been the Engineering Head of Guizhou Natural Gas Energy Group ("**GNGEG**") where he further developed his oil and gas field operation expertise. GNGEG is an integrated natural gas company in Guizhou Province of the PRC. As the Engineering Head of GNGEG, Mr. Wang supervised the geology and engineering team of GNGEG and managed the overall planning, design and execution of exploration work of GNGEG. Under his management, GNGEG has drilled and completed a number of shale gas wells and coal bed methane wells.

Mr. Wang was selected to "The Thousand Talents Plan" ("千人計劃" 創業人才) (the tenth election) by the Organisation Department of the Central Committee of the PCC (中共中央組織部) and was the 12th committee member of All-China Youth Federation (中華全國青年聯合會) in 2015.

Mr. Wang expects that his knowledge in seismic data analysis and drilling know-how will help the PRC Target in formulating appropriate drilling plan and structure.

LEE Khay Kok, aged 50, is proposed by the Offeror to be appointed as an executive Director and the chief engineer of the Company after completion of the Transactions (and as soon as his appointment is permitted under the Takeovers Code). Mr. Lee will be responsible for managing the engineering department and staff, technical design of wells, overseeing field execution and technology innovation.

Mr. Lee graduated from National Cheng Kung University in Taiwan with a bachelor's degree in Mineral and Petroleum Engineering and a master's degree in Petroleum Engineering from The University of Oklahoma. Mr. Lee has approximately 19 years of experience involving upstream oil and gas exploration and development, in particular in the fields of production enhancement and fracturing stimulation.

From October 1994 to March 2013, Mr. Lee worked for Schlumberger Group, a major company providing a wide range of oilfield services globally from exploration through production. Mr. Lee held several key technical positions during his approximately 19-year tenure at Schlumberger, including Geomarket Technical Engineer — Principal (chief technical advisor in Schlumberger company), In Touch Manager — Stimulation (responsible for 24/7 technical support to Schlumberger worldwide stimulation community) and CHG Stimulation Domain Manager (regional chief technical engineer supporting North-east Asia area) providing technical support and advice to Schlumberger Technical personnel or to oil companies.

At Schlumberger Group, Mr. Lee was involved in many key oilfield production enhancement projects. His involvement in these projects varied from the technical design of the job to field execution and in some cases where he was the engineer in-charge in operations.

Mr. Lee has been the chief engineer of Titan Gas Holdings since 2013. He is mainly responsible for engineering and technology in Titan Gas Holdings.

Mr. Lee co-authored research papers published by the Society of Petroleum Engineers and International Petroleum Technology Conference during his time in Schlumberger in 2008 and 2009, respectively. He was also a recipient of the 1995 Rock Mechanics Award from the US National Committee for Rock Mechanics for his Master's Thesis.

Mr. Lee expects that his solid experience and in-depth knowledge in simulation and production enhancement will help the PRC Target in formulating its workover plan which is important to the development plan in Block 212 of the PRC Target as the oil reserves have similar characteristics of relatively low porosity and permeability as other "tight" reservoirs.

Non-executive Directors

LIN Dongliang (林棟梁), aged 53, is proposed by the Offeror to be appointed as a non-executive Director after completion of the Transactions (and as soon as his appointment is permitted under the Takeovers Code). Mr. Lin graduated with a Master's degree in Engineering Management in 1986 from Tsinghua University. Mr. Lin joined International Data Group ("**IDG**") in 1994, served as the vice president of IDG Capital Partners — IDG Technology Venture Investment, the China Risk Investment team of IDG, and has then served as a general partner of IDG Capital Partners. He is also a partner of the IDG Capital Investment Consultancy (Beijing) Co., Ltd. and a non-executive director of NetDragon Websoft Inc., a company listed on the Main Board of the Stock Exchange (stock code: 777).

Mr. Lin was a director or supervisor of the following companies which were incorporated in the PRC and had their business licences revoked. The relevant details are as follows:

Company name	Date of revocation	Reasons for revocation
天津市國聯在綫網絡有限公司 (Tianjin Guolian Online Network Company Limited*) ("**Tianjin Guolian**")	2005	Tianjin Guolian was a state-owned holding enterprise. The principal business of Tianjin Guolian was information service trades. The business licence of Tianjin Guolian was revoked due to its failure to attend annual examination. Mr. Lin was a director of Tianjin Guolian at the time its business licence was revoked.
北京珠穆朗瑪電子商務網絡服務有限公司 (Beijing Everest E-commerce Network Services Company Limited*) ("**Beijing Everest**")	17 October 2013	Beijing Everest was a wholly foreign-owned enterprise. The business scope of Beijing Everest was research, development, production of computer software and hardware, undertake computer network systems integration; provide technical consultation, services and training; website design; design and production of online advertisements; public online advertisements on a website; sales of self-made products. The business licence of Beijing Everest was revoked due to its failure to attend annual examination. Mr. Lin was a director of Beijing Everest at the time its business licence was revoked.

Company name	Date of revocation	Reasons for revocation
寧波慧聰電子商務技術有限公司 (Ningbo Huicong E-commerce Technology Company Limited*) ("**Ningbo Huicong**")	29 October 2009	Ningbo Huicong was a wholly foreign-owned enterprise. The business scope of Ningbo Huicong was development of electronic commerce technology, development of electronic products and provision of technical consultation, development of computer hardware and software technology, development of network systems technology, self-operated and agency import and export of goods and technology, provision of network systems technology services, electronic commerce technology services and technology information consultation services. The business licence of Ningbo Huicong was revoked due to its failure to attend annual examination. Mr. Lin was a director of Ningbo Huicong at the time its business licence was revoked.
網絡秀媒體技術（北京）有限公司 (Network Show Media Technology (Beijing) Company Limited *) ("**Network Show Media**")	9 October 2013	Network Show Media was a wholly foreign-owned enterprise. The business scope of Network Show Media was research and development of computer and internet applied technology; telecommunications; graphics production; technological consultation, information technology training, technical services and the transfer of self-developed technology. The business licence of Network Show Media was revoked due to its failure to attend annual examination. Mr. Lin was a supervisor of Network Show Media at the time its business licence was revoked.

SHONG Hugo (熊曉鴿), alias Hugo Hsiung and formerly known as Xiong Xiaoge (熊小鴿), aged 60, is proposed by the Offeror to be appointed as a non-executive Director after completion of the Transactions (and as soon as his appointment is permitted under the Takeovers Code). Mr. Shong completed his undergraduate studies at Hunan University. After that, he earned a master's degree in Science from Boston University in 1987. He also completed the 151st session of the Advanced Management Program, the International Senior Managers Program of the Graduate School of Business Administration of Harvard University. Mr. Shong joined IDG Capital Partners in 1993 and was responsible for its business operations in the PRC. He has been focusing on the development of IDG Capital Partners — IDG Technology Venture Investment in which he has been the general partner since 1994. Mr. Shong is also the director of IDG (China) Investment Co., Ltd. and a partner and a director of IDG Capital Investment Consultancy (Beijing) Co., Ltd.

Mr. Shong is a non-executive director of China Jiuhao Health Industry Corporation Limited, a company listed on the Main Board of the Stock Exchange (stock code: 419); Mei Ah Entertainment Group Ltd., a company listed on the Main Board of the Stock Exchange (stock code: 391), and WPP plc, a company listed on the Main Market of the London Stock Exchange (stock code: WPP). Mr. Shong is a member of the board of trustees of Boston University.

Independent non-executive Directors

SHI Cen (石岑), aged 40, is proposed by the Offeror to be appointed as an independent non-executive Director after completion of the Transactions (and as soon as his appointment is permitted under the Takeovers Code). Mr. Shi obtained his bachelor's degree in Economics, specialising in international finance, and a master's degree in Economics from Tsinghua University. He is a Managing Director of Ascendent Capital Partners (Asia) Ltd., which is a private equity investment company focusing on the Greater China market. Prior to joining Ascendent Capital Partners (Asia) Ltd. in April 2011, Mr. Shi was a Senior Vice President of D. E. Shaw & Co., responsible for its Greater China private equity investment business. Prior to joining D. E. Shaw & Co., Mr. Shi served as a vice president at CCMP Capital Asia Pte Ltd. (formerly JP Morgan Partners Asia), where he focused on buyouts and other private equity investments in China and the Asia-Pacific region. He began his career at Goldman Sachs Investment Banking division, where he focused on providing overseas equity offerings and cross-border mergers and acquisitions advice for Chinese companies.

Mr. Shi is a director of 寧夏夏進乳業集團股份有限公司 (Ningxia XiaJin Dairy Group Co., Ltd.*), a company established in the PRC.

CHEN Zhiwu (陳志武), aged 53, was appointed as an independent non-executive Director on 31 July 2015. He is a Professor of Finance and Economics at the School of Management of Yale University, a Special-Term Visiting Professor at School of Economics at Peking University, and Visiting Professor and HKU-AXA Senior Fellow on China's Market Reform at The University of Hong Kong. Prof. Chen started his career by publishing research in economics and finance journals on topics related to financial markets and theories of asset pricing. In the early 2000s, Prof. Chen began to expand his research beyond mature markets by investigating market development. He is an independent non-executive director of PetroChina

Company Limited (a company listed on the Stock Exchange and the Shanghai Stock Exchange), Bank of Communications Co., Ltd. (a company listed on the Stock Exchange and the Shanghai Stock Exchange), and Noah Holdings Limited (a company listed on the New York Stock Exchange).

CHAU Shing Yim David (周承炎), aged 52, is proposed by the Offeror to be appointed as an independent non-executive Director after completion of the Transactions (and as soon as his appointment is permitted under the Takeovers Code). He has over 20 years' experience in corporate finance, working on projects ranging from initial public offering transactions and restructuring of PRC enterprises to cross border and domestic takeover transactions. Mr. Chau was formerly a partner of Deloitte Touche Tohmatsu, one of the big four accounting firms in Hong Kong, holding the position as the Head of Merger and Acquisition and Corporate Advisory. He is a member of the Hong Kong Securities and Investment Institute, the Institute of Chartered Accountants of England and Wales ("**ICAEW**"), and was granted the Corporate Finance Qualification of ICAEW. He is a member of the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and was an ex-committee member of the Disciplinary Panel of HKICPA. Mr. Chau is currently an independent non-executive director of six companies which are listed on the Main Board of the Stock Exchange, namely, Lee & Man Paper Manufacturing Limited (stock code: 2314), Man Wah Holdings Limited (stock code: 1999), Evergrande Real Estate Group Limited (stock code: 3333), Richly Field China Development Limited (stock code: 313), Evergrande Health Industry Group Limited (stock code: 708) and Hengten Networks Group Limited (stock code: 136). Mr. Chau was also an independent non-executive director of Up Energy Development Group Limited (stock code: 307), a company listed on the Main Board of the Stock Exchange, from 20 June 2013 to 25 September 2015, a director of China Solar Energy Holdings Limited (stock code: 155), a company listed on the Main Board of the Stock Exchange, from 15 May 2015 to 12 June 2015, and an independent non-executive director of Varitronix International Limited (stock code: 710), a company listed on the Main Board of the Stock Exchange, from 1 July 2009 to 3 June 2016.

Mr. Chau was a supervisor of 深圳市富隆投資顧問有限公司 (Shenzhen Fulong Investment Consulting Company Limited*) ("**Shenzhen Fulong**"). Shenzhen Fulong was a wholly foreign-owned enterprise. Shenzhen Fulong was inactive and had never commenced business. According to Mr. Chau, as a result of Shenzhen Fulong's failure to commence business, its business license was subsequently revoked on or around 1 April 2014. Mr. Chau was a supervisor of Shenzhen Fulong at the time or within a period of 12 months from the time of the revocation of Shenzhen Fulong's business licence.

Each of the Directors proposed by the Offeror to be appointed to or remain as a member of the Board after completion of the Transactions referred to in this section above has confirmed that save as disclosed in this circular, (i) he has no other interests in the shares of the Company within the meaning of Part XV of the SFO, (ii) he is independent from, and is not related to, any other then Directors, members of senior management, substantial Shareholders or Controlling Shareholders immediately after completion of the Transactions, (iii) he has not held any other directorship in any other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years, and (iv) there is no other information which is required to be disclosed pursuant to any of the requirements under Rules 13.51(2) of the Listing Rules, nor are there any matters which need to be brought to the attention of the Shareholders in connection with his proposed appointment as a Director.

SENIOR MANAGEMENT

Apart from Mr. Wang and Lee Khay Kok who will become the Company's chief executive officer and chief engineer, respectively, mentioned above, the Restructured Group's proposed senior management team will also comprise the following members:

KANG Weili (康偉力), aged 64, is proposed by the Offeror to be appointed as the chief geologist of the Company after completion of the Transactions, responsible for general geological research and study, developing exploration and production plans, reserve discovery and assessment.

Mr. Kang graduated with a bachelor's degree in Petroleum Geology from Daqing Petroleum Institute. He has over 30 years of experience in managing upstream oil and gas exploration and development, from reservoirs and reserve discovery, formulation and implementation of exploration and development plans. Mr. Kang has extensive experience in leading projects from exploration to production. He was accredited as Professor Level Senior Engineer (教授級高級工程師) in 1998 and a Valuer of Mineral Reserve (礦產儲量評估師) in 2002.

From 1977 to 2005, Mr. Kang worked for 吉林油田公司 (Jilin Oilfield Company*), the Jilin branch oilfield company of 中國石油天然氣集團公司 (China National Petroleum Corporation*) ("**CNPC**") and engaged in oil and gas exploration and research in Jilin, the PRC, during which he held positions including head of the exploration department and deputy chief geologist and was in charge of the exploration, development and research of various oil and gas fields in Jilin.

Mr. Kang was employed by MOLR at the oil and gas evaluation office (中國國土資源部油氣儲量評審辦公室) as the deputy department head from 2005 to 2011. Since 2013, Mr. Kang has been the chief geologist of Titan Gas Holdings, responsible for geology and research in Titan Gas Holdings.

Mr. Kang has received various awards in respect of his contributions in discovering new reserves and exploration. He was granted government special allowance (政府特殊津貼) by the State Council of the PRC in 1994 to recognise his contribution in engineering and technology. In January 2013, Mr. Kang was awarded with the Individual Special Contribution Award in National Mineral Resources Investigation (全國礦產資源利用現狀調查工作先進個人特別貢獻獎).

Mr. Kang believes that his experience in managing upstream exploration work and his contributions in discovering new reserves and production enhancement will help the PRC Target move its development work in Unit 2 and Unit 19 of Block 212 to commercial production; and will also help migrate resources into reserves and identify new reserves.

XIE Jianping (謝建平), aged 50, is proposed by the Offeror to be appointed as senior vice president of the Company and a director of the PRC Target after completion of the Transactions. Mr. Xie will be responsible for business development, investment execution, and general management of the PRC Target.

Mr. Xie graduated from North China University of Technology with a bachelor's degree in engineering. Mr. Xie served as vice president of IDG Capital Partners and has approximately 9 years of investment and management experience and invested in a number of large enterprises. With his extensive investment and management experience in the energy and mineral industries, Mr. Xie led the investment in Minco Gold Corporation, a company listed in Canada.

Mr. Xie has served as the vice president of Titan Gas Holdings since 2013, mainly responsible for business development and general management.

Mr. Xie believes that his investment and management experience will help the PRC Target manage its cost control measures by leveraging on his seasoned experience in advising investee companies on profit enhancement.

JIN Yufen (金玉芬), aged 55, is proposed by the Offeror to be appointed as vice president of the Company after completion of the Transactions. Ms. Jin will be responsible for overall procurement management, organising bidding arrangement and process, contracts negotiation, oilfield service contractors supervision and management. Ms. Jin was accredited as Senior Engineer (高級工程師) in 1994.

Ms. Jin graduated with a bachelor's degree in Geophysical Exploration from Huadong Petroleum Institute (華東石油學院) (subsequently renamed as "China University of Petroleum") and a master's degree in Business Administration from the University of Wyoming. Ms. Jin has over 20 years of oil and gas experience obtained from various companies operating in the oil and gas industry.

From 1983 to 2002, Ms. Jin worked for CNPC, where she held various positions including senior engineer. Among other projects, Ms. Jin was responsible for the seismic work at the Shenxian depression, including seismic data acquisition, processing and interpretation.

From 2005 to 2008, Ms. Jin was employed as deputy manager of Apex Solutions Inc., an oilfield technique service provider. She was in charge of contracting and contract management, finance and technical project proposals.

From 2009 to 2012, Ms. Jin was the General Manager (Technical) at Pacific Asia Petroleum Limited ("**PAPL**"), a company which was engaged in the development of coalbed methane located in Shanxi province, the PRC through a production sharing contract with a company engaged in among others, exploration, development and sale of coalbed methane.

Since 2013, Ms. Jin has been the vice president of Titan Gas Holdings, responsible for contracting and technical procurement in Titan Gas Holdings.

Ms. Jin believes that her experience in seismic interpretation and her background of working for an oilfield service company in charge of contracting and contract management will help the PRC Target in its service provider procurement.

WANG Ping (王平), aged 43, is currently a director and the general manager of the PRC Target. Wang Ping is proposed by the Offeror to be appointed as vice president of the Company after completion of the Transactions. Wang Ping will be responsible for general operation management, business plan, budget management, staff management and public relation management of the PRC Target.

Wang Ping received his bachelor degree in construction engineering from the Shanghai Institute of Urban Construction. Since November 2008, Wang Ping has been working for the PRC Target, where he held positions as deputy general manager, executive deputy general manager and general manager. He has approximately 7 years of on-site practical experience in managing exploration and development of the PRC Target's upstream oil assets, including formulating and approving exploration plans, development plans and operating budgets. Wang Ping was elected as Representative of People's Congress of East Ujimqin Banner, Xilin Gol League, Inner Mongolia, the PRC in 2012.

Wang Ping believes that his knowledge accumulated from working on Block 212 will continue to contribute to the operation and management of Block 212 based on its past practical knowledge and experience.

SONG Bo (宋波), aged 51, is proposed by the Offeror to be appointed as the Deputy Chief Engineer of the Company after completion of the Transactions. Mr. Song will be responsible for well site planning, field operation management, and production operation management operation.

Mr. Song received his bachelor degree in petroleum geology and exploration from Daqing Petroleum Institute and his master degree of coalfield and petroleum exploration from China University of Petroleum. He has approximately 30 years of experience in upstream oil and gas assets field operations. Mr. Song is particularly experienced in oil assets evaluation, and formulation of medium to long term reserve planning. He was accredited as a senior engineer (高級工程師) in 1998.

From July 1984 to March 2010, Mr. Song worked for Jilin Oilfield Company, where he held positions including, among others, deputy chief geologist of the Exploration and Development Institute, section chief (科長) of the Foreign Cooperation Department (對外合作部) and deputy department head (副主任) of the reserve office of the Exploration and Development Institute.

From April 2010 to April 2013, Mr. Song was employed by 中聯煤層氣國家工程研究中心有限責任公司 (China United Coalbed Methane National Engineering Research Center Corporation Limited*) of the PRC and held the position as deputy director (副所長) of its geological planning institute.

From April 2013 to September 2014, Mr. Song was employed by the Linfen branch of 中石油煤層氣有限責任公司 (PetroChina Coalbed Methane Company Limited*) as manager assistant and was responsible for production operation, exploration and development planning, extraction and workover operation.

Since 2014, Mr. Song has been the deputy chief engineer of Titan Gas Holdings, responsible for field operation management in Titan Gas Holdings.

Mr. Song believes that his experience in oil assets evaluation, formulation of medium to long term reserve planning and his experience in exploration, planning, extraction and workover operation of coalbed methane will help him manage the exploration and development for Block 212.

GAO Jihong (高吉宏), aged 46, is currently the chief geologist of the PRC Target, and is proposed by the Offeror to be appointed as the deputy chief geologist of the Company after completion of the Transactions. Mr. Gao will be responsible for execution of geological exploration and research, geological plan and design, exploration and appraisal plan, geological study and research, and reserve evaluation.

Mr. Gao received his bachelor degree from the petroleum geology department at China University of Geosciences. Mr. Gao has approximately 17 years of experience in upstream oil assets exploration and development work. Mr. Gao was accredited as engineer (工程師) in 2002.

From July 1997 to July 2003, Mr. Gao worked at the Exploration and Development Research Institute of 中石油華北油田勘探開發研究院 (CNPC Huabei Oilfield Company*). During this tenure, Mr. Gao was mainly responsible for petroleum exploration research.

From November 2004 to March 2014, Mr. Gao was employed by 任丘市新發油田技術服務有限公司 (Renqiu City Xinfa Oilfield Service Company Limited*), and served as general manager. During his tenure, he was in-charge of several exploration and research projects. Mr. Gao has been the chief geologist of the PRC Target since April 2014.

Mr. Gao has been assisting the PRC Target in its exploration plan and development plan formulation since he joined the PRC Target in April 2014. Combining his knowledge on researches of other oilfields and Block 212, Mr. Gao believes that his continued involvement will help an effective further evaluation on Block 212.

JOINT COMPANY SECRETARIES

KU Sau Shan Lawrence James (顧受山), aged 48, is a graduate of the University of Toronto with a bachelor degree of science; and the York University with a bachelor of administrative studies. Mr Ku also obtained a master degree of corporate finance and corporate governance from Hong Kong Polytechnic University. He is a member of the Hong Kong Institute of Chartered Secretaries (HKICS).

TAN Jue (譚崛), aged 33, is a graduate of Renmin University of China and has been a member of the Association of Chartered Certified Accountants ("**ACCA**") since 2011. He has approximately 9 years of experience in advisory, investment and corporate governance. From 2006 to 2013, he was employed by PricewaterhouseCoopers Consultants Shenzhen Limited Beijing Branch and his last position held was manager in the advisory department. Mr. Tan joined IDG Capital Partners in 2013 and is now vice president of the firm where he is responsible for the execution of the fund's investment in companies in growth and mature stages and is involved in the management of portfolio companies in areas of finance, operation, internal control and corporate governance.

NON-COMPETITION

Each of the Directors and proposed Directors has confirmed that save as disclosed in the sections headed "Relationship between the Restructured Group and the Controlling Shareholders" and "Directors and Senior Management of the Restructured Group" in this circular, he or she and his/her respective associate(s) are not engaged in, or interested in any business which, directly or indirectly, competes or may compete with the business of the Restructured Group.

BOARD COMMITTEES

The Board has established the audit committee, the remuneration committee and the nomination committee.

Audit Committee

The Company has established the audit committee in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to consider issues relating to the external auditors and their appointment and removal, reviewing the interim and annual financial statements, reviewing and overseeing the Company's financial reporting system and internal control procedures.

As at the Latest Practicable Date, the composition of the audit committee of the Company was as follows:

PALASCHUK Derek Myles *(Chairman)*
YE Jianping
CHEN Zhiwu

The Offeror proposes that the composition of the audit committee of the Company after completion of the Transactions (and as soon as the appointment of the Directors nominated by the Offeror is permitted under the Takeovers Code) will be as follows:

CHAU Shing Yim David *(Chairman)*
SHI Cen
LIN Dongliang

Remuneration Committee

The Company has established a remuneration committee of the Board in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and to review and approve the remuneration proposals of the management with reference to the Group's corporate goals and objectives.

As at the Latest Practicable Date, the composition of the remuneration committee of the Company was as follows:

YE Jianping *(Chairman)*
CAO Jing
CHEN Zhiwu

The Offeror proposes that as soon as the proposed changes to the Board composition are allowed under the Takeovers Code, the composition of the remuneration committee of the Company after completion of the Transactions (and as soon as the appointment of the Directors nominated by the Offeror is permitted under the Takeovers Code) will be as follows:

CHAU Shing Yim David *(Chairman)*
CHEN Zhiwu
SHONG Hugo

Nomination Committee

The Company has established a nomination committee of the Board as recommended by the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to review the structure, size and composition of the Board, identifying individuals suitably qualified to become members of Board, assessing the independence of the independent non-executive directors and make recommendations to the Board on the appointment and re-appointment of directors and succession planning for directors.

As at the Latest Practicable Date, the composition of the nomination committee of the Company was as follows:

YE Jianping *(Chairman)*
PALASCHUK Derek Myles
CAO Jing

The Offeror proposes that as soon as the proposed changes to the Board composition are allowed under the Takeovers Code, the composition of the nomination committee of the Company after completion of the Transactions (and as soon as the appointment of the Directors nominated by the Offeror is permitted under the Takeovers Code) will be as follows:

CHEN Zhiwu *(Chairman)*
SHI Cen
WANG Jingbo

DIRECTORS' REMUNERATION AND REMUNERATION OF THE FIVE HIGHEST PAID INDIVIDUALS

The Company's remuneration policy is built upon the principle of providing an equitable, motivating and market-competitive remuneration package that can stimulate and drive staff at all levels to work towards achieving the Group's strategic objectives. The remuneration of the directors of the Company is reviewed by the Remuneration Committee, having regard to directors' duties, responsibilities, the Group's operating results and comparable market statistics.

The above remuneration policy is expected to continue and apply to the Directors and senior management of the Restructured Group.

The remuneration paid to the Directors in aggregate for the financial years ended 31 March 2013, 2014 and 2015 were approximately HK$1,056,000, HK$1,150,000 and HK$1,134,000, respectively.

For the financial year ended 31 March 2013, two Directors were among the Group's five highest paid individuals. The remuneration paid to the remaining three highest paid individuals were approximately HK$1,165,000.

For the financial year ended 31 March 2014, two Directors were among the Group's five highest paid individuals. The remuneration paid to the remaining three highest paid individuals were approximately HK$759,000.

For the financial year ended 31 March 2015, two Directors were among the Group's five highest paid individuals. The remuneration paid to the remaining three highest paid individuals were approximately HK$757,000.

During the years ended 31 March 2013, 2014 and 2015, no emoluments were paid or payable by the Group to any of the Directors or the chief executive of the Company or the five highest paid individuals (including Directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office, and none of the Directors and the chief executive waived or agreed to waive any emoluments paid by the Group.

Based on the existing remuneration package, the Company estimates the aggregate remuneration payable to, and benefits in kind receivable by, the existing Directors in respect of the financial year ending 31 March 2016 to be approximately HK$1,134,000.

COMPLIANCE ADVISOR

The Offeror proposes that the Company will appoint REORIENT Financial as its compliance advisor pursuant to Rule 3A.19 of the Listing Rules to advise the Company on the following matters in accordance with Rule 3A.23 of the Listing Rules:

(a) before the publication of any regulatory announcement, circular or financial report;

(b) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;

(c) where the business activities, developments or results of the Restructured Group deviate from any forecast, estimate, or other information in this circular; and

(d) where the Stock Exchange makes an inquiry of the Company of unusual movements in the price or trading volume of its listed securities or any other matters in accordance with Rule 13.10 of the Listing Rules.

The term of the appointment will commence upon completion of the Transactions and end on the date on which the Company sends its financial results as required under Rule 13.46 of the Listing Rules for the first full financial year commencing after completion of the Transactions or until the compliance advisor resigns or its agreement is terminated, whichever is earlier. Where the compliance advisor resigns or its agreement is terminated earlier, the Company shall appoint a replacement compliance advisor within three months of the resignation or termination.

The following material waivers from the basic conditions in relation to qualifications for listing have been applied for and granted by the Stock Exchange.

BASIC CONDITIONS IN RELATION TO QUALIFICATIONS FOR LISTING

Pursuant to Rule 8.05 of the Listing Rules, an issuer must satisfy one of the three tests in relation to: (i) profit; (ii) market capitalisation, revenue and cash flow; or (iii) market capitalisation and revenue requirements. Pursuant to Rule 8.05(1)(a) of the Listing Rules, the issuer is required to satisfy the profit record requirement for not less than three preceding financial years. Chapter 18 of the Listing Rules applies to mineral companies. Under Rules 18.04 of the Listing Rules, the requirements of profit test in Rule 8.05(1), the market capitalisation/revenue/cash flow test in Rule 8.05(2), or the market capitalisation/revenue test in Rule 8.05(3) of the Listing Rules may be waived if the Stock Exchange is satisfied that the directors and management of the issuer have sufficient and satisfactory experience of at least five years in exploration and/or extraction activities.

The PRC Target is still in the development phase. The exploration and development activities carried out by the PRC Target during the Track Record Period materially contributed, among other factors, the inability of the PRC Target to meet the profit record requirements under Rule 8.05 of the Listing Rules, the Restructured Group cannot meet the profit record requirement under Rule 8.05(1)(a) of the Listing Rules.

The Directors consider that the pre-conditions to a waiver in Rule 18.04 of the Listing Rules requested by the Stock Exchange were complied with as follows:

(a) Primary activity in Rule 18.04

The PRC Target is principally engaged in the exploration, development and production of crude oil in the PRC. During the Track Record Period, all revenue of the PRC Target was derived from the sale of crude oil extracted in connection with its exploration and development activities in Block 212. Accordingly, the Restructured Group's primary activity will be the exploration for and/or extraction of minerals and the Company will be a "Mineral Company" as defined under Rule 18.01 of the Listing Rules, to which Chapter 18 of the Listing Rules applies.

(b) Inability to comply with financial standards requirements due to pre-production activities

The PRC Target is still in the development phase. The exploration and development activities carried out by the PRC Target during the Track Record Period materially contributed, among other factors, the inability of the PRC Target to meet the profit record requirements under Rule 8.05 of the Listing Rules. The PRC Target has reached the development phase in respect of certain explored areas in Block 212 (namely Unit 2 and Unit 19). Details of management discussion and analysis on the results and performance of the PRC Target is set out in the section headed "Financial Information of the PRC Target — Description and Period to Period Comparison of Selected Statements of Profit or Loss and Other Comprehensive Income Items" in this circular. During the Track Record Period, whilst there was crude oil obtained from exploration wells and development wells, the production level as a whole has not reached economies of scale allowing commercial production. The PRC Target carried out substantial investments in exploration and development in the year ended 31 December 2012 and 2013 with a view to better understanding the subsurface structures and environment in Block 212, and collecting more data to prepare and demonstrate proved reserves there. Such investments in oil and gas properties and other exploration and development activities contributed to higher depreciation, higher production cost (like higher well testing and fracturing expenses) and higher exploration expenses. This in turn affected the profitability of the PRC Target during the Track Record Period. Based on the material understanding, data and other information obtained from the exploration and development, the PRC Target submitted its reserve report to MOLR and got approval for the reserve report from MOLR in 2014.

(c) Development plan to achieve commercial production

As part of the development plan to achieve commercial production in Block 212 with an economy of production scale, the PRC Target intends to invest further capital expenditures of approximately RMB333 million (low case) to RMB552 million (high case) up to 2019 to increase production capacity. The plan includes the drilling of up to 124 new wells (in the high case scenario) and a significant expansion of water injection and workovers (mainly fracturing jobs). The PRC Target will also invest in the further exploration in other areas in Block 212, including the development of other contingent resources and the exploration of other prospective areas. The Company understands from the PRC Target that these plans will increase the production scale of the PRC Target and at the same time potentially help develop additional reserves and resources. Details of the further development and exploration plans are set out in the section headed "History and Business of the PRC Target — Future Plans for Commercial Production" in this circular. The capital expenditure of development plans in respect of Unit 2 and Unit 19, as well as other areas of Block 212 are expected to mainly be funded by operating cashflow and net proceeds from the Subscription. The Subscription will provide the PRC Target with substantial funding amounting to approximately HK$800 million for, among other things, the development of Unit 2 and Unit 19 of Block 212 to commercial production and approximately HK$450 million for the further exploration and development of other areas in Block 212.

(d) Management experience requirement in Rule 18.04

The Offeror, the PRC Target and the Board (based on the information provided by the Offeror and the PRC Target) believe that the proposed senior management team comprises industry technical and management experts with practical knowledge and experience gained from international and local PRC upstream oil and gas companies and oilfield service companies, and that they will be able to provide the necessary technical, business and management knowledge, know-how, and experience to the Restructured Group and will help the Restructured Group to implement its development plan and move from its current development stage to commercial production stage.

The Offeror proposes that the senior management team of the Restructured Group will include Mr. Wang, as the chief executive officer, who has approximately 10 years of experience in research, management and investment in upstream oil and gas industry and other energy sectors, including around 5 years of practical experience in upstream oil and gas companies focusing on seismic data analysis and processing with a view to optimising drilling pattern and reducing time and cost; Lee Khay Kok, as the chief engineer, who has approximately 19 years of experience involving upstream oil and gas exploration and development, in particular in the fields of production enhancement and fracturing stimulation; Kang Weili, as the chief geologist, who has over 30 years of experience in managing upstream oil and gas exploration and development, from reservoirs and reserve discovery, formulation and implementation of exploration and development plans; Xie Jianping as senior vice president, who has approximately 9 years of investment and management experience and was involved in investments in a number of large enterprises; Jin Yufen, as vice president, who has over 20 years of experience obtained from various companies working in the oil and gas industry; Wang Ping, as vice president, who has approximately 7 years of on-site practical experience in managing exploration and development of the PRC Target's upstream oil assets; Song Bo, as the deputy chief engineer, who has approximately 30 years of experience in upstream oil and gas assets field operations; and Gao Jihong, as deputy chief geologist, who has approximately 17 years of experience in upstream oil assets exploration and development work, including time spent on-site as the PRC Target's current chief geologist. The experience and knowledge of the proposed senior management team, in particular, in drilling, seismic data processing and analysis, well drilling optimisation, production enhancement and development strategy and technology in other oilfield projects, including those involving "tight" hydrocarbon reservoirs, will help the PRC Target to develop Unit 2 and Unit 19 of Block 212 and further explore other parts of the Area. The Offeror, the PRC Target and the Board (based on the information provided by the Offeror and the PRC Target) believe that the proposed Directors and the proposed senior management of the Restructured Group, taken together, have sufficient experience relevant to the exploration and/or extraction activities that the PRC Target is pursuing and that most of the members of the aforesaid senior management team that the Restructured Group will rely on has a minimum of five years relevant industry experience. As such, the Company has satisfied the management experience requirement under Rule 18.04 of the Listing Rules.

The Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.05 of the Listing Rules in accordance with the reasoning under Rules 18.04 and 8.05 of the Listing Rules.

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong, which normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. The Restructured Group does not and, for the foreseeable future, will not have a sufficient management presence in Hong Kong for the purposes of satisfying the requirements under Rule 8.12 of the Listing Rules. The Company has applied for a waiver from strict compliance with Rule 8.12 of the Listing Rules on the basis that, as the Restructured Group's core business operations are located, managed and conducted in the PRC, the Restructured Group's management is best able to attend to its functions by being based in the PRC. The Company has received from the Stock Exchange a waiver from compliance with Rule 8.12 of the Listing Rules subject to the following conditions:

(a) the Company will appoint two authorised representatives pursuant to Rule 3.05 of the Listing Rules who will act as the Company's principal communication channel with the Stock Exchange and will ensure that the Company complies with the Listing Rules at all times. Although none of the two proposed authorised representatives ordinarily resides in Hong Kong, they possess or are eligible to apply for valid travel documents to visit Hong Kong and they have never been rejected for application of such travel documents. Both authorised representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile or e-mail;

(b) both proposed authorised representatives have means to contact all members of the Board (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact the members of the Board for any matter. The Company will implement a policy whereby (a) each Director will provide his or her mobile phone number, office number, fax number and e-mail address to the authorised representatives; (b) each Director will provide valid phone numbers or means of communication to the authorised representatives when he is travelling; and (c) each Director will provide his or her mobile phone number, office phone number, fax number and e-mail address to the Stock Exchange;

(c) the proposed Directors of the Company to be appointed after completion of the Transactions (and as soon as the appointment of the Directors nominated by the Offeror is permitted under the Takeovers Code) who are not ordinary residents in Hong Kong have confirmed that they possess or are eligible to apply for valid travel documents to visit Hong Kong and they have never been rejected for application of such travel documents, and they will be able to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon the request of the Stock Exchange; and

(d) in compliance with Rule 3A.19 of the Listing Rules, the Company shall retain a qualified institution to act as compliance advisor for a period (the "**CA Period**") commencing on the date of Acquisition Completion and ending on the date on which the Company distributes the annual report for the first full financial year commencing after the date of Acquisition Completion in accordance with Rule 13.46 of the Listing Rules to advise the Company on its obligations to comply with the Listing Rules, and all other applicable laws, rules, codes and guidelines. The compliance advisor will advise on ongoing compliance requirements and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong and, where the Company's authorised representatives are unavailable, act as an additional channel of communication between the Stock Exchange and the Company at least for the CA Period pursuant to Rule 3A.19 of the Listing Rules.

DISPOSAL OF SHARES BY CONTROLLING SHAREHOLDERS

According to Rule 10.07(1)(a) of the Listing Rules, a person or group of persons shown by the listing document at the time of the issuer's application for listing to be controlling shareholders of the issuer shall not and shall procure that the relevant registered holder(s) shall not in the period of commencing on the date by reference to which disclosure of the shareholding of the controlling shareholders is made in the listing document and ending on the date which is 6 months from the date on which dealings in the securities of a new applicant commence on the Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those securities of the issuer in respect of which he is or they are shown by that listing document to be the beneficial owner(s).

As disclosed in the Joint Announcement, the Sellers, Mr. Mo (being the ultimate controlling shareholder of the Sellers) and the Offeror, entered into the S&P Agreement, pursuant to which, among others, the Offeror conditionally agreed to acquire and Seller 1 conditionally agreed, among others, to sell the Sale Shares, being 175,000,000 Sale Shares, representing approximately 50.38% of the total number of Ordinary Shares in issue as at the Latest Practicable Date. Subject to fulfilment (or where applicable, waiver) of the S&P Conditions and immediately following the S&P Completion, the Offeror and parties acting in concert with it will be interested in an aggregate of 199,410,000 Ordinary Shares, representing approximately 57.41% of the total number of Ordinary Shares in issue as at the Latest Practicable Date, and the Offeror will be required to make an unconditional mandatory general offer in cash for all the issued Ordinary Shares (other than those already owned by or agreed to be acquired by the Offeror and parties acting in concert with it) pursuant to Rule 26.1 of the Takeovers Code. Accordingly, the Offeror, as a controlling Shareholder following the S&P Completion, may acquire further Ordinary Shares pursuant to the acceptances of the Offer Shareholders to the Offer, and further acquisition of Ordinary Shares by the Offeror pursuant to the Offer may result in the Company's failure to meet the public float requirements under the Listing Rules. In such event, the Offeror will have to dispose of the Ordinary Shares to purchasers which are independent third parties to the Company or its connected persons to enable the Company to comply with the public float requirements under the Listing Rules.

In view of the above, the Company has applied to the Stock Exchange for a waiver from strict compliance with Rule 10.07(1)(a) of the Listing Rules on the condition that the Offeror may only dispose of Ordinary Shares (the "**Disposal Shares**") during the first six months of completion of the Transactions on the following conditions:

(a) the Disposal Shares will be sold to purchasers which are independent third parties to the Company or its connected persons; and

(b) the number of Disposal Shares will not be more than that required to enable the Company to comply with the public float requirements under the Listing Rules.

DEALING IN THE SHARES OF THE COMPANY PRIOR TO LISTING

According to Rule 9.09(b) of the Listing Rules, there must be no dealing in the securities for which listing is sought by any core connected person of the issuer (except as permitted by Rule 7.11 of the Listing Rules) from 4 clear business days before the expected hearing date until listing is granted.

So far as the Company is aware, Seller 1 is the only substantial shareholder of the Company within the meaning of the Listing Rules as at the Latest Practicable Date and up to the S&P Completion and the Offeror will be the only substantial shareholder of the Company immediately after the Subscription Completion. Given that the Shares are already publicly traded on the Stock Exchange, the Company is not in a position to control dealings in the Shares by any person who may, as a result of such dealing, become a core connected person of the Company within the meaning of the Listing Rules. Also, the Offeror after the S&P Completion, will become a substantial shareholder of the Company, and hence a core connected person of the Company and will then make the Offer. Accordingly, the Company has practical difficulty in strict compliance with Rules 9.09(b) of the Listing Rules.

The Company has applied to the Stock Exchange for a waiver from strict compliance with Rule 9.09(b) of the Listing Rules in respect of (1) any dealing by any holder of the Ordinary Shares (other than Seller 1, the Offeror, the Directors, chief executive, and any of their respective close associates within the meaning of the Listing Rules); and (2) dealings pursuant to the S&P Agreement or any Transaction Documents from 4 clear business days before the expected hearing date until approval for the deemed new listing is granted, on condition that:

(a) the Company promptly releases any inside information to the public in accordance with the Listing Rules and the SFO;

(b) the Company procures that none of Seller 1, the Offeror, the Directors, chief executive, and any of their respective close associates deals in the Shares (other than the transactions contemplated under the S&P Agreement and the Subscription Agreement) from 4 clear business days before the expected hearing date until approval for the deemed new approval for the deemed new listing is granted;

(c) the Company will notify the Stock Exchange if it has come to its knowledge that there is any dealing or suspected dealing in the Ordinary Shares by any of its core connected persons from 4 clear business days before the expected hearing date until listing is granted; and

(d) the Company will confirm to the Stock Exchange that if any person (other than Seller 1 and the Offeror) who, as a result of dealing in the securities of the Company from 4 clear business days before the expected hearing date until approval for the deemed new listing is granted, becomes a substantial shareholder of the Company under the Listing Rules (the "**New Substantial Shareholder**"):

    (i) whether, to the knowledge of the Company as at the Latest Practicable Date, such New Substantial Shareholder is an existing or proposed Director or a member of the senior management of the Company or any of its subsidiaries or the PRC Target; and

(ii) whether the Company and its management have had control over the investment decisions of such New Substantial Shareholder and/or its associates.

JOINT COMPANY SECRETARIES

Pursuant to Rule 3.28 and Rule 8.17 of the Listing Rules, the secretary of the Company must be an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary.

The Offeror proposes to appoint Tan Jue ("**Mr. Tan**") as one of the joint company secretaries upon or prior to the completion of the Transactions. Mr. Tan is a graduate of Renmin University of China and has been a member of the Association of Chartered Certified Accountants since 2011. He has approximately 9 years of experience in advisory, investment and corporate governance. From 2006 to 2013, he was employed by PricewaterhouseCoopers Consultants Shenzhen Limited Beijing Branch and his last position held was manager in the advisory department. Mr. Tan joined IDG Capital Partners in 2013 and is now Vice President of the firm where he is responsible for the execution of the fund's investments and is involved in the management of portfolio companies in areas of finance, operation, internal control and corporate governance. He has been involved in the due diligence exercise on the PRC Target in connection with the Acquisition. The Offeror and the Board (based on the information provided by the Offeror), consider that Mr. Tan's experience in financial reporting and reviewing and analysing financial statements, as well as his understanding of the PRC Target gained during the Offeror's due diligence exercise would increase the effectiveness and the responsiveness of the Directors in decision making as well as complying with various rules and regulations applicable to the Restructured Group (including the Listing Rules) since Mr. Tan will be familiar with the business and operations of the Restructured Group and is capable of discharging the functions of a company secretary of the Company on the basis of his experience and background. However, Mr. Tan does not possess the qualification and sufficient relevant experience as stipulated in the Notes to Rule 3.28 of the Listing Rules and may not be able to solely fulfil the requirements as stipulated under Rule 3.28 and Rule 8.17 of the Listing Rules. As such, the Offeror additionally proposes to appoint Ku Sau Shan Lawrence James ("**Mr. Ku**") who possesses the requisite qualification and experience to satisfy the requirements of Rule 3.28 of the Listing Rules to act as the other joint company secretary of the Company to ensure that Mr. Tan would be able to acquire the necessary experience to satisfy the requirements of Rule 3.28 of the Listing Rules. Both Mr. Tan and Mr. Ku, as joint company secretaries, will jointly discharge the duties and responsibilities by reference to their past experience and education background.

Moreover, the Company has taken, or will take, steps in ensuring that Mr. Tan will receive the appropriate training in order to enable Mr. Tan to familiarise himself with the Listing Rules and other relevant rules and regulations in Hong Kong. Mr. Tan has confirmed that he will attend a total of no less than 15 hours of training courses on the Listing Rules, corporate governance, information disclosure, investor relations as well as the functions and duties of a company secretary of a Hong Kong listed issuer during each financial year as required under Rule 3.29 of the Listing Rules. Mr. Tan will also be advised by the Bermuda legal advisors, the PRC legal advisors and the Hong Kong legal advisors of the Company if and when necessary.

Given Mr. Ku's qualifications and past experience, it is anticipated that Mr. Tan will acquire experience with the assistance of Mr. Ku. It is intended that a further evaluation of the qualification and experience of Mr. Tan and the need for ongoing assistance would be made three years after the completion of the Transactions. The expectation is that the Company and Mr. Tan would then endeavour to demonstrate to the Stock Exchange's satisfaction that Mr. Tan will then have acquired the "relevant experience" within the meaning of Rule 3.28 of the Listing Rules.

The Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance of Rule 3.28 and Rule 8.17 of the Listing Rules in respect of the appointment of Mr. Tan as one of the joint company secretaries, on the condition that Mr. Ku is appointed as the other joint company secretary. In the initial three years from the completion of the Transactions, Mr. Tan is to work closely with Mr. Ku or another person who is fully qualified as company secretary under Rule 3.28 of the Listing Rules, who will be the contact person of the Company for the joint company secretaries, and will provide assistance to Mr. Tan in the discharge of his duty as a joint company secretary. Upon expiration of the initial three-year period, the Stock Exchange will revisit the situation in the expectation that the Company should then be able to demonstrate to the Stock Exchange's satisfaction that Mr. Tan, will have acquired the relevant qualifications and/or experience required under Rule 3.28 of the Listing Rules, so that a further waiver will not be necessary. The waiver will be revoked immediately if Mr. Ku ceases as a joint company secretary and the Company fails to appoint another joint company secretary who is fully qualified as company secretary under Rule 3.28 of the Listing Rules to provide assistance and guidance to Mr. Tan.

For further details of Mr. Tan and Mr. Ku's biographies, please refer to the section headed "Directors and Senior Management of the Restructured Group" in this circular.

*The following discussion and analysis of the PRC Target's results of operations and financial condition should be read in conjunction with the financial information of the PRC Target for the years ended 31 December 2013, 2014 and 2015 and the accompanying notes ("**Financial Information**"), included in "Appendix III — Accountants' Report on the PRC Target" to this circular. This historical financial information is not necessarily indicative of the future performance of the PRC Target or the Restructured Group. For an illustration of the financial information of the Restructured Group as a result of completion of the Transactions, please refer to "Appendix VI — Unaudited Pro Forma Financial Information of the Restructured Group" to this circular. The Financial Information of the PRC Target have been prepared in accordance with HKFRS. The discussion and analysis set out in this section contains forward-looking statements that involve risks and uncertainties. The PRC Target's actual results may differ significantly from those projected. Factors that might cause the PRC Target's future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this circular, particularly in the section headed "Risk Factors" in this circular.*

Discrepancies between totals and sums of amounts listed herein in any table or elsewhere in this circular may be due to rounding.

OVERVIEW

The PRC Target is principally engaged in the exploration, development and production of crude oil in the PRC. Under the EPCC, Yanchang (as the mineral right owner) and the PRC Target (as the operator) cooperate to explore oil in the Area; and the PRC Target and Yanchang are entitled to share 80% and 20% of the proceeds (net of any sales related taxes) from the sale of crude oil produced from the Area, respectively.

Yanchang owns the oil mineral rights in respect of the Area pursuant to two exploration permits granted by MOLR to it since 2008 and 2009, respectively. The current exploration permits of Yanchang in respect of Block 212 and Block 378 will expire on 5 March 2017 and 9 November 2017, respectively. Both exploration permits are renewable after expiry for terms of two years each time under the requirements of MOLR.

Up to the Latest Practicable Date, the PRC Target has been focusing on exploration and development of Block 212 but has not performed any major exploration work in Block 378 except for a seismic survey and analysis. Under the EPCC, the PRC Target is responsible for formulating the exploration and development plans, and providing funding for all capital expenditures and operational costs, and technology and managerial experience for the exploration, development and production in the Area. The first oil producer in Block 212 commenced pilot production in 2009 and the PRC Target commenced the sale of crude oil from various wells in Block 212 from 2010. As at 31 December 2015, a total of 135 wells had been drilled in Block 212, including 87 oil producers, 23 water injectors, 14 bailing wells and 11 dry holes, while no wells have been drilled in Block 378.

According to the reserve estimate in the Independent Technical Report prepared in accordance with the definitions and guidelines set out in the PRMS approved by the Society of Petroleum Engineers, the following tables set out the PRC Target's reserve data for Block 212 as at 31 December 2015:

	As at 31 December 2015	
	Gross	**Net**
	(MMstb)	*(MMstb)*
Proved (1P)	10.1	8.1
Proved + Probable (2P)	14.2	11.4
Possible	4.7	3.8

The following table sets out the PRC Target's gross production volume and gross sales volume of crude oil for the periods indicated:

	For the year ended 31 December		
	2013	**2014**	**2015**
	(bbl)	*(bbl)*	*(bbl)*
Gross production volume	497,525	433,141	416,862
Gross sales volume	511,800	433,307	406,356

The following table sets out the key information of the PRC Target's operating results for the periods indicated:

	For the year ended 31 December		
	2013	**2014**	**2015**
Revenue *(RMB'000)*	232,176	191,341	98,761
Gross profit *(RMB'000)*	75,064	72,794	9,988
Gross profit margin	32.3%	38.0%	10.1%
Profit before interest, income tax, depreciation and amortisation ("**EBITDA**") *(Note)* *(RMB'000)*	89,008	66,553	28,013
Loss for the year *(RMB'000)*	(25,447)	(13,068)	(24,594)

Note: Earnings before interest, tax, depreciation and amortisation (EBITDA) is not defined by Hong Kong Financial Reporting Standards (HKFRS) and is not presented in "Appendix III — Accountants' Report on the PRC Target" to this circular.

During the Track Record Period, the PRC Target's operating results were mainly affected by (i) the fluctuation of average unit selling prices of crude oil which were close references to various local and international crude oil market prices; (ii) the level of exploration and production activities performed by the PRC Target; (iii) the PRC Target's proved developed producing ("**PDP**") reserves and proved reserves used for the calculation of the depreciation and amortisation based on the units-of-production ("**UOP**") method; and (iv) the cost control policies implemented by the PRC Target from 2014 which mainly included (a) reduction of the headcount of the management and administrative staff, and office and entertainment expenses; (b) relocation of the PRC Target's headquarters from Shanghai to East Ujimqin Banner to reduce business travel and rental expenses of office premises; (c) standardisation of work processes for the technical personnel to improve the efficiency; and (d) strict implementation of certain operation policies, such as bidding management, budgeting management, cost approval and attendance.

After eliminating the impact of depreciation and amortisation mainly caused by (i) the amount of exploration expenditure capitalised and transferred to property, plant and equipment; and (ii) the changes in PDP reserves and proved reserves, the PRC Target generated EBITDA of approximately RMB89.0 million, RMB66.6 million and RMB28.0 million, respectively, during the Track Record Period, despite net losses for the years ended 31 December 2013, 2014 and 2015. Please refer to the sub-section headed "Description and Period to Period Comparison of Selected Statements of Profit or Loss and Other Comprehensive Income Items" in this section for detailed analysis.

BASIS OF PREPARATION

The Financial Information has been prepared in accordance with applicable HKFRS issued by the HKICPA. The PRC Target has adopted all applicable new and revised HKFRS to the Financial Information during the Track Record Period, except for any new standards or interpretations that are not yet effective for the accounting year beginning 1 January 2016. The Financial Information also complies with the applicable disclosure provisions of the Listing Rules.

Without qualifying the opinion of the reporting accountants set out in "Appendix III — Accountants' Report on the PRC Target" to this circular, the PRC Target incurred a loss of approximately RMB24.6 million for year ended 31 December 2015 and had net current liabilities of approximately RMB252.7 million as at 31 December 2015. These conditions indicate the existence of material uncertainties which may cast significant doubt on the PRC Target's ability to continue as a going concern.

The Financial Information has been prepared on a going concern basis, the validity of which is dependent on the measures as discussed in the below paragraphs to enable the PRC Target to operate as a going concern and meet its financial liabilities as they fall due for the foreseeable future. The Financial Information does not include any adjustments that would result should the PRC Target be unable to continue to operate as a going concern.

In determining the appropriate basis of preparation of the Financial Information, the directors of the PRC Target have reviewed the PRC Target's cash flow projections for the twelve months ending 31 December 2016. They are of the opinion that, taking into account the following measures, the PRC Target will have sufficient working capital to meet its financial obligations as and when they fall due and committed future capital expenditures within the next twelve months from the reporting period end date:

(i) Under the terms of the agreements entered in connection with the Transactions and subject to the successful completion of the Transactions, the Company will raise proceeds from the issue of new Shares to the Subscribers. Out of the net proceeds, it is expected that the Company will provide funding to the PRC Target as follows:

- as to approximately HK$400 million (equivalent to approximately RMB336.0 million) to finance the repayments of the PRC Target's outstanding payables and borrowings;

- as to approximately HK$800 million (equivalent to approximately RMB672.0 million) to finance the development plan of the current explored areas (namely Unit 2 and Unit 19) in Block 212;
- as to approximately HK$450 million (equivalent to approximately RMB378.0 million) for exploration and development of other areas in Block 212; and
- as to approximately HK$115 million (equivalent to approximately RMB96.6 million) to finance the operating expenses of the PRC Target.

The completion of the Transactions is subject to certain conditions including approvals by the Listing Committee of Stock Exchange and the Independent Shareholders of the Company; and

(ii) the existing PRC Target's shareholder, Hongbo Investment, has undertaken to provide continuing financial support to the PRC Target before completion of the Transactions.

The directors of the PRC Target are of the view that the PRC Target will receive (i) ongoing financial support from its bankers and Hongbo Investment before completion of the Transactions; and (ii) the Transactions will be successfully completed and sufficient funding will be provided by the Company to the PRC Target to enable it to meet its financial liabilities as they fall due in the foreseeable future. The PRC Target does not expect to receive any financial support from the Target Sellers after completion of the Transactions.

Accordingly, the directors of the PRC Target are of the opinion that it is appropriate to prepare the Financial Information on a going concern basis.

The Financial Information is presented in RMB, rounded to the nearest thousand except when otherwise indicated. It is prepared on the historical cost basis.

SIGNIFICANT FACTORS AFFECTING THE PRC TARGET'S RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The PRC Target's results of operations and financial condition have been and will continue to be principally affected by the following factors:

Demand and price of crude oil in China

According to Wood Mackenzie, the PRC is a net oil importer country and the largest crude oil market in the Asia Pacific region with an average annual growth in demand by approximately 2%. With the PRC's increasing population and GDP outlook, it is expected that the PRC's energy consumption will continue to increase in the near future and the domestic supply of crude oil will not be able to satisfy demand.

The PRC Target and the Customer determine the selling price of crude oil with close reference to the prices of Daqing crude oil and Liaohe special crude oil in the PRC and Brent Crude, and after taking the transportation cost of the Customer into consideration. The crude oil prices in the PRC are affected by the international crude oil market prices, which are affected by various uncontrollable factors, including but not limited to local and global economic conditions, international crude oil demand and supply, policies of OPEC and political stability and other geopolitical factors in the oil producing countries. The following table sets out a summary of the average prices (exclusive of sales related taxes) of Daqing crude oil, Liaohe special crude oil and Brent Crude, and the PRC Target's average unit selling prices (exclusive of sales related taxes) for the periods indicated:

	For the year ended 31 December		
	2013	**2014**	**2015**
	RMB/bbl	*RMB/bbl*	*RMB/bbl*
Daqing crude oil*(Note 1)*	649.2	615.8	321.3
Liaohe special crude oil*(Note 1)*	653.4	618.5	330.4
Brent Crude*(Note 2)*	668.4	612.9	352.1
Average unit selling price of the PRC Target	567.1	552.0	303.8

Notes:

1. The average prices (exclusive of sales related taxes) of Daqing crude oil and Liaohe special crude oil as shown in the above table were based on the information obtained from an independent website for which the PRC Target has subscribed.

2. The average prices (exclusive of sales related taxes) of Brent Crude were derived from the average of the day-end prices from Bloomberg for each year/period.

The demand for and selling prices of crude oil may affect the PRC Target's revenue, results of operations and financial condition in the following ways:

(i) A downturn in demand and crude oil prices may generally reduce the revenue, gross profit margin and profitability of the PRC Target and vice versa;

(ii) The PRC Target's capital investment (which ultimately affects the future production volume) may be influenced by the volatility of and trends in crude oil prices. For example, partly as a result of the decreasing and volatile crude oil price in 2014 and 2015, the PRC Target did not drill any new wells in 2014 and 2015; and

(iii) Crude oil prices affect the calculation of the PRC Target's net reserves and in return have an impact on the depreciation of oil and gas properties and the amortisation of the cooperation right.

The table below sets out a sensitivity analysis on changes in the average unit selling price of the PRC Target in relation to the PRC Target's gross profit and loss before taxation:

Percentage change in average unit selling price	Impact on gross profit and loss before taxation For the year ended 31 December		
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
+5%	11,609	9,567	4,938
+10%	23,218	19,134	9,876
–5%	(11,609)	(9,567)	(4,938)
–10%	(23,218)	(19,134)	(9,876)

Pursuant to the Administrative Measures on the Imposition of Special Oil Income Levy (《石油特別收益金徵收管理辦法》) ("**Administrative Measures**"), Yanchang, as the statutory payer, is required to pay a special oil income levy. The amount of the special oil income levy payable, if any, is dependent on crude oil prices and, after being collected from the PRC Target, is payable to the PRC government by Yanchang. For the purposes of calculating the portion of special oil income levy to be paid by the PRC Target, Yanchang has set a fixed price (exclusive of sales related tax) at approximately RMB384.7 per barrel (the "**Fixed Price**") (equivalent to approximately US$59 per barrel) as the deemed selling price of crude oil sold by the PRC Target. If the Fixed Price does not exceed the threshold price set by the PRC government pursuant to the Administrative Measures (or notices as issued by the PRC government from time to time), no special oil income levy will be payable by the PRC Target to Yanchang. If the Fixed Price exceeds the threshold price as set by the PRC government pursuant to the Administrative Measures (or notices as issued by the PRC government from time to time), the PRC Target will be required to pay the special oil income levy to Yanchang based on the prescribed progressive rate as issued by the Ministry of Finance of the PRC (中華人民共和國財政部) ("**MOF**") from time to time.

In the PRC, as at the Latest Practicable Date, a special oil income levy is payable at progressive tax rates from US$65 per barrel (equivalent to approximately RMB423.8 per barrel), as illustrated in the table below:

Crude oil price range		Tax rate on the portion over US$65 per bbl
US$/bbl	equivalent to RMB/bbl	%
0 to 65	0 to 423.8	0
65 to 70 (inclusive)	423.8 to 456.4 (inclusive)	20
70 to 75 (inclusive)	456.4 to 489.0 (inclusive)	25
75 to 80 (inclusive)	489.0 to 521.6 (inclusive)	30
80 to 85 (inclusive)	521.6 to 554.2 (inclusive)	35
Over 85	Over 554.2	40

Exploration and extraction work performed by the PRC Target

During the exploration and development phases, the PRC Target carries out exploration activities for the purposes of demonstrating commerciality and formulating an overall development plan of the Area by conducting 2D and 3D seismic surveys and analysis, well logging, reservoir tests, etc. In addition, the PRC Target engages service providers to conduct pilot production, including drilling oil producers, construction of surface facilities and other stimulation work, which are necessary for demonstrating the commerciality of Block 212.

During the production and processing phases, crude oil is extracted from the PRC Target's wells with the use of pump jacks or extracted manually by bailing at intervals of several days where some wells have lower flow rates, and then processed in a 3-phase separator, which separates crude oil, natural gas and water at the PRC Target's oil gathering station.

The level of the exploration and extraction work, primarily 2D and 3D seismic surveys and analysis, drilling of oil producers and other stimulation work performed by the PRC Target may affect the PRC Target's financial results in the following ways:

(i) the expenditures associated with the 2D and 3D seismic surveys and analysis as well as the costs of unsuccessful exploratory wells are recognised in profit or loss;

(ii) the number of oil producers drilled has a positive correlation with the production/ sales volume, while the expenditures associated with the drilling of oil producers are capitalised and depreciated afterwards;

(iii) the stimulation work on the existing wells may increase the production/sales volume, while most of the expenditures associated with the stimulation work are recognised in profit or loss; and

(iv) the various exploration and extraction work may affect the capital investment and hence the financing requirement of the PRC Target.

According to the Independent Technical Report, as part of the development plan to achieve commercial production in Block 212, the PRC Target intends to invest an additional amount of approximately RMB333 million to RMB552 million to increase production capacity from January 2016 to December 2019, involving drilling of between 69 and 124 new oil producers and between 26 to 35 water injectors, and performing between 63 to 92 workovers (mainly fracturing jobs). The production of the PRC Target is expected to increase in tandem with the number of new oil producers drilled and the completion of more water injectors and fracturing jobs based on the historical production data and trend of the existing wells. However, this development plan may be affected by global and PRC crude oil price and demand which are beyond the PRC Target's control.

For the details of the gross production volume and gross sales volume of the PRC Target during the Track Record Period, please refer to the sub-section headed "Overview" in this section.

Uncertainty of reserve estimates

The PRC Target's reserves are the quantities of crude oil estimated, from the analysis of geoscience and engineering data, to be commercially recoverable by application of development projects to known reservoirs from a given date forward under defined economic conditions, operating methods and government regulations. Estimation of reserves involves numerous assumptions relating to factors which may include production rates, initial oil in place estimates, production decline rates, ultimate recovery factors, future oil-water ratios, injector performance, volume conversion factor, timing and amount of capital expenditures, future oil prices and operating costs that may be imposed during the production life of the reserves. Engineering estimates of the PRC Target's reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information.

Reserve volume and the revenue attributable to the reserves are directly dependent on crude oil prices. The fluctuations of crude oil prices may affect the estimate of the net reserves. For example, a higher crude oil price in the long term may result in an increase in the net reserves, and vice versa. However, should crude oil prices persist at levels meaningfully below those assumed in the derivation of the reserves estimates attributed to Block 212, it may not be economical for the PRC Target to drill all of the currently planned development wells, leading to a reduction in the recognition of certain of the reserves volumes while such conditions exist. Due to the uncertainty of the future crude oil price as discussed above, the reserve volume and revenue attributable to the reserves may differ significantly from the estimates. In addition, the reserve estimates are essential information for the PRC Target: (i) to formulate future production plans; (ii) to estimate future revenue, payback and returns; (iii) to test for impairment of non-current assets; and (iv) to calculate the depreciation of oil and gas properties and amortisation of cooperation rights on a UOP basis.

Exploration and production cooperation with Yanchang

The PRC Target has entered into the EPCC of a term of two years with Yanchang and enjoys a high degree of autonomy in deciding the exploration, development and production plans in respect of the Area. During the Track Record Period, the EPCC entitles the PRC Target to share 80% of the proceeds (exclusive of sales related taxes) from the sale of crude oil to the Customer, as designated by Yanchang through the EPCC.

Although the Company and the PRC Target believe that the PRC Target has established a mutually beneficial long term business relationship with Yanchang and the Customer and it is set out in the First Confirmation Letter issued by Yanchang to the PRC Target dated 26 May 2015 that so long as the PRC Target has performed its obligations under the EPCC, Yanchang has committed to renewing the EPCC with the PRC Target based on the term of the relevant exploration and/or production permits held by Yanchang from time to time, it theoretically exists the risk that the EPCC may not be renewed by Yanchang upon its expiry to continue the existing business due to (i) Yanchang may not be able to renew the exploration permits and eventually obtain a production permit for Block 212; and (ii) Yanchang may decide to strictly enforce its right and terminate or does not renew the EPCC. Under such circumstances, the business, financial condition and results of operations of the PRC Target may be materially and adversely affected.

However, it is the opinion of the Company and the PRC Target that the abovementioned risks are low because (i) according to the memorandum dated 29 June 2016 of Haiwen & Partners, the PRC legal advisors to the Company, Haiwen & Partners was told in an interview with relevant officers of MOLR that under the current rules and regulations in the PRC, Yanchang shall have the right to renew its exploration permits and during the term of the exploration permits, MOLR will not accept any application from other applicants for a production permit in respect of the Area and will not sell the production right in respect of the Area via tenders, and these statements by the MOLR officials do not contradict any laws of the PRC; (ii) subject to the provision of documents/information required by MOLR, there should be no legal impediment for Yanchang to be granted the production permit in respect of Unit 2 and Unit 19 of Block 212, as it has already successfully submitted a reserve report to MOLR; (iii) Yanchang agreed and renewed the EPCC in 2015 and again in 2016 despite the fact that there were overdue payments of revenue sharing proceeds by the PRC Target to Yanchang during the Track Record Period; and (iv) the First Confirmation Letter was obtained by the PRC Target from Yanchang that it has established a history of good working relationship with the PRC Target. The PRC Target also considers that, from the commercial and operation perspectives, the possibility for Yanchang to unilaterally terminate the EPCC is low as such termination will result in an adverse impact on the continuing development of the Area which shall not be in the best interests of Yanchang and in the Second Confirmation Letter Yanchang confirmed that it would not terminate the EPCC as a result of the overdue amounts.

SIGNIFICANT ACCOUNTING POLICIES

Certain accounting policies are identified to be significant to the preparation of the Financial Information. These significant accounting policies are important for an understanding of the PRC Target's financial condition and results of operations and are disclosed in note 2 of Section B to "Appendix III — Accountants' Report on the PRC Target" to this circular. The following paragraphs discuss, among others, certain significant accounting policies applied in preparing the Financial Information.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

- Sale of goods: revenue is recognised when the Customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts; and

- Interest income: on an accrual basis using the effective interest rate method.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

Depreciation is calculated to write off the cost of property, plant and equipment, other than oil and gas properties, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Buildings and structures	40 years
Machinery and equipment	14 years
Motor vehicles	8 years
Others	3 to 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Oil and gas properties are amortised on a UOP basis over the shorter of the economic life of the recoverable reserves or the terms of the relevant exploration permits.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Exploration and evaluation costs

Geological and geophysical costs are charged to profit or loss as incurred. Costs directly associated with exploratory wells are initially capitalised as exploration and evaluation assets (which is included in construction in progress) until the drilling of the wells is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors.

If no potentially commercial crude oil is discovered, the exploration asset is written off through the profit or loss as a dry hole. If extractable crude oil is found and, subject to further appraisal activity, such as the drilling of additional wells, it is probable that it can be commercially developed, the costs continue to be carried as exploration and evaluation assets while sufficient/continued progress is made in assessing the commerciality of the crude oil. Costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of crude oil, including the costs of appraisal wells where crude oil were not found, are initially capitalised as exploration and evaluation assets.

Regular reviews are undertaken for each area to determine the appropriateness of continuing to carry forward accumulated capitalised exploration and evaluation expenditure. To the extent that capitalised exploration and evaluation expenditure is no longer expected to be recovered, it is charged to profit or loss. No amortisation is charged during the exploration and evaluation phase.

When the technical feasibility and commercial viability of extracting natural resources become demonstrable, the relevant capitalised expenditure is first assessed for impairment and (if required) any impairment loss is recognised, then the remaining balance is transferred to property, plant and equipment — oil and gas properties.

Cooperation right and amortisation

Cooperation right is stated at cost less accumulated amortisation and impairment losses. The cooperation right is amortised on a UOP basis over the shorter of the economic life of the recoverable reserves or the expected terms of the relevant production permits.

Impairment of non-financial assets

At the end of each reporting period, the PRC Target reviews internal and external sources of information to identify indications that the non-financial assets, including property, plant and equipment, construction in progress, cooperation right and lease payments, may be impaired or that an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount (which is the greater of its fair value less costs of disposal and value in use) is estimated. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit ("**CGU**")).

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the CGU to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amount of the assets in the CGU (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal or value in use if available.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

Provision for abandonment

Provision for abandonment is initially recognised based on the present value of the future costs expected to be incurred in respect of the PRC Target's expected abandonment and dismantlement costs at the end of related oil exploration and development activities. Any subsequent change in the present value of the estimated costs, other than the change due to passage of time which is regarded as accretion expenses, forming part of the total net finance costs, is reflected as an adjustment to the provision and the oil and gas properties.

Income tax

Income tax comprises current tax and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, which is at the statutory rate of EIT of 25%, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the PRC Target's accounting policies set out above and note 2 of Section B to "Appendix III — Accountants' Report on the PRC Target" to this circular, the directors of the PRC Target are required to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty as at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are set out in note 3 of Section B to "Appendix III — Accountants' Report on the PRC Target" to this circular.

RESULTS OF OPERATIONS OF THE PRC TARGET

The following table sets out the statements of profit or loss and other comprehensive income, as derived from "Appendix III — Accountants' Report on the PRC Target" to this circular:

	For the year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
REVENUE	232,176	191,341	98,761
Cost of sales	(157,112)	(118,547)	(88,773)
Gross profit	75,064	72,794	9,988
Other net loss	(23)	—	(20)
Exploration expenses, including dry holes	(26,187)	(11,238)	(1,215)
Taxes other than income tax	(17,973)	(15,406)	(6,897)
Administrative expenses	(39,251)	(40,832)	(18,026)
(Loss)/profit from operations	(8,370)	5,318	(16,170)
Finance income	59	29	108
Finance costs	(14,600)	(15,000)	(9,131)
Net finance costs	(14,541)	(14,971)	(9,023)
LOSS BEFORE TAXATION	(22,911)	(9,653)	(25,193)
Income tax	(2,536)	(3,415)	599
LOSS AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(25,447)	(13,068)	(24,594)
EBITDA *(Note)*	89,008	66,553	28,013

Note: Earnings before interest, tax, depreciation and amortisation (EBITDA) is not defined by Hong Kong Financial Reporting Standards (HKFRS) and is not presented in "Appendix III — Accountants' Report on the PRC Target" to this circular.

DESCRIPTION AND PERIOD TO PERIOD COMPARISON OF SELECTED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME ITEMS

Revenue

During the Track Record Period, the revenue of the PRC Target was derived from the sale of crude oil to the Customer and recognised as the share of 80% of such sales value, net of sales related taxes. During the Track Record Period, the PRC Target sold to the Customer all crude oil produced by the PRC Target, with reference to local and international market prices.

The following table sets out the PRC Target's revenue for the periods indicated:

	For the year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Sale of crude oil	232,176	191,341	98,761

The following table sets out the net sales volume and average unit selling price (which is calculated as revenue (exclusive of sales related taxes) divided by net sales volume) of crude oil for the periods indicated:

	For the year ended 31 December		
	2013	**2014**	**2015**
Net sales volume *(bbl)*	409,440	346,645	325,085
Average unit selling price *(RMB/bbl)*[(Note)]	567.1	552.0	303.8

Note: The average unit selling price is calculated based on the net sales value (i.e. the revenue of the PRC Target) and the net sales volume which exclude Yanchang's 20% share in sales.

Year ended 31 December 2015 compared to year ended 31 December 2014 and year ended 31 December 2014 compared to year ended 31 December 2013

The decrease in revenue by approximately 48.4% and 17.6%, respectively, was mainly due to (i) a decrease in the average unit selling price of crude oil by approximately 45.0% and 2.7%, respectively, which was consistent with a decrease in the local and international crude oil market prices; and (ii) a decrease in the net sales volume of crude oil by approximately 6.2% and 15.3% respectively, which was mainly attributable to a natural decline in the production rates of the existing wells and that the PRC Target did not drill any new wells in 2014 and 2015 partly due to the decrease in local and international crude oil market prices which in turn led to a tighter cash flow position.

Cost of sales

The following table sets out a breakdown of cost of sales by nature for the periods indicated:

	For the year ended 31 December					
	2013		**2014**		**2015**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Extraction costs	24,312	15.5	30,448	25.7	29,851	33.6
Staff costs	6,874	4.4	6,541	5.5	5,571	6.3
Consumables and materials	5,752	3.7	3,379	2.9	1,858	2.1
Utility costs	8,567	5.5	6,410	5.4	6,248	7.0
Other taxes and surcharges	4,140	2.6	3,099	2.6	1,059	1.2
Others	7,360	4.7	5,066	4.3	2,923	3.3
Cost of production before depreciation and amortisation	57,005	36.4	54,943	46.4	47,510	53.5
Depreciation and amortisation	98,597	62.6	63,429	53.5	44,409	50.0
Cost of production	155,602	99.0	118,372	99.9	91,919	103.5
(Increase)/decrease in inventories	1,510	1.0	175	0.1	(3,146)	(3.5)
Cost of sales	157,112	100.0	118,547	100.0	88,773	100.0

Extraction costs mainly represented the fees payable to third party contractors which carried out extraction and stimulation work on the existing wells.

Depreciation and amortisation mainly consisted of the depreciation of the oil and gas properties and amortisation of the cooperation right based on UOP method; and depreciation of other property, plant and equipment based on straight-line method.

Staff costs represented the employee salaries and benefits of the direct labour working in the Area.

Utility costs mainly consisted of the fuel, water and electricity expenses incurred for crude oil extraction and production.

Consumables and materials represented the cost of consumables and materials, such as drilling parts, steel and pipes for the repair and maintenance of wells.

Other taxes and surcharges mainly represented the mineral resources compensation and land use tax.

Year ended 31 December 2015 compared to year ended 31 December 2014

The decrease in cost of sales by approximately 25.1% was mainly due to a decrease in depreciation of oil and gas properties, which was mainly attributable to a decrease in undepreciated amount of oil and gas properties and increased PDP reserves.

Year ended 31 December 2014 compared to year ended 31 December 2013

The decrease in cost of sales by approximately 24.5% was mainly due to the offsetting effect of (i) a decrease in depreciation of oil and gas properties, which was mainly attributable to a decreased production volume of crude oil and increased PDP reserves; and (ii) an increase in extraction costs, mainly for fracturing of the old wells to improve/maintain crude oil production rates in the second half year of 2014.

Gross profit and gross profit margin

The following table sets out the average unit selling price (exclusive of sales related taxes), average unit selling cost (which is calculated as cost of sales divided by net sales volume, and reflects the average unit cost of each barrel of crude oil sold by the PRC Target excluding Yanchang's 20% share in sales volume), average unit production cost before depreciation and amortisation (which is calculated as cost of production before depreciation and amortisation divided by gross production volume, and reflects the average unit cost (excluding depreciation and amortisation) of each barrel of crude oil produced), average unit production cost (which is calculated as cost of production divided by gross production volume, and reflects the average unit cost of each barrel of crude oil produced) and gross profit margin (which is calculated as gross profit divided by revenue) for the periods indicated:

	For the year ended 31 December		
	2013	**2014**	**2015**
Average unit selling price *(RMB/bbl)*	567.1	552.0	303.8
Average unit selling cost *(RMB/bbl)*	383.7	342.0	273.1
Average unit production cost before depreciation and amortisation *(RMB/bbl)*	114.6	126.8	114.0
Average unit production cost *(RMB/bbl)*	312.8	273.3	220.5
Gross profit margin *(%)*	32.3%	38.0%	10.1%

Note: During the Track Record Period, the average unit production cost was lower than the average unit selling cost because gross production volume was used in the calculation of average unit production cost and average unit production cost before depreciation and amortisation which includes the share of 20% production volume of crude oil shared to Yanchang. The average unit selling price and average unit selling cost were calculated using net sales value (i.e. the revenue of the PRC Target) and net sales volume which exclude Yanchang's 20% share.

The change in gross profit margin was primarily driven by the average unit selling price of crude oil as the average unit selling cost remained relatively stable in the periods indicated. For the year ended 31 December 2015, the PRC Target recorded a relatively lower gross profit which was mainly contributed by a drop of average unit selling price by approximately 45.0%.

For the years ended 31 December 2013 and 2015, the average unit production cost before depreciation and amortisation remained relatively stable. The increase for the year ended 31 December 2014 compared to other relevant periods was mainly attributable to an increase in extraction costs, mainly for fracturing of the old wells to improve/maintain crude oil production rates in the second half year of 2014.

Other net loss

Other net loss represented the loss on the disposal of property, plant and equipment during the years ended 31 December 2013 and 2015.

Exploration expenses, including dry holes

The exploration expenses, including dry holes, represented approximately 11.3%, 5.9% and 1.2% of the total revenue for the Track Record Period, respectively.

The following table sets out a breakdown of exploration expenses, including dry holes, by nature for the periods indicated:

	For the year ended 31 December					
	2013		2014		2015	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Geological and geophysical costs	18,141	69.3	4,233	37.7	—	—
Staff costs	8,046	30.7	7,005	62.3	1,225	100.8
Dry hole costs	—	—	—	—	—	—
Others	—	—	—	—	(10)	(0.8)
	26,187	100.0	11,238	100.0	1,215	100.0

In 2013 and 2014, geological and geophysical costs mainly represented the fees paid/payable to contractors/service providers for geological and geophysical activities and research, including seismic surveys and analysis of the Area. During the Track Record Period, the PRC Target also internally assessed the seismic data previously obtained, but did not incur material expenses other than staff costs. Seismic surveys in respect of Block 212 were performed before the Track Record Period. In respect of Block 378, 2D seismic surveys and analysis were conducted in 2013.

Staff costs mainly represented the salaries and other benefits paid to the exploration team staff. The PRC Target significantly reduced the number of staff members for exploration work as the exploration work for Unit 2 and Unit 19 has materially completed by the third quarter of 2014.

Dry hole costs mainly represented the costs of three exploratory wells with no potentially commercial crude oil. The costs of exploratory wells were mainly incurred for exploratory drilling and other activities performed related to technical feasibility and commercial viability.

Year ended 31 December 2015 compared to year ended 31 December 2014

The decrease in exploration expenses, including dry holes, by approximately 89.2% was primarily attributable to (i) no geological and geophysical cost was incurred to the third party contractors in respect of the Area in 2015; and (ii) a reduction of the average headcount of the exploration team.

Year ended 31 December 2014 compared to year ended 31 December 2013

The decrease in exploration expenses, including dry holes, by approximately 57.1% was primarily attributable to (i) a decrease in staff costs mainly due to a reduction of the average headcount of the exploration team as less exploration work was performed in 2014; and (ii) a decrease in geological and geophysical costs mainly because the PRC Target engaged third party contractors to conduct 2D seismic surveys and analysis for some areas in Block 378 and incurred significant expenses in 2013.

Taxes other than income tax

Taxes other than income tax represented approximately 7.7%, 8.1% and 7.0% of the total revenue for the Track Record Period, respectively.

The following table sets out a breakdown of taxes other than income tax by nature for the periods indicated:

	For the year ended 31 December					
	2013		**2014**		**2015**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Special oil income levy	3,236	18.0	3,373	21.9	—	—
Resources tax	11,538	64.1	9,797	63.6	5,910	85.7
City construction tax	1,704	9.5	1,397	9.1	617	8.9
Education surcharges	1,375	7.7	839	5.4	370	5.4
Others	120	0.7	—	—	—	—
	17,973	100.0	15,406	100.0	6,897	100.0

For the years ended 31 December 2013 and 2014, the Fixed Price exceeded the then threshold price of US$55 per barrel (equivalent to approximately RMB358.6 per barrel) under the Notice on the Increase of the Imposition Threshold of Special Oil Income Levy (《關於提高石油特別收益金起徵點的通知》) issued in December 2011. Accordingly, the PRC Target was required to pay Yanchang special oil income levy as agreed with Yanchang amounting to approximately RMB3.2 million and RMB3.4 million, respectively. These amounts of special oil income levy paid by the PRC Target during the respective periods were related to the 80% share of the proceeds from the sale of crude oil. With effect from 1 January 2015, the threshold price increased to US$65 per barrel (equivalent to approximately RMB423.8 per barrel) in accordance with the Notice on the Increase of the Imposition Threshold of Special Oil Income Levy (《關於提高石油特別收益金起徵點的通知》) issued in December 2014. Accordingly, no special oil income levy was payable by the PRC Target to Yanchang for the year ended 31 December 2015.

Pursuant to the Implementation Rules of the Provisional Regulations of Resource Tax of the PRC (《中華人民共和國資源稅暫行條例實施細則》) issued by MOF and SAT effective from 1 November 2011, resources tax is levied on crude oil at the rate of 5%. From 1 December 2014, the resource tax rate was raised to 6% pursuant to the Notice of the Adjustment of Policies of Resource Tax of Crude Oil and Natural Gas (《關於調整原油、天然氣資源稅有關政策的通知》) issued by MOF and SAT.

Year ended 31 December 2015 compared to year ended 31 December 2014

The decrease in taxes other than income tax by approximately 55.2% was primarily due to: (i) a decrease in resources tax levied on the sale of crude oil which was in line with a decrease in revenue; and (ii) no special oil income levy was charged by Yanchang in 2015 because the Fixed Price was lower than the threshold price set by MOF.

Year ended 31 December 2014 compared to year ended 31 December 2013

The decrease in taxes other than income tax by approximately 14.3% was primarily due to a decrease in resources tax levied on the sale of crude oil which was in line with a decrease in revenue, despite an upward adjustment of resource tax rate from 5% to 6% effective from 1 December 2014.

Administrative expenses

Administrative expenses represented approximately 16.9%, 21.3% and 18.3% of the total revenue for the Track Record Period, respectively.

The following table sets out a breakdown of administrative expenses for the periods indicated:

	For the year ended 31 December					
	2013		**2014**		**2015**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Staff costs	17,292	44.0	17,519	42.9	6,850	38.0
Business travelling and entertainment expenses	9,995	25.5	7,460	18.3	3,494	19.4
Depreciation and amortisation	1,581	4.0	1,324	3.2	2,313	12.8
Office and rental expenses	3,475	8.9	5,204	12.7	1,520	8.4
Penalties	—	—	2,161	5.3	70	0.4
Others	6,908	17.6	7,164	17.6	3,779	21.0
	39,251	100.0	40,832	100.0	18,026	100.0

Staff costs mainly represented employee salaries, benefits and social welfare contributions paid in respect of the management and administrative personnel of the PRC Target.

Business travelling and entertainment expenses mainly represented the expenses of business and management meetings, transportation and meal incurred during business trips and entertainment expenses incurred by the management and administrative personnel of the PRC Target.

Depreciation and amortisation mainly consisted of the depreciation of the property, plant and equipment for office and administrative use and the amortisation of lease prepayments.

Office and rental expenses mainly represented the expenditure incurred for office materials and supplies, low value consumables, communication and postage, etc. and operating lease payments of the office premises.

Penalties mainly consisted of the penalty for the late payment of taxes and other penalties in relation to the PRC Target's business operations.

Others mainly represented (i) other taxes, such as real estate tax and stamp duty; (ii) legal and professional fees mainly for tax advice and legal and consultancy services for business efficiency, development and operations, etc.; (iii) repair and maintenance of the office equipment and motor vehicles, etc.; (iv) utility expenses; and (v) other miscellaneous expenses.

Year ended 31 December 2015 compared to year ended 31 December 2014

The decrease in administrative expenses by approximately 55.9% was mainly due to the following factors: (i) the implementation of cost control measures by the PRC Target from 2014 as a result of the adverse crude oil market, including reducing the headcount of the management and administrative staff, and office and entertainment expenses, etc.; (ii) the relocation of the PRC Target's headquarters from Shanghai to East Ujimqin Banner which reduced business travel and rental expenses of office premises; and (iii) a penalty of approximately RMB2.2 million charged for late payment of taxes in 2014.

Year ended 31 December 2014 compared to year ended 31 December 2013

Administrative expenses remained stable and amounted to approximately RMB39.3 million and RMB40.8 million for the years ended 31 December 2013 and 2014, respectively.

Net finance costs

Net finance costs represented approximately 6.3%, 7.8% and 9.1% of the total revenue for the relevant periods, respectively.

The following table sets out a breakdown of net finance costs for the periods indicated:

	For the year ended 31 December					
	2013		**2014**		**2015**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Interest expenses on bank and other borrowings	11,741	80.8	11,453	76.5	6,482	71.8
Accretion expenses	2,740	18.8	2,947	19.7	2,441	27.1
Bank charges	119	0.8	600	4.0	208	2.3
Bank interest income	(59)	(0.4)	(29)	(0.2)	(108)	(1.2)
	14,541	100.0	14,971	100.0	9,023	100.0

Interest expenses on bank and other borrowings represented interest expenses on secured bank borrowing, secured third party borrowing from Guangzhou Zhang Su Investment Consulting Co., Ltd and other borrowings from related parties of the PRC Target. The interest expenses on other borrowings from related parties will not be incurred after the Track Record Period as the entire amount of these borrowings were capitalised as paid-in capital in May 2015.

With the passage of time, the present value ("**PV**") of the provision for abandonment will increase at each period end. The differences between the beginning balance and closing balance of PV in each period are recognised as accretion expenses.

Year ended 31 December 2015 compared to year ended 31 December 2014

The decrease in net finance costs by approximately 39.7% was primarily due to the capitalisation of other borrowings from related parties as paid-in capital in May 2015.

Year ended 31 December 2014 compared to year ended 31 December 2013

Net finance costs remained stable and amounted to approximately RMB14.5 million and RMB15.0 million for the years ended 31 December 2013 and 2014, respectively, mainly because of relatively stable balances of bank and other borrowings.

Income tax

During the Track Record Period, the PRC Target's income tax represented deferred tax as set out in the following table for the periods indicated:

	For the year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Deferred tax expenses/(credit)			
— Origination and reversal of temporary differences	2,536	3,415	(599)

Pursuant to the EIT Law, the EIT rate of the PRC Target is 25%. No provision for EIT was provided since the PRC Target did not generate any taxable profit during the Track Record Period.

Deferred tax expenses/(credit) was recognised in the profit or loss, mainly in relation to the movements of the deferred tax assets and liabilities arising from the temporary differences of the provision for abandonment, depreciation of oil and gas properties, amortisation of intangible assets and accrued expenses.

The directors of the PRC Target confirm that as at the Latest Practicable Date, (i) the PRC Target had made all required tax filings under the relevant tax laws and regulations in the PRC and had paid all outstanding tax liabilities due (if any); and (ii) the PRC Target was not subject to any dispute or potential dispute with tax authorities in the PRC.

Year ended 31 December 2015 compared to year ended 31 December 2014

The fluctuation in income tax was primarily attributable to the increase in deferred tax assets arising from deductible temporary differences in respect of accrued expenses recognised for related expenditure which was not deductible temporarily for the year ended 31 December 2015, the effect of which was partially offset by an increase in deferred tax liabilities arising from the taxable temporary differences in respect of accelerated tax depreciation of oil and gas properties.

Year ended 31 December 2014 compared to year ended 31 December 2013

The increase in income tax was primarily attributable to a change from deferred tax assets to deferred tax liabilities arising from taxable temporary differences in respect of accelerated tax depreciation of oil and gas properties, the effect of which was partially offset by an increase in deferred tax assets arising from deductible temporary differences in respect of provision for abandonment and others.

Loss and total comprehensive income for the year and EBITDA

The following table sets out the PRC Target's loss and total comprehensive income, and EBITDA for the periods indicated:

	For the year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Loss and total comprehensive income for the year/period	(25,447)	(13,068)	(24,594)
EBITDA	89,008	66,553	28,013

The decreasing trend of profitability and EBITDA was mainly attributable to a decline in selling prices of crude oil together with the exploration and extraction work performed by the PRC Target, which affected the production costs and exploration expenses of the PRC Target during the Track Record Period, as discussed in details in this section. There was a decrease in net loss generated in 2014 compared to 2013, which was mainly due to a reduction of the exploration activities in 2014 and the implementation of cost control measures from 2014.

DESCRIPTION OF MAJOR ITEMS OF THE STATEMENTS OF FINANCIAL POSITION

The following table sets out the statements of financial position as derived from "Appendix III — Accountants' Report on the PRC Target" to this circular.

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets			
Property, plant and equipment	603,334	542,145	488,601
Construction in progress	3,398	3,398	108
Intangible assets	26,982	25,924	24,916
Lease prepayments	4,219	9,692	9,436
Other non-current assets	15,350	25,523	32,009
Deferred tax assets	3,415	—	599
	656,698	606,682	555,669
Current assets			
Inventories	4,349	4,302	6,456
Trade receivables	34,956	35,000	43,180
Prepaid expenses and other current assets	39,005	68,259	17,963
Current tax recoverable	—	—	22,000
Cash and cash equivalents	10,686	7,341	12,498
	88,996	114,902	102,097
Current liabilities			
Bank and other borrowings	183,326	185,656	90,000
Trade payables	165,338	168,205	144,435
Accrued expenses and other payables	271,935	260,336	120,410
	620,599	614,197	354,845
Net current liabilities	(531,603)	(499,295)	(252,748)
Total assets less current liabilities	125,095	107,387	302,921
Non-current liabilities			
Provisions	48,760	44,120	32,728
Net assets	76,335	63,267	270,193
Capital and reserves			
Paid-in capital	203,400	203,400	434,920
Reserves	(127,065)	(140,133)	(164,727)
Total equity	76,335	63,267	270,193

Property, plant and equipment and construction in progress

The following table sets out the net book values of the property, plant and equipment and construction in progress as at the dates indicated:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Buildings and structures	88,067	87,222	84,828
Machinery and equipment	46,879	42,496	38,507
Motor vehicles	6,077	5,591	4,520
Oil and gas properties	449,773	396,075	352,814
Others	12,538	10,761	7,932
Total property, plant and equipment	603,334	542,145	488,601
Construction in progress	3,398	3,398	108
Total	606,732	545,543	488,709

These non-current assets are mainly used in the crude oil extraction and production in the Area under the EPCC with Yanchang. Oil and gas properties are the major non-current assets of the PRC Target, representing over 70% of the total aggregate net book values of property, plant and equipment and construction in progress as at each balance sheet date.

The PRC Target is currently the operator of these assets. If the EPCC expires and is not renewed, or if the EPCC is terminated prior to the expiry, the PRC Target may retain all assets on the surface in the Area but has to transfer all underground assets to Yanchang at nil consideration in accordance with the EPCC.

The decreasing trend of total aggregate net book values of property, plant and equipment and construction in progress was mainly attributable to the depreciation charged, which overweighted the additions of the non-current assets during the Track Record Period.

As at 31 December 2014 and 2015, certain buildings with the net book values of approximately RMB63.6 million and RMB62.1 million, respectively, were pledged to a bank to secure a trade finance bank facility granted to the PRC Target.

Intangible assets

The following table sets out the net book values of the intangible assets as at the dates indicated:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Cooperation right	26,982	25,924	24,916

The intangible assets represented the cooperation right acquired by the PRC Target from a third party (i.e. the Previous Owner) for approximately RMB30.0 million to enter into the EPCC with Yanchang for the exploration, development and production of crude oil in the Area. Details of the acquisition are set out in the section headed "History and Business of the PRC Target — History of the PRC Target" in this circular. It is amortised on a UOP basis over the shorter of the economic life of the recoverable reserves or the expected terms of the relevant production permits to be granted. The decrease in the net book value of the cooperation right was mainly attributable to the amortisation charged during the Track Record Period.

Lease prepayments

The following table sets out the closing balance of lease prepayments as at the dates indicated:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Land use rights	4,219	9,692	9,436

Lease prepayments represented upfront prepayments made for the acquisition of the land use rights located in the PRC under operating leases. Land use rights are expensed in the profit or loss on a straight-line basis over the period of the leases. The land use rights are for original lease periods of 39 years and 40 years.

As at 31 December 2015, the PRC Target held land use rights for two parcels of land which were used for a logistic centre (mainly comprising an office and dormitory complex, a warehouse and a greenhouse) acquired before the Track Record Period and an oil gathering station acquired in May 2014. The increase in lease prepayments as at 31 December 2014 compared to 31 December 2013 was primarily due to the acquisition of a new land use right for the oil gathering station of approximately RMB5.7 million.

As at 31 December 2014 and 2015, certain land use rights of approximately RMB4.1 million and RMB4.0 million, respectively, were pledged to a bank to secure a trade finance bank facility granted to the PRC Target.

Other non-current assets

The following table sets out a breakdown of other non-current assets as at the dates indicated:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Prepayments for construction in progress			
— A fellow subsidiary	—	—	3,000
— Third parties	4,197	3,490	3,801
Performance deposit	5,455	5,455	5,455
Expenditure on public facilities	5,698	16,578	19,753
Total	15,350	25,523	32,009

Prepayments for construction in progress mainly represented the amounts prepaid by the PRC Target to the contractors for well construction work which was not commenced as at the end of the each year/period.

Performance deposit represented the deposit placed by the PRC Target to Yanchang under the compliance requirement in the EPCC.

Expenditure on public facilities mainly represented long-term prepaid expenditure for a road expansion and improvement project for connecting Block 212 and East Ujimqin Banner which would be amortised on a straight-line basis over eight years.

The other non-current assets increased by approximately 66.3% as at 31 December 2014 compared to 31 December 2013 and approximately 25.4% as at 31 December 2015 compared to 31 December 2014, which was mainly due to (i) the expenditure incurred for the Phase II expansion and improvement work of the abovementioned road in 2014 and 2015; and (ii) the prepayments to Hongjin Engineering, a fellow subsidiary of approximately RMB3.0 million as at 31 December 2015 as deposit for future exploration activities for Block 378 under the Services Agreement.

Inventories

The following tables set out a breakdown of inventories as at the dates indicated and the average inventory turnover days for the periods indicated:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Spare parts and consumables	3,948	4,076	3,084
Finished goods	401	226	3,372
Total	4,349	4,302	6,456

	For the year ended 31 December		
	2013	2014	2015
	Days	*Days*	*Days*
Average inventory turnover days*(Note)*	13.6	13.3	22.1

Note: Average inventory turnover days is equal to the average of the opening and closing balances of inventories divided by cost of sales and multiplied by 365 days for the years ended 31 December 2013, 2014 and 2015.

Inventories mainly consisted of finished goods of crude oil stored in the oil tanks and spare parts and consumables stored in the warehouses at the level to fulfill extraction and production needs. Monthly stock count is performed by the PRC Target to identify any obsolete and slowing moving inventories. In the year ended 31 December 2015, average inventory turnover days increased due to the PRC Target's strategy to delay sales in a low oil price environment, with a view to increasing sales revenue if oil prices increase at a later time.

The PRC Target maintains low inventory turnover days mainly due to the nature of the crude oil extraction and production business where crude oil produced is usually sold shortly after it is processed.

Trade receivables

The following tables set out the PRC Target's trade receivables as at the dates indicated and the average trade receivables turnover days for the periods indicated:

	As at 31 December		
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables			
— the Customer	34,956	35,000	43,180

	For the year ended 31 December		
	2013	2014	2015
	Days	*Days*	*Days*
Average trade receivables turnover days*(Note)*	32.5	66.7	144.5

Note: Average trade receivables turnover days is equal to the average of the opening and closing balances of trade receivables divided by revenue and multiplied by 365 days for the years ended 31 December 2013, 2014 and 2015.

Trade receivables represented the outstanding amounts receivable by the PRC Target from the sale of crude oil (on behalf of Yanchang) to the Customer.

Pursuant to the crude oil sales agreement entered into between the PRC Target and the Customer dated 12 August 2010, the payment should be made in advance of each delivery of crude oil and no credit was given to the Customer. Pursuant to the supplementary sales agreement signed between the PRC Target and the Customer in June 2013, a guarantee deposit of RMB35.0 million was placed by the Customer to the PRC Target in return for a 180-day credit period for an amount up to RMB35.0 million. Whilst the Customer and Yanchang entered into a sales agreement in 2014, which states that settlement should be made on a monthly basis, the PRC Target and the Customer continue to adopt the 180-day credit period for an amount up to RMB35.0 million.

The trade receivables further increased by approximately 23.4% as at 31 December 2015 compared to 31 December 2014, which was mainly due to a slight delay in settlement by the Customer due to the continuous downturn of international crude oil market.

As a result of (i) an increasing trend of trade receivables; (ii) credit period of 180 days allowed from June 2013; and (iii) a decreasing trend of revenue, the average trade receivables turnover days increased during the Track Record Period.

Pursuant to the trade finance bank facility entered into between a bank and the PRC Target, the PRC Target discounted part of its trade receivables to the bank ("**Discounted Trade Receivables**") for bank borrowing. The following table sets out carrying amount of the PRC Target's Discounted Trade Receivables (which have been transferred but have not been derecognised) as at the dates indicated:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Discounted Trade Receivables — the Customer	32,911	32,899	—

If Discounted Trade Receivables were not paid at maturity, the bank had the right to request the PRC Target to pay the unsettled balances. The outstanding bank borrowing amounted to approximately RMB29.6 million as at 31 December 2013 and 2014. The excess portion of Discounted Trade Receivables over the bank borrowing was returned to the PRC Target after the settlement of Discounted Trade Receivables. As the PRC Target did not transfer the significant risks and rewards relating to Discounted Trade Receivables, the PRC Target continued to recognise the full carrying amount of Discounted Trade Receivables and the cash proceeds from the bank as trade receivables and a secured bank borrowing separately.

The following table sets out an ageing analysis of trade receivables, based on invoice date (or date of revenue recognition, if earlier), as at the dates indicated:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Within one month	19,084	22,983	8,818
One to six months	15,872	12,017	34,362
Total	34,956	35,000	43,180

The following table sets out an ageing analysis of trade receivables, based on past due date, as at the dates indicated:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Neither past due nor impaired	34,956	35,000	35,000
Less than one month past due	—	—	8,180
Total	34,956	35,000	43,180

Except for the abovementioned guarantee deposit of RMB35.0 million, the PRC Target did not hold any other collateral over these balances. No provision or write off has been made during the Track Record Period.

The trade receivables of approximately RMB8.2 million which were past due as at 31 December 2015 were subsequently settled within two months thereafter. As at the Latest Practicable Date, approximately 78.7% of outstanding trade receivables as at 31 December 2015 were subsequently settled.

With a view to better and closer monitoring of trade receivables, and controlling their timely settlement, the PRC Target has assigned the general manager, Wang Ping, to be responsible for monitoring trade receivables. Any sales of crude oil after trade receivables reach RMB35.0 million will have to be approved by the general manager. After any such sale takes place, the general manager and the head of finance will be responsible for closely following up with the Customer and ensuring timely settlement of the trade receivables.

Prepaid expenses and other current assets

The following table sets out a breakdown of prepaid expenses and other current assets as at the dates indicated:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Prepayments to suppliers	7,115	6,671	7,034
Value-added tax recoverable	2,900	—	974
Amounts due from related parties:			
— Holding company	—	19,671	—
— Fellow subsidiaries	20,828	32,607	3,294
Others	8,162	9,310	6,661
Total	39,005	68,259	17,963

Prepayments to suppliers mainly represented advances to the PRC Target's suppliers for the purchase of spare parts and consumables and contractors for various oilfield technical and engineering services.

Value-added tax recoverable mainly represented the certified but not yet deducted input value-added tax.

Amounts due from related parties were non-trade in nature, unsecured, interest free and had no fixed terms of repayment. During the Track Record Period, the increase was mainly attributable to the payments by the PRC Target on behalf of the related parties, while most of the related party balances were offset and undertaken by the Target Sellers in May 2015 and then capitalised as paid-in capital. It is expected that the remaining outstanding amount due from fellow subsidiaries will be settled after completion of the Transactions.

Others mainly represented the prepaid occupation tax for cultivated land and real estate tax and staff advances for out-of-pocket expenses, etc. The increase was mainly attributable to an increase in prepaid occupation tax for cultivated land and real estate tax.

Current tax recoverable

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Income tax prepayment	—	—	22,000

The current tax recoverable represents a prepayment of income tax made by the PRC Target in November 2015 at the request of the tax bureau based on the tax bureau's view that the PRC Target has a good profit making ability which is in turn based on the PRC Target's understanding, factors in favor of the PRC Target being considered by the tax bureau of being able to record a taxable profit in future include (i) the PRC Target recorded taxable profits based on its PRC accounts for the years ended 31 December 2013 and 2014; (ii) the PRC Target had substantial oil resources as per its reserve report approved by the MOLR; and (iii) whilst oil price fluctuated in 2015, the tax bureau expected that oil price would increase.

Trade payables

The following table sets out a breakdown of trade payables as at the dates indicated and the average trade payables turnover days for the periods indicated:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables to:			
— A fellow subsidiary	1,188	1,188	—
— Third parties	164,150	167,017	144,435
Total	165,338	168,205	144,435

	For the year ended 31 December		
	2013	**2014**	**2015**
	Days	*Days*	*Days*
Average trade payables turnover days*(Note)*	359.9	513.5	642.7

Note: Average trade payables turnover days is equal to the average of the opening and closing balances of trade payables divided by cost of sales and multiplied by 365 days for the years ended 31 December 2013, 2014 and 2015.

The PRC Target's suppliers mainly provided various exploration, extraction and stimulation services, and supplied spare parts and consumables during the Track Record Period. Save for a fellow subsidiary which supplied site office cabins to the PRC Target during the Track Record Period, all other suppliers during the Track Record Period were third parties independent from the PRC Target, the Company and their respective connected persons.

Whilst the trade payables as at 31 December 2013 and 2014 remained relatively stable, the related turnover days lengthened significantly. This trend was mainly due to the delay in settlement by the PRC Target primarily as a result of its tightening liquidity and cash management of the PRC Target in the view of a decline in crude oil market prices and revenue of the PRC Target.

The decrease by approximately 14.1% as at 31 December 2015 compared to 31 December 2014 was mainly due to (i) reduced capital expenditure and other exploratory work; and (ii) partial payments of the long outstanding payables for some contractors' work performed in 2013.

The average trade payables turnover days are relatively high as (i) the PRC Target used short term borrowings to finance its long-term exploration and development work which required substantial cash investments; and (ii) the PRC Target experienced a tightening liquidity and cash management situations, which were adversely affected by a decline in average unit selling prices of crude oil and revenue of the PRC Target during the Track Record Period.

The following table sets out an ageing analysis of trade payables, based on the invoice date, as at the dates indicated:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	150,141	105,377	57,211
Over one year but within two years	13,726	61,136	79,262
Over two years but within three years	871	221	6,998
Over three years	600	1,471	964
Total	165,338	168,205	144,435

As at the Latest Practicable Date, approximately 6.7% of outstanding trade payables as at 31 December 2015 were subsequently settled. The Company proposes to apply approximately HK$400 million (equivalent to approximately RMB336.0 million) out of the net proceeds from the Subscription to finance the repayment of the PRC Target's outstanding payables and borrowings.

Accrued expenses and other payables

The following table sets out a breakdown of accrued expenses and other payables as at the dates indicated:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Amounts due to related parties:			
— Holding company	71,581	57,970	—
— Fellow subsidiaries	60,033	50,864	—
— Other related party	20,066	19,370	—
	151,680	128,204	—
Taxes other than income tax	19,036	16,028	7,689
Guarantee deposit	35,000	35,000	35,000
Payable to Yanchang	62,439	76,903	74,170
Other payables and accruals	3,780	4,201	3,551
Total	271,935	260,336	120,410

Amounts due to related parties were non-trade in nature, unsecured, interest free and had no fixed terms of repayment. The decrease was mainly attributable to net repayments by the PRC Target during the Track Record Period, while most of the related party balances was offset and undertaken by the Target Sellers in May 2015 and then capitalised as paid-in capital.

Taxes other than income tax included special oil income levy payable to Yanchang and resources tax payable to the PRC government authorities. The decrease was mainly due to (i) the continuous settlement of the outstanding payables during the Track Record Period; (ii) a decrease in special oil income levy payable mainly because of a decrease in net sales volume in 2014 and 2015 and an increase in threshold price from 1 January 2015; and (iii) a decrease in resource tax payable mainly because of a decrease in sales of crude oil for the years ended 31 December 2014 and 2015.

Guarantee deposit represented a deposit of RMB35.0 million placed by the Customer in 2013 to the PRC Target in return of a 180-day credit period with a credit limit of RMB35.0 million pursuant to the supplementary sales agreement.

Payable to Yanchang mainly represented the amounts payable to Yanchang for the share of 20% from the sale of crude oil by the PRC Target. The increase from 31 December 2013 to 31 December 2014 was mainly due to delayed settlement as a result of the PRC Target's tightening liquidity and cash management. The payments by the PRC Target to Yanchang in respect of the 20% share of the net sales proceeds are netted from the revenue directly and does not form part of cost of sales. The PRC Target's trade payables cover payments in relation to materials and services for crude oil exploration, development and production. As such, the amounts payable to Yanchang in respect of its 20% share of crude oil sales are not classified as trade payables.

Other payables and accruals mainly represented accrued staff salaries and other benefits.

The Company proposes to apply approximately HK$400 million (equivalent to approximately RMB336.0 million) out of the proceeds from the Subscription to finance the repayment of the PRC Target's outstanding payables and borrowings.

Provisions

The following table sets out the net carrying amount of the provisions as at the dates indicated:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Provisions for abandonment	48,760	44,120	32,728

The amount represented the provisions for future abandonment and dismantlement costs of oil and gas properties, which were initially recognised based on PV of the future costs expected to be incurred in respect of the PRC Target's expected abandonment and dismantlement costs at the end of related oil exploration, development and production activities. The decreasing trend from 31 December 2013 to 31 December 2015 was mainly due to a reduction in provisions for future abandonment and dismantlement costs of oil and gas properties after reassessment at each period.

LIQUIDITY AND CAPITAL RESOURCES

The PRC Target financed its operations and development (including its capital expenditure and operating expenses) primarily through (i) cash flow from the sale of crude oil produced in the Area; (ii) funding from its shareholders and related parties, in the form of equity investments and advances/borrowings; and (iii) proceeds from bank and other borrowings.

Accordingly, the cash position of the PRC Target was materially affected by the following factors:

(i) the PRC Target's unit selling price, the production and sale volume of crude oil;

(ii) the level of exploration and development activities carried out by the PRC Target, and their related costs; and

(iii) capital injections from its shareholders and borrowings/advances from or repayments to its shareholders, its related parties and other lenders.

After completion of the Transactions, the Restructured Group will also finance its further development partially by the net proceeds from the Subscription and the CN Subscription as further described in the section headed "Letter from the Board" in this circular.

The following table sets out a summary of the cash flows for the periods indicated:

	For the year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Operating activities			
Loss before taxation	(22,911)	(9,653)	(25,193)
Adjustments for:			
Depreciation	97,440	62,090	43,876
Amortisation	2,738	2,663	2,848
Finance costs	14,481	14,400	8,923
Net loss on disposal of property, plant and equipment	23	—	20
Operating cash flows before changes in working capital	91,771	69,500	30,474
Decrease/(increase) in inventories	3,032	47	(2,154)
Increase in trade receivables	(28,539)	(44)	(8,180)
(Increase)/decrease in prepaid expenses and other current assets	(9,794)	2,539	13,679
Increase/(decrease) in trade and other payables	47,339	9,386	(45,408)
Net cash flows generated from/(used in) operating activities	103,809	81,428	(11,589)
Net cash flows used in investing activities	(60,232)	(21,078)	(37,360)
Net cash flows (used in)/generated from financing activities	(41,644)	(63,695)	54,106
Net increase/(decrease) in cash and cash equivalents	1,933	(3,345)	5,157
Cash and cash equivalents at beginning of year	8,753	10,686	7,341
Cash and cash equivalents at end of year	10,686	7,341	12,498

Cash flows generated from/(used in) operating activities

The net cash generated from operating activities for the year ended 31 December 2013 increased to approximately RMB103.8 million. Such increase was mainly attributable to the factor that the PRC Target delayed the settlement of trade payables and payable to Yanchang mainly because of tightening liquidity and cash management of the PRC Target, which were adversely affected by a decline in crude oil market prices and a reduction of EBITDA by approximately RMB12.1 million, which was mainly due to an increase in exploration expenses and administrative expenses in 2013.

The net cash generated from operating activities for the year ended 31 December 2014 decreased to approximately RMB81.4 million. Such decrease was mainly attributable to a reduction of EBITDA by approximately RMB22.5 million, which was mainly due to a decrease in revenue even though the PRC Target continued to delay the settlement of trade payables and payable to Yanchang in 2014.

The PRC Target recorded a net cash used in operating activities of approximately RMB11.6 million for the year ended 31 December 2015, which was primarily attributable to a substantial decline in EBITDA to approximately RMB28.0 million for the year ended 31 December 2015 mainly as a result of a significant decrease in revenue.

Cash flows used in investing activities

The net cash used in investing activities mainly represented the PRC Target's payments for its capitalised exploration and development work, and the acquisition of machinery and equipment and a land use right.

The following table sets out the number of oil producers, bailing wells and water injectors drilled by the PRC Target since 2010:

2010	2011	2012	2013	2014	2015
28	39	29	15	—	—

As the level of drilling activities decreased during the Track Record Period, the amount of cash used in investing activities generally decreased during the Track Record Period despite an acquisition of a land use right of approximately RMB5.7 million for the oil gathering station in 2014.

For the year ended 31 December 2015, cash payments for investing activities increased as compared to the year ended 31 December 2014 mainly because the PRC Target partially settled the outstanding payments for the construction of Block 212 incurred in prior years.

Cash flows (used in)/generated from financing activities

For the purposes of the cash flow statements, each repayment of the bank borrowing was regarded as cash outflow from financing activities and each draw down of the bank borrowing was regarded as cash inflow from financing activities. In addition, the PRC Target obtained and repaid the financing from its related parties (including other borrowings, and amounts due from/(to) related parties included in prepaid expenses and other current assets and accrued expenses and other payables, respectively) during the Track Record Period from time to time.

The following table sets out the bank and other borrowings and the amounts due from/(to) related parties (which were the major sources of the PRC Target's financing activities during the Track Record Period) as at the dates indicated:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Amounts due from related parties	20,828	52,278	3,294
Bank borrowing	(29,600)	(29,600)	—
Other borrowings from related parties	(153,726)	(156,056)	—
Other borrowings from a third party	—	—	(90,000)
Amounts due to related parties	(151,680)	(128,204)	—
Total	(314,178)	(261,582)	(86,706)

The PRC Target recorded a net cash used in financing activities of approximately RMB41.6 million and RMB63.7 million for the years ended 31 December 2013 and 2014, respectively, which was mainly attributable to (i) significant repayments of net amounts due to the related parties; and (ii) the interest payments in 2013 and 2014, the aggregate effect of which was partially offset by a short term trade finance bank borrowing of approximately RMB29.6 million was obtained in 2013.

The PRC Target recorded a net cash generated from financing activities of approximately RMB54.1 million for the year ended 31 December 2015, which was primarily attributable to the draw down of borrowings from a third party of approximately RMB70.0 million in May 2015 and approximately RMB20.0 million in December 2015. The decrease in amounts due from/(to) related parties as at 31 December 2015 compared to 31 December 2014 was mainly as a result of the Target Sellers undertaking of the net amounts due to related parties of approximately RMB231.5 million in May 2015 and capitalising them as paid-in capital of the PRC Target. Such transaction was a non-cash transaction and did not impact the cash flows of the PRC Target.

Net current liabilities

The following table sets out a breakdown of net current liabilities of the PRC Target as at the dates indicated:

	As at 31 December			As at 30 April
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Current assets				
Inventories	4,349	4,302	6,456	4,256
Trade receivables	34,956	35,000	43,180	45,988
Prepaid expenses and other current assets	39,005	68,259	17,963	18,404
Current tax recoverable	—	—	22,000	22,000
Cash and cash equivalents	10,686	7,341	12,498	9,981
	88,996	114,902	102,097	100,629
Current liabilities				
Bank and other borrowings	183,326	185,656	90,000	90,000
Trade payables	165,338	168,205	144,435	138,914
Accrued expenses and other payables	271,935	260,336	120,410	125,571
	620,599	614,197	354,845	354,485
Net current liabilities	(531,603)	(499,295)	(252,748)	(253,856)

The PRC Target's net current liabilities amounted to approximately RMB531.6 million, RMB499.3 million, RMB252.7 million and RMB253.9 million as at 31 December 2013, 2014 and 2015 and 30 April 2016, respectively. The PRC Target mainly used cash generated from operations and short-term financing, including bank and other borrowings, to finance its exploration and development work which contributed significantly to the net current liabilities position of the PRC Target as shown above.

As at 31 December 2013 and 2014, the PRC Target's net current liabilities did not fluctuate significantly. Accrued expenses and other payables and bank and other borrowings represented the two largest items, in aggregate representing approximately 73.4% and 72.6% of the PRC Target's current liabilities as at 31 December 2013 and 2014, respectively. As at 31 December 2015 and 30 April 2016, the PRC Target's net current liabilities decreased to approximately RMB252.7 million and RMB253.9 million, respectively. Such decrease was primarily due to the fact that the Target Sellers have undertaken most of the related party balances and borrowings in May 2015 and then capitalised them as paid-in capital of the PRC

Target. While trade receivables increased as at 31 December 2015 and 30 April 2016 as compared to 31 December 2014 mainly due to a slight delay in settlement by the Customer, the Customer subsequently settled approximately RMB8.0 million for the outstanding trade receivables as at 30 April 2016 as at the Latest Practicable Date.

INDEBTEDNESS

Borrowings

The following table sets out a breakdown of bank and other borrowings as at the dates indicated:

	As at 31 December			As at 30 April
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Current				
Bank borrowing	29,600	29,600	—	—
Other borrowings:				
— Related parties	153,726	156,056	—	—
— Third party	—	—	90,000	90,000
Total	183,326	185,656	90,000	90,000

Bank borrowing

As at 31 December 2013 and 2014, a bank borrowing of RMB29.6 million, arising from a trade finance bank facility, which bore an effective interest rate at 5.88%, was repayable in six months and secured by certain buildings and land use rights of the PRC Target and guaranteed by Hongbo Investment. On 30 December 2015, the PRC Target repaid the bank borrowing of RMB29.6 million. Such banking facility was expired on 24 February 2016 and the related guarantee by Hongbo Investment was also released.

Such borrowing was made mainly for the purposes of short term working capital liquidity and capital expenditure of the PRC Target.

Other borrowings from related parties

The following table sets out a breakdown of other borrowings from related parties as at the dates indicated:

	As at 31 December			As at 30 April
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Other borrowings from related parties:				
— Hongbo Investment	20,000	20,000	—	—
— Shanghai Zhongshan Lida Industry Co., Ltd.	59,840	64,010	—	—
— Shanghai B&K Trading Co., Ltd.	69,046	72,046	—	—
— Shanghai New Mainstream Media Technology Service Co., Ltd.	4,840	—	—	—
Total	153,726	156,056	—	—
Effective interest rates *(%)*	6.55% to 6.56%	6.00% to 7.00%	N/A	N/A

As at 31 December 2013 and 2014, borrowings from related parties had no fixed terms of repayments. All borrowings from related parties were undertaken by the Target Sellers in May 2015 and then capitalised as paid-in capital.

Except for Hongbo Investment, all other related parties are fellow subsidiaries of the PRC Target during the Track Record Period.

Such borrowings from related parties were made mainly for the purposes of short term working capital liquidity and capital expenditure of the PRC Target.

Other borrowings from a third party

In May 2015, the PRC Target drew down an interest-bearing borrowing of RMB70.0 million at a floating rate of 1.1 times of the prevailing market interest rate published by People's Bank of China from a third party, Guangzhou Zhang Su Investment Consulting Co., Ltd, which is repayable within one year. The effective interest rate was approximately 5.06% and 4.79% as at 31 December 2015 and 30 April 2016, respectively.

The borrowing was secured by the PRC Target's paid-in capital of approximately RMB120.0 million, representing approximately 27.6% of the equity interest in the PRC Target held by Hongbo Investment. Such security provided by Hongbo Investment is expected to be released before completion of the Transactions.

Such borrowing was made mainly for the purposes of funding the PRC Target's business operations and short term working capital liquidity.

On 23 May 2016, the PRC Target obtained an unsecured six-month interest-bearing entrusted loan of RMB70.0 million at a fixed rate of 4.8% per annum through a bank in the PRC from Guangzhou Zhang Su Investment Consulting Co., Ltd and repaid the outstanding third party borrowing of RMB70 million.

Separately, on 30 December 2015, the PRC Target obtained an unsecured six-month interest-bearing entrusted loan of RMB20.0 million at a fixed rate of 4.8% per annum through a bank in the PRC from Guangzhou Zhang Su Investment Consulting Co., Ltd. Such borrowing was made mainly for the resources of funding the PRC Target's business operations and short term working capital liquidity.

Banking facilities

Since July 2013, the PRC Target obtained a trade finance bank facility for the amount of RMB29.6 million which was fully utilised as at 31 December 2013, 2014 and 2015. The bank facility was expired on 24 February 2016.

Except for the abovementioned banking facility, the PRC Target did not have any other banking facilities.

During the Track Record Period and up to the Latest Practicable Date, the directors of the PRC Target confirm that they were not aware of any breach of any of the covenants contained in the banking and other loan facilities constituting default nor were they aware of any restrictions that would limit the PRC Target's ability to draw down on the unutilised facilities.

Contingent liabilities

The PRC Target has been involved in a legal dispute with the Claimant. The dispute between the PRC Target and the Claimant is currently pending a rehearing by the Supreme People's Court. According to the legal opinion dated 29 June 2016 of Haiwen & Partners, the legal advisors to the Company, taking into consideration the claims made by the Claimant in the legal action, and the legal nature of the relevant exploration permit and the EPCC, from a legal perspective the legal action should not affect Yanchang's lawful right to the exploration permit or the legality and validity of the EPCC. Please refer to the section headed "History and Business of the PRC Target — Litigation" in this circular, and note 31 of Section B to "Appendix III — Accountants' Report on the PRC Target" to this circular for further details.

As at 31 December 2013, 2014 and 2015 and 30 April 2016, except as disclosed above and elsewhere in this circular, the PRC Target had no contingent liabilities. The PRC Target is currently not a party to any litigation that is likely to have a material adverse effect on its business, results of operations or financial condition.

Disclaimer

As at 30 April 2016, except as disclosed in this section, the PRC Target did not have any outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities.

Material indebtedness change

The directors of the PRC Target have confirmed that, up to the Latest Practicable Date, there has been no material change in indebtedness, capital commitment and contingent liabilities of the PRC Target since 30 April 2016, being the latest date for purpose of this statement of indebtedness.

Save as discussed in this circular, the PRC Target does not expect to have any material external debt financing plan as at the Latest Practicable Date.

WORKING CAPITAL SUFFICIENCY

After taking into account all of the following:

(1) the existing and available financial resources available to the Restructured Group, including but not limited to, internally generated funds, cash and cash equivalents and available banking facilities;

(2) the expected date of the Acquisition Completion in relation to the acquisition of the entire equity interests in the PRC Target by the Company from the Target Sellers;

(3) the expected date of the Subscription Completion in relation to the issue of the Ordinary Subscription Shares and the Preferred Shares to the Subscribers;

(4) the expected date of the Divestment Completion in relation to the sale of the Divestment Shares, the Current Accounts Receivable and the shares of SouFun held by the Company to Seller 1; and

(5) the expected date of the CN Subscription Completion in relation to the issue of the Convertible Note to League Way by the Company,

the Directors are of the opinion and the Joint Sponsors concur that the Restructured Group will have sufficient working capital to meet at least 125% of its present requirements in the 12 months from the date of this circular.

CAPITAL AND LEASE COMMITMENTS

Capital commitments

The following table sets out the PRC Target's capital commitments as at the dates indicated:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Contracted for			
— property, plant and equipment	—	10,865	5,365

Operating lease commitments

The following table sets out the total future minimum lease payables under non-cancellable operating leases as at the dates indicated:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	75	800	800

The PRC Target leased certain buildings through non-cancellable operating leases. These operating leases did not contain provisions for contingent lease rentals. None of the rental agreements contained escalation provisions that may require higher future rental payments.

CAPITAL EXPENDITURES

For the years ended 31 December 2013, 2014 and 2015, the PRC Target paid an aggregate amount of approximately RMB60.3 million, RMB15.4 million and RMB37.4 million, respectively, for capital expenditures on property, plant and equipment.

For the year ended 31 December 2014, the PRC Target paid an aggregate amount of approximately RMB5.7 million for the acquisition of a land use right.

KEY FINANCIAL RATIOS

The following table sets out certain key financial ratios of the PRC Target during the Track Record Period:

	Notes	For the year ended/ As at 31 December 2013	2014	2015
Net (loss)/profit margin before interest and tax	*1*	(4.8)%	0.9%	(18.9)%
Net loss margin	*2*	(11.0)%	(6.8)%	(24.9)%
Current ratio	*3*	0.14	0.19	0.29
Quick ratio	*4*	0.14	0.18	0.27
Gearing ratio	*5*	2.40	2.93	0.33
Debt-to-equity ratio	*6*	2.26	2.82	0.29
Return on assets	*7*	(3.4)%	(1.8)%	(3.7)%
Return on equity	*8*	(33.3)%	(20.7)%	(9.1)%
Interest coverage ratio	*9*	(0.95)	0.16	(2.89)

Notes:

1. Net (loss)/profit margin before interest and tax is calculated based on the profit/(loss) for the year before interest and income tax for the year divided by revenue for the year/period.

2. Net loss margin equals to loss for the year divided by revenue for the year.

3. Current ratio equals to total current assets divided by total current liabilities as at the year end date.

4. Quick ratio equals to total current assets less inventories divided by total current liabilities as at the year end date.

5. Gearing ratio equals to total debts (being total bank and other borrowings) divided by total equity as at the year end date.

6. Debt-to-equity equals to net debts (being total borrowings net of cash and cash equivalents) divided by total equity as at the year end date.

7. Return on assets equals to loss for the year divided by the closing balance of total assets.

8. Return on equity equals to loss for the year divided by the closing balance of total equity.

9. Interest coverage equals to profit/(loss) for the year before interest and income tax divided by the interest.

Net (loss)/profit margin before interest and tax

The PRC Target recorded net profit margin before interest and tax in 2014 which was mainly due to a reduction of the exploration activities in 2014 and the implementation of cost control measures from 2014.

For the years ended 31 December 2013 and 2015, as the PRC Target recorded loss before interest and tax, there were negative profit margins before interest and tax.

Net loss margin

For the years ended 31 December 2013, 2014 and 2015, as the PRC Target recorded loss for the year, net loss margins resulted.

Current ratio and quick ratio

Current ratio and quick ratio were relatively low since the current liabilities were substantially greater than the current assets as at each balance sheet date as the PRC Target mainly used short term financing for capital expenditure during the Track Record Period.

The increasing trend of current ratio and quick ratio was mainly because of the rate of increase in current assets exceeding the rate of increase in current liabilities during the Track Record Period, and the decreasing trend of net current liabilities.

Gearing ratio and debt-to-equity ratio

The increases in gearing ratio and debt-to-equity ratio from 31 December 2013 to 31 December 2014 was mainly due to the combined effects of: (i) an increase in bank and other borrowings; and (ii) a decrease in total equity because the PRC Target was making losses in 2013 and 2014.

The gearing ratio and debt-to-equity ratio then significantly decreased as at 31 December 2015 compared to 31 December 2014, which was mainly due to the capitalisation of amounts due to the Target Sellers as paid-in capital in May 2015.

Return on assets and return on equity

There were negative returns on assets and returns of equity for the years ended 31 December 2013, 2014 and 2015 because the PRC Target was making losses in these years.

Interest coverage ratio

The PRC Target recorded a positive interest coverage ratio in 2014 which was mainly due to the PRC Target recorded a profit before interest and tax primarily attributable to reduction of the exploration activities in 2014 and the implementation of cost control measures from 2014.

There were negative interest coverage ratios for the years ended 31 December 2013 and 2015 because the PRC Target was making losses before interest and tax in these years.

OFF-BALANCE SHEET ARRANGEMENTS

As at Latest Practicable Date, the PRC Target did not have any material off-balance sheet arrangements.

PROPERTY INTERESTS AND PROPERTY VALUATION

The table below sets for the reconciliation between the net book value of the PRC Target's properties as at 31 December 2015 and the appraised value of the PRC Target's properties as at 31 March 2016 as detailed in the property valuation report prepared and issued by an independent professional valuer included as Appendix IX in this circular:

	RMB'000
Net book value of the PRC Target's properties as at 31 December 2015	94,264
Movement during the period from 1 January to 31 March 2016 (unaudited)	
Add: Additions	—
Less: Disposal	—
Less: Depreciation	(663)
Net book value of the PRC Target's properties as at 31 March 2016 (unaudited)	93,601
Net valuation deficit, before tax effect	(41,201)
Appraised value of the PRC Target's properties as at 31 March 2016, as set forth in Appendix IX	52,400

Please refer to "Appendix IX — Property Valuation Report on Properties of the PRC Target" in this circular for further details of the PRC Target's property interests.

RELATED PARTY TRANSACTIONS

During the Track Record Period, the PRC Target entered into certain related party transactions, the details of which are disclosed in note 30 of Section B to "Appendix III — Accountants' Report on the PRC Target" to this circular. These related parties were related to the existing shareholders of the PRC Target during the Track Record Period. After completion of the Transactions, these related parties are not expected to be connected persons of the Company. The directors of the PRC Target are of the view that the related party transactions were conducted at arm's length and on normal commercial terms, and would not distort the results of operations of the PRC Target over the Track Record Period or cause the historical results of the PRC Target over the Track Record Period to not reflect the expectations for the future performance of the PRC Target.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The PRC Target's exposure to financial risks (including credit risk, liquidity risk, interest rate risk and price risk) and the financial risk management policies and practices used by the PRC Target to manage these risks are described below.

Credit risk

The PRC Target's credit risk is primarily attributable to cash at bank and trade and other receivables. Its management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis.

Substantially all of the PRC Target's cash at bank is deposited in state-owned/controlled or listed PRC banks for which the directors of the PRC Target assessed the credit risk to be insignificant.

In respect of trade receivables, individual credit evaluations are performed on all debtors requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments when due and their current ability to pay, and take in to account information specific to the customers' as well as pertaining to the economic environment in which the customers operate.

The PRC Target does not provide any guarantees which would expose the PRC Target to credit risk.

Liquidity risk

The PRC Target is responsible for its overall cash management, including raising of loans to cover expected cash demands. As at 31 December 2013, 2014 and 2015, the PRC Target had net current liabilities of approximately RMB531.6 million, RMB499.3 million and RMB252.7 million, respectively. The liquidity of the PRC Target is primarily dependent on its ability to (i) obtain sufficient financing from its bankers and shareholders; and (ii) the Transactions will be successfully completed and sufficient funding will be provided by the Company to the PRC Target to enable the PRC Target to meet its financial obligations as and when they fall due and to meet its committed future capital expenditures. The directors of the PRC Target have carried out a detailed review of the PRC Target's cash flow projections for the twelve months ending 31 December 2016. Based on such projections, the directors of the PRC Target have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the PRC Target during that period after completion of the Transactions. In preparing the cash flow projections, the directors of the PRC Target have considered historical cash requirements of the PRC Target as well as other key factors, including sufficient financing from it banker, shareholders and the Company. The directors of the PRC Target are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

The following tables set out the remaining contractual maturities at the end of the reporting period of the PRC Target's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the PRC Target can be required to pay:

	As at 31 December 2013		As at 31 December 2014		As at 31 December 2015	
	Contractual undiscounted cash outflow — within 1 year or on demand	Carrying amount	Contractual undiscounted cash outflow — within 1 year or on demand	Carrying amount	Contractual undiscounted cash outflow — within 1 year or on demand	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank and other borrowings	183,326	183,326	185,656	185,656	91,697	90,000
Trade payables	165,338	165,338	168,205	168,205	144,435	144,435
Accrued expenses and other payables	236,935	236,935	225,336	225,336	85,410	85,410
Total	585,599	585,599	579,197	579,197	321,542	319,845

Interest rate risk

The PRC Target's interest rate risk arises primarily from interest-bearing borrowings. The PRC Target regularly reviews and monitors the mix of fixed and floating rate bank loans in order to manage its interest rate risks.

The following table sets out the interest rate profile of the PRC Target's borrowings as at the dates indicated:

	As at 31 December 2013		As at 31 December 2014		As at 31 December 2015	
	Effective interest rate	Carrying amount	Effective interest rate	Carrying amount	Effective interest rate	Carrying amount
	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*
Fixed rate — other borrowing	5.88	29,600	5.88	29,600	4.80	20,000
Floating rate — other borrowings	6.55–6.56	153,726	6.00–7.00	156,056	5.06	70,000
Total		183,326		185,656		90,000

As at the respective reporting period end dates, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would (decrease)/increase the PRC Target's profit/(loss) after taxation and accumulated losses as follows:

	For the year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
100 basis points increase	(1,537)	(1,561)	(700)
100 basis points decrease	1,537	1,561	700

Price risk

The PRC Target is engaged in crude oil upstream exploration, development and production. Prices of crude oil are affected by a wide range of global and domestic political, economic and military factors which are beyond the control of the PRC Target. A decrease in such prices could adversely affect the PRC Target's financial position. The PRC Target has not used any derivative instruments to hedge against potential price fluctuations of crude oil.

TOTAL TRANSACTION-RELATED EXPENSES

The Independent Shareholders shall pay particular attention that substantial deemed listing expenses are expected to be recognised in the consolidated income statement of the Restructured Group upon the S&P Completion and the completion of the Transactions. Details of the basis of the deemed listing expenses are set out in note 8 to the unaudited pro forma financial statements of the Restructured Group as set out in "Appendix VI — Unaudited Pro Forma Financial Information of the Restructured Group" to this circular. As set out in the unaudited pro forma financial statements of the Restructured Group, assuming that the Transfer and the Transactions were completed on 30 September 2015, the deemed listing expenses are estimated to be approximately HK$278.3 million, which represents 1.2 times of the loss attributable to the owners of the Company for the year ended 31 March 2015 and 9.5 times of the loss attributable to the owners of the PRC Target for the year ended 31 December 2015.

Whilst such deemed listing expenses are notional expenses without any impact on the Restructured Group's net assets and cash flow, they would have a material adverse impact on the Restructured Group's results for the year ending 31 March 2017 (assuming that the Transfer and the Transactions will be completed that financial year based on the present estimated timetable). The Company does not consider these one-off notional non-cash accounting expenses shall have any adverse impact on the actual operations of the Restructured Group.

The Company will assess the impact of the listing expenses that the Restructured Group may record as a result of the Transactions closer to the time when the Transactions are to be completed and will make an announcement informing the Shareholders and the market an updated estimate of the listing expenses if the amount differs materially from that currently estimated as set out in the Unaudited Pro Forma Financial Information of the Restructured Group.

DIVIDENDS

No dividends have been declared by the PRC Target during the Track Record Period nor has any dividend been proposed after 31 December 2015 and up to the Latest Practicable Date. The PRC Target currently does not have any predetermined dividend payout ratio. The historical dividend distribution record may not be used as a reference or basis to determine the level of dividends that may be declared or paid in the future. To the extent that profits are distributed as dividends, such portion of profits will not be available to be reinvested in the operation.

After completion of the Transactions, the PRC Target will become a wholly-owned subsidiary of the Company. Any distribution which may be made by the PRC Target thereafter will belong to the Company. The payment and the amount of any dividends of the Company, if paid, would depend on the results of operations, cash flows, financial position, statutory and regulatory restrictions on the payment of dividends, future prospects and other factors that the Directors may consider relevant. Shareholders will be entitled to receive such dividends pro rata according to the amount paid up or credited as paid up on the Shares. The declaration, payment and amount of dividends will be subject to the Directors' discretion.

DISTRIBUTABLE RESERVES

As at 31 December 2015, the PRC Target did not have any distributable reserve available for distribution to its shareholders.

RECENT DEVELOPMENTS SUBSEQUENT TO TRACK RECORD PERIOD

The PRC Target recorded a lower monthly average revenue for the four months ended 30 April 2016 compared to the monthly average revenue for the year ended 31 December 2015, which was primarily attributable to the reduction of average selling price and net sales volume of crude oil. Subsequent to the Track Record Period and up to the end of April 2016, the oil market price continued to be volatile, while one of the PRC Target's referenced oil market prices, Brent Crude, reached the lowest price of approximately US$26 per barrel (equivalent to approximately RMB169.5 per barrel) on 20 January 2016 but gradually increased back to around US$48 per barrel (equivalent to approximately RMB313.0 per barrel) as at 30 April 2016. Accordingly, the PRC Target's average selling price dropped from approximately RMB303.8 per barrel (equivalent to approximately US$46.6 per barrel) for the year ended 31 December 2015 to approximately RMB214.6 per barrel (equivalent to approximately US$32.9 per barrel) for the four months ended 30 April 2016. This affected the PRC Target's revenue level in these four months ended 30 April 2016. Save for the above, the directors of the PRC Target confirm that there was no other material change in the PRC Target's business operation and business environment in which the PRC Target was operating subsequent to the Track Record Period. Notwithstanding the above, the Directors currently expect that the Group's financial results for the year ending 31 March 2017 (assuming that the Transactions complete during this financial year) will be negatively impacted by the non-recurring transaction-related expenses and deemed listing expenses to be recognised as expenses in the income statement of the Group. For further details, please refer to the sub-section headed "Total Transaction-Related Expenses" in this section.

It should be noted that the PRC Target's financial information subsequent to the Track Record Period is unaudited and may not reflect the full year results for the year ending 31 December 2016 and may be subject to adjustments based on audit.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Save as disclosed otherwise in this circular, the directors of the PRC Target have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Save as disclosed in the paragraph headed "Recent Developments Subsequent to Track Record Period", the directors of the PRC Target confirm that since 31 December 2015, being the date of the latest audited financial statements of the PRC Target, and up to the date of this circular, there has been no material adverse change in the PRC Target's financial or trading position or prospects. The directors of the PRC Target also confirm that there have been no events since 31 December 2015 which would materially affect the information shown in "Appendix III — Accountants' Report on the PRC Target" to this circular.

SHARE CAPITAL

As at the Latest Practicable Date, the authorised share capital of the Company is HK$80,000,000 divided into 8,000,000,000 Ordinary Shares of par value HK$0.01 each; and the Company had only one class of shares in issue, namely Ordinary Shares of par value HK$0.01 each.

The following tables set out the authorised share capital of the Company as at the Latest Practicable Date and that after the Increase of Authorised Share Capital having become effective respectively.

Authorised share capital as at the Latest Practicable Date

Number of Ordinary Shares	Aggregate par or nominal value of the Ordinary Shares *(HK$)*
8,000,000,000	80,000,000

Authorised share capital immediately after the Increase of Authorised Share Capital having become effective

Number of Ordinary Shares	Number of Preferred Shares	Aggregate par or nominal value of the Ordinary Shares and the Preferred Shares *(HK$)*
8,000,000,000	5,000,000,000	130,000,000

As at the Latest Practicable Date, the Company had in issue the outstanding Convertible Bonds in the principal amount of HK$120,000,000 which were convertible into 324,763,193 Ordinary Shares and 1,785,714,285 Ordinary Shares based on the Existing CB Conversion Price and the Adjusted CB Conversion Price (subject to adjustments) respectively.

The following table sets out the number of Ordinary Shares in issue as at the Latest Practicable Date and the number of Ordinary Shares and Preferred Shares to be issued pursuant to the Subscription and exercise in full of the conversion rights attached to each of the Convertible Bonds, the Convertible Note and the Preferred Shares:

Issued share capital

Ordinary Shares

Number of Shares		Nominal value of the Shares *(HK$)*
347,326,000	Ordinary Shares in issue as at the Latest Practicable Date	3,473,260.00
1,269,414,575	Ordinary Shares to be issued pursuant to the Subscription and immediately upon the Subscription Completion	12,694,145.75
1,785,714,285	Ordinary Shares to be issued upon exercise of the conversion rights attaching to the Convertible Bonds in full *(Note 1)*	17,857,142.85
373,357,228	Ordinary Shares to be issued upon exercise of the conversion rights attaching to the Convertible Note in full *(Note 2)*	3,733,572.28
2,747,909,199	Ordinary Shares to be issued upon exercise of the conversion rights attaching to the Preferred Shares in full *(Note 3)*	27,479,091.99
6,523,721,287		65,237,212.87

Preferred Shares

Number of Shares		Nominal value of the Shares *(HK$)*
—	Preferred Shares in issue as at the Latest Practicable Date	—
2,747,909,199	Preferred Shares to be issued pursuant to the Subscription and immediately upon the Subscription Completion	27,479,091.99
2,747,909,199		27,479,091.99

Notes:

1. These are the maximum number of CB Conversion Shares which may fall to be issued upon exercise of the conversion rights attaching to the Convertible Bonds in full, assuming at the Adjusted CB Conversion Price of HK$0.0672.

2. These are the maximum number of CN Conversion Shares which may fall to be issued upon exercise of the conversion rights attaching to the Convertible Note in full, assuming at the initial conversion price of HK$0.6696.

3. These are the maximum number of Ordinary Shares which may fall to be issued upon exercise of the conversion rights attaching to the Preferred Shares in full, assuming at the initial conversion price of HK$0.6696 (subject to adjustments).

4. The above table assumes that each of the Subscription and the CN Subscription becomes unconditional and all the Subscription Shares are issued to the Subscribers pursuant to the Subscription Agreement in accordance with its terms.

RANKING

The Ordinary Subscription Shares will rank equally among themselves and *pari passu* in all respects with the Ordinary Shares in issue on the date of allotment and issue of the Ordinary Subscription Shares.

The Preferred Shares will rank equally among themselves and *pari passu* in all respects with the Preferred Shares in issue on the date of allotment and issue of the Preferred Shares.

The CB Conversion Shares will rank equally among themselves and *pari passu* in all respects with the Ordinary Shares in issue on the date of allotment and issue of the CB Conversion Shares.

The New Conversion Shares which may fall to be issued pursuant to the exercise of the conversion rights attached to the Convertible Note and the Preferred Shares will rank equally among themselves and *pari passu* in all respects with the Ordinary Shares in issue on the date of allotment and issue of the New Conversion Shares.

PUBLIC FLOAT

Pursuant to Rule 8.08(1)(a) of the Listing Rules, the Company must maintain the ''minimum prescribed percentage'' of 25% of the issued share capital of the Company in the hands of the public (within the meaning as defined under Rule 8.24 of the Listing Rules). To ensure compliance with the public float requirements under the Listing Rules, the Company and the Offeror have agreed on a public float maintenance mechanism under the Subscription Agreement pursuant to which the Company will not issue Ordinary Shares to the Offeror which will result in the Company's failure to comply with the public float requirements under the Listing Rules. Please refer to the section headed ''Letter from the Board — The Subscription Agreement — Subscription Completion — Public Float Allocation Adjustment'' in this circular for the relevant public float maintenance mechanism. In addition, each of the Company, the Offeror and Seller 2 has unconditionally and irrevocably undertaken to ensure that no less than 25% of the Ordinary Shares will be held by the public at all times in compliance with the minimum public float requirement of the Listing Rules in particular immediately following any conversion of the Convertible Bonds (i.e. the Sale Bonds under the Tranche 1 Transfer, the Sale Bonds under the Tranche 2 Transfer and the Excluded Bonds). On this basis, the issue of the Subscription Shares, the CB Conversion Shares and the New Conversion Shares (upon conversion of the Convertible Note and the Preferred Shares) will not cause the Company to fail to comply with the minimum public float requirements under the Listing Rules.

GENERAL MANDATE TO ALLOT SHARES

By the resolutions of the Shareholders passed in the annual general meeting of the Company held on 19 August 2015, the Directors have been granted a general and unconditional mandate to exercise the powers of the Company to allot, issue and deal with new Ordinary Shares with an aggregate nominal amount not exceeding 20% of the aggregate nominal amount of the issued share capital of the Company then in issue (the "**Issue Mandate**").

The Issue Mandate will expire at the earliest of: (1) the conclusion of the next annual general meeting of the Company; (2) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws or any applicable law to be held; and (3) the date on which the authority set out in the resolution to approve the Issue Mandate is revoked or varied by an ordinary resolution in general meeting.

UNDERTAKING BY THE OFFEROR

Pursuant to Rule 10.07 of the Listing Rules, each Controlling Shareholder has undertaken to the Stock Exchange and to the Company that, it shall not, and shall procure that the relevant registered holders shall not, without the prior written consent of the Stock Exchange:

(a) except for the deemed disposal of shares by the Offeror upon any issue of securities by the Company within the first six months from the date of the completion of the Transactions and disposal of Ordinary Shares in order to enable the Company to fulfil the public float requirements under the Listing Rules as a result of the Offer (as waived by the Stock Exchange in the waiver from strict compliance with Rule 10.07(1)(a) of the Listing Rules), in the period commencing on the date of this circular and ending on the date (the "**End Date**") which is six months from the date of the completion of the Transactions, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interest or encumbrances in respect of, any direct or indirect interests in the Shares in respect of which it is shown by the circular to be the beneficial owner;

(b) in the period of six months commencing from the End Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any direct or indirect interests in the Ordinary Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a controlling shareholder of the Company; and

(c) within the period commencing on the date of this circular and ending on the date which is 12 months from the date of the completion of the Transactions, it will:

(i) when it pledges or charges any direct or indirect interests in the Shares beneficially owned by it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform the Company of such pledge or charge together with the number of Shares or the level of indirect interests in the Shares so pledged or charged; and

(ii) when it receives indications, either verbal or written, from the pledgee or charger that any of the pledged or charged Shares/interests will be disposed of, immediately inform the Company of such indications.

UNDERTAKING BY THE COMPANY

Pursuant to Rule 10.08 of the Listing Rules, the Company has undertaken to the Stock Exchange that no further Shares or securities convertible into equity securities of the Company will be issued, or form the subject of any agreement by the Company to such an issue, within six months from the date of completion of the Transactions except in the circumstances permitted pursuant to Rule 10.08 of the Listing Rules.

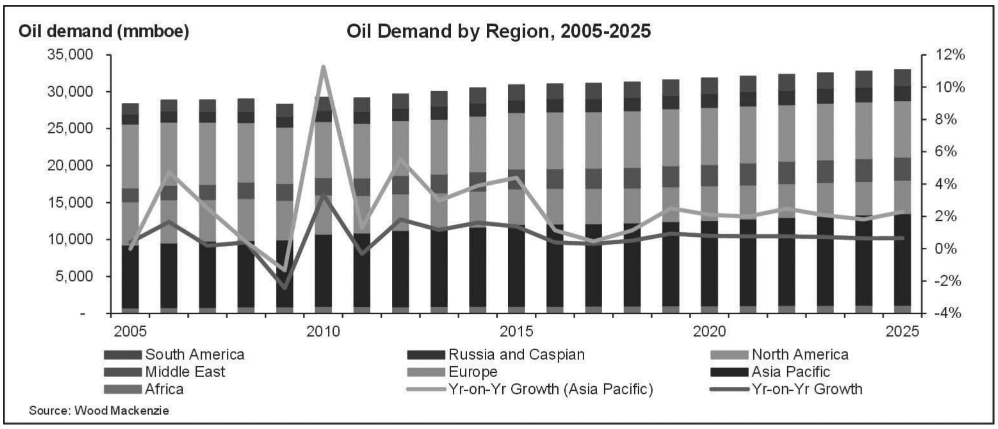
The forecasts and industry data set forth below has been derived from the report of Wood Mackenzie on the global and China oil industry issued to the Company for the purposes of providing industry information in this section (the "Wood Mackenzie Report"). The Directors believe that the sources of the information are appropriate sources for such information, and the Directors have taken reasonable care in extracting and reproducing such information. On this basis, the Company, the Directors and the Joint Sponsors are satisfied that the forecasts and industry data disclosed herein are not false or misleading, and no fact has been omitted that would render such information materially false or misleading. However, the information has not been independently verified by the Company, the Directors, the Joint Sponsors or any of the respective directors, officers, employees, advisors, agents or representatives or any other party involved in the listing application of the Company and no representation is given as to its accuracy.

The information contained in the Wood Mackenzie Report is derived by means of data and intelligence gathering such as: (i) desk research; (ii) client consultation to understand the background information about the PRC Target; and (iii) the experience, knowledge and database of Wood Mackenzie and its associated partners. Information gathered by Wood Mackenzie has been analysed, assessed and validated using Wood Mackenzie's in-house analysis models and techniques. According to Wood Mackenzie, information gathered can be cross-referenced to ensure accuracy. Nevertheless, the Company, the Directors and the Joint Sponsors cannot assure you regarding the accuracy or completeness of the factors, forecasts and statistics contained herein obtained from the Wood Mackenzie Report. The Directors confirm that, after taking reasonable care, there is no material adverse change in the market information since the date of the Wood Mackenzie Report which may qualify, contradict or have an impact on the information contained herein.

GLOBAL OIL MARKET

Oil demand by region

Global oil demand is forecast to grow from 30,917 MMboe in 2015 to 32,984 MMboe by 2025F at an average annual growth rate of 0.7%. Wood Mackenzie expects that oil demand in Asia Pacific to increase from 11,053 MMboe in 2015 to 12,388 MMboe in 2025F, equivalent to an average annual growth rate of 1.3% and accounting for the largest demand increase across all the regions.



The 4 December 2015 OPEC meeting ended without a decision to cut production. The outcome triggered a massive selling spree partly due to end-year trading manoeuvres. The selling was also driven by the fear that OPEC output would continue to rise non-stop in 2016. Wood Mackenzie's price outlook is based on an assumption that OPEC and Saudi Arabia do not cut production to support oil prices during the period to 2035. Instead the price is determined by the balance between supply and demand globally as Wood Mackenzie carefully models the fundamentals. Major factors driving supply and demand in the short and long term are explained below.

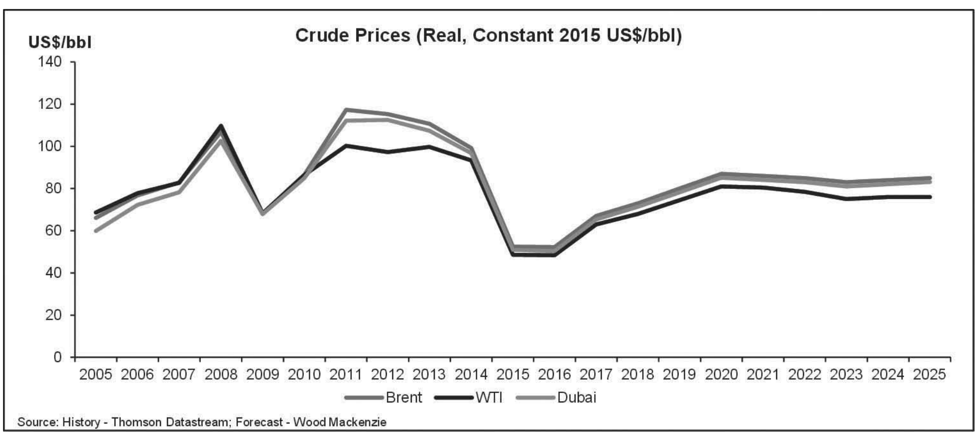
The bearish reaction to the OPEC meeting, lifting of sanctions against Iran and enough storage capacity to absorb the projected builds are likely maintain pressure on prices, keeping Brent in the low US$40 area for much of the first half of the year. Although Wood Mackenzie's analysis shows that rise in Iranian output will not be as swift as some in the market are expecting. By the second half of 2016, offsetting the downward pressure from the continued ramp up of Iranian production will be the steady decline in US oil output, leading to the market factoring in the prospect of a tighter H2 2016. Overall, total global oil supply is forecast to decline slightly in 2016 compared with a record breaking projected increase of 2.9 million b/d for 2015. Brent is forecast to be an annual average of US$52.24 per barrel in 2016.

From 2017 to 2020 the forecast shows prices rising on an annual average basis as OPEC spare capacity falls well below current levels. Implied stock draws in H2 2017 will support prices during 2018. From 2017F, Brent rises from a projected annual average of US$67.10 per barrel in real terms to US$87.00 per barrel in 2020F in real terms.

Long term, from 2020 to 2025, oil prices weaken as US oil supply returns to a high growth rate. US supply is forecast to strengthen as operators continue to focus on the most economic core areas, combined with the strides made in efficiency and productivity improvements and cost reductions. We expect onshore Lower 48 States of the USA crude production to begin to recover from the first quarter of 2017, and then rise nearly 3 million b/d by 2020. By the mid 2020s Wood Mackenzie's total liquids forecast for the onshore Lower 48 States of the USA is now 700,000 b/d higher, helped by increases in NGLs from associated gas output.

Wood Mackenzie expects Brent in annual average terms to slide from US$87.00 per barrel in real terms for 2020F to US$83.00 per barrel in 2023F when OPEC spare capacity rises to 6.8 million b/d. Brent remains below US$90 per barrel in annual average real terms through 2025F.

The chart below illustrates the historical spot prices for Brent Crude, WTI and Dubai from 2005 through 2015 and the Wood Mackenzie forecast through to 2025.

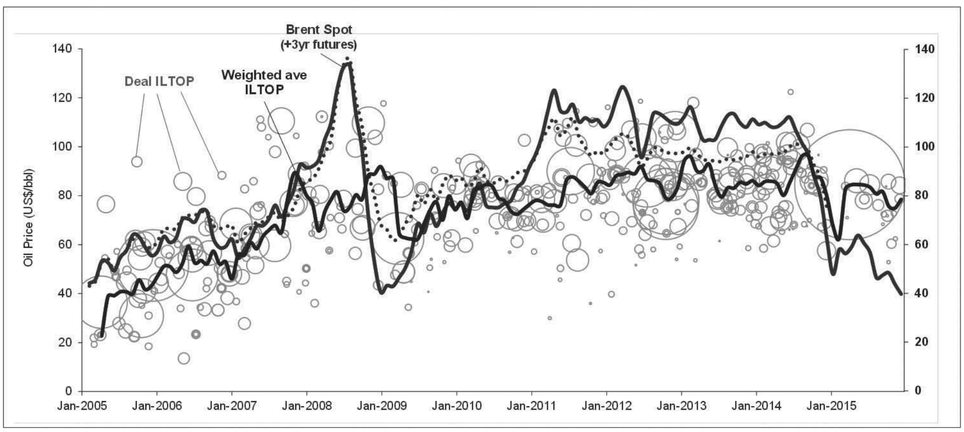


Wood Mackenzie's approach to producing its oil price forecast is to analyse the fundamentals of oil and oil product supply and demand using detailed bottom-up methodologies. For demand forecasting, demand is broken out by country or region and then by product and sector. Our oil supply view uses Wood Mackenzie's detailed field-by-field oil and gas remaining reserves and production profiles. Our price forecast also takes account of the cost of marginal new sources of supply because nearly all available production will be needed to meet oil demand in the future and prices need to provide an incentive to bring this production on stream. The balance between supply and demand at a global and regional level is then used as a key input to forecast how prices for oil will change in the future.

Wood Mackenzie's view is based on the expectation for continued oil demand growth although at a slower pace after 2020. Wood Mackenzie does not believe US tight oil can be the world's price-setter for oil because its growth rate will not match global oil demand growth. Therefore other higher cost sources of future supply need to be taken into account in our forecast.

Mergers and acquisitions

The Wood Mackenzie Implied Long-Term Oil Price ("**ILTOP**") is a broad reflection of industry planning assumptions, based on Wood Mackenzie's estimates of deal break-even prices (Net Present Value at a 10% discount rate) in the merger and acquisition market. The ILTOP softened in 2015, but was well above spot prices. This is not to say that deal prices were unaffected by the oil price slump. But the ILTOP suggests that, where deals were agreed, long-term assumptions were for recovering oil prices, or perhaps lower costs. However there were deals that transacted at lower ILTOP values. Deals such as Occidental's exit from the Bakken (ILTOP — US$60/bbl), Svenska's exit from Norway (US$53/bbl) and Total's Gina Krog disposal (US$53/bbl) suggest that some companies placed portfolio optimisation above holding out for any theoretical "maximum" disposal value.

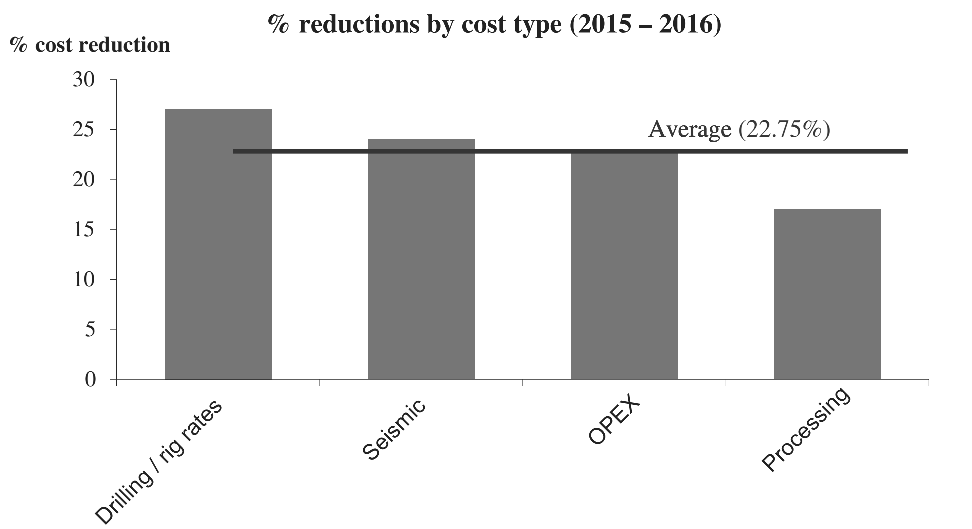


The Implied Long-term Oil Price is the long-term real oil price that would be required to make Wood Mackenzie's NPV of the acquisition equal to the price paid, after factoring in 36 months of futures prices from the deal effective date. ILTOP is displayed as a three month trailing weighted average. Brent oil price is displayed as a monthly average.

The ability to close deals at lower prices is key to value creation as commodity prices ultimately, and overwhelmingly, make-or-break deals. There is an opportunity for value creation for deals that transact at lower oil prices, in the current environment where costs are falling and yet with long term pricing fundamentals suggesting higher prices in the future.

Capital cost deflation worldwide

Upstream capital expenditure worldwide has been cut as a result of the dramatic collapse in oil prices. E&P companies have been pushing the supply chain to reduce margins and lower costs. In Asia-Pacific, Wood Mackenzie has cut over US$20 billion from its 2015 and 2016 forecasted expenditure, with, among other countries, China, Australia, Malaysia and Indonesia bearing the brunt of the reductions. In China, Wood Mackenzie expects reduced spending at high-cost EOR projects. This makes sense in this current environment, but additional measures beyond supply chain savings will be needed to reset the cost base. Efficiency gains and project optimisation will be critical in achieving further cost improvements.



Source: Wood Mackenzie: This chart is a result of an external survey and not an expectation of Wood Mackenzie on cost reduction in the period

A combination of low value projects and further cost reduction through 2016 will put additional pressure on supply chain margins with an anticipated cost reduction range of 10–20% across all the sectors. Those expected to feel the most pain are asset heavy companies in the Engineering, Procurement, Installation and Construction (EPIC), Transportation and Installation (T&I) and drilling sectors; further utilisation and erosion is expected.

Additional project cost reductions could potentially be realised from stronger collaboration between operators, EPIC contractors and engineering firms early in project planning. As a result, 2016 will also be critical in strengthening partnerships between engineering firms/EPIC contractors. This will be focused on driving the much needed structural cost improvements.

Declines in opex costs have seen relatively smaller reductions as contract structures across the opex sector are normally multi-year. While opex projects have seen deferrals in the last 18 months, repairs and maintenance will be key areas of focus for operators in 2016. However, inspection for non-vital and low risk infrastructure will be pushed back.

Capital and operating expenditures in the upstream petroleum industry in China

The average capital expenditures per boe for onshore developments in China is US$10.65/boe. (The capital expenditure per boe calculation only includes onshore fields which have a production start date between 1st January 2009 to 31st December 2019.) The NOCs have the lowest capital expenditures of US$10.28/boe while the Majors have the highest of US$15.68/boe. This reflects the more technology-intensive and challenging plays they have been given access to.

Capital expenditures *(US$ Million)*	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
NOC	27,811	29,133	30,948	41,466	43,425	41,159
Majors	97	125	251	102	56	69
Others	1,091	1,021	981	1,126	1,260	953
Total	**28,999**	**30,279**	**32,180**	**42,694**	**44,741**	**41,228**

The table above shows the absolute levels on capital expenditures spend per year by company type.

Capital expenditures spending is dominated by the NOCs and has been increasing in recent years due to strong top-down pressure on the three Chinese NOCs' development, particularly in unconventional resources.

The average operational expenditure per boe for onshore developments in China between 2012 to 2014 was US$12.90/boe. Average operational expenditure per boe has been increasing in recent years growing from US$12.30/boe in 2010 to US$13.50/boe in 2014. (The operational expenditure only includes the day-to-day costs incurred in producing oil and gas. These include, where appropriate, personnel costs, costs of materials and supplies, fixed and variable costs for field operations, transportation (non-tariff), leasing, insurance and G&A). This recent growth in OPEX can be attributed to several factors; increasing labour costs in the Chinese market, general industry wide price inflation and finally the increase in the projects which are more technology-intensive and challenging.

The majority of NOCs resources are conventional, which usually have a lower OPEX when compared to unconventional resources, such as tight oil, that tend to have a higher OPEX. Conventional onshore gas fields in China have had an average OPEX of US$6.40 per boe between 2012 to 2014 compared to an average OPEX of US$17.40 for conventional onshore oil fields over the same time period. During this time period 32% of NOC production was gas.

Operating expenditures *(US$ per boe)*	**2012**	**2013**	**2014**
CNPC — PetroChina	10.6	11.5	12.6
Sinopec Group	17.2	17.3	16.8
Shaanxi Yanchang Petroleum	12.9	12.9	12.7
PRC Target*	17.2	17.2	19.5
Total Onshore	**12.2**	**13.0**	**13.5**

* *source: Shun Cheong Holdings Limited*

OVERVIEW OF CHINA'S UPSTREAM PETROLEUM INDUSTRY

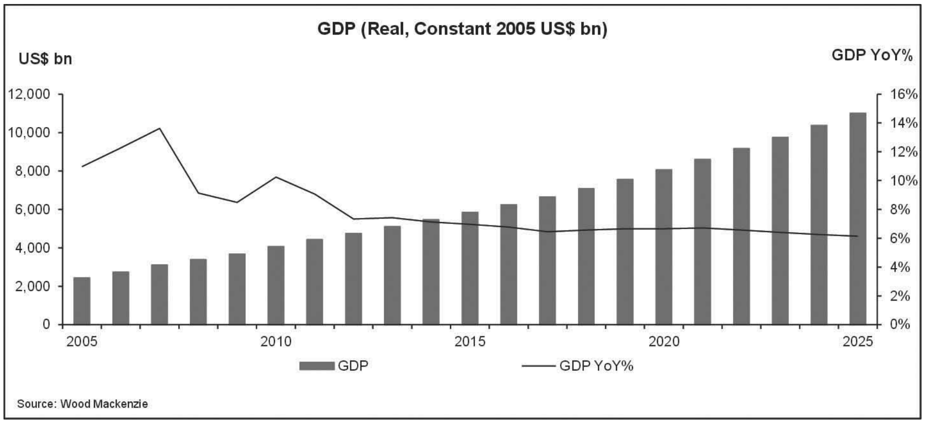
Overview

China's upstream petroleum industry holds significant potential for further exploration and development. Large areas in the onshore provinces and deepwater remain under-explored. The oil sector is mature. With the central government increasingly concerned about China's reliance on expensive energy imports to maintain its economic growth, there is strong top-down pressure on the three Chinese NOCs to boost domestic exploration and development, particularly in deepwater and unconventional resources.

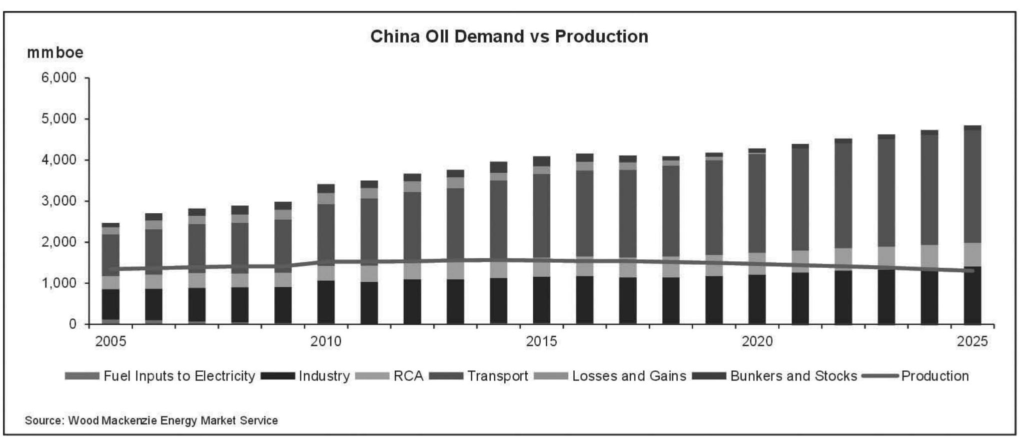
The industry is dominated by the big three NOCs — CNPC-PetroChina, Sinopec Group and CNOOC while foreign companies have gained a small foothold on technology-intensive plays. The Majors, including Shell, Chevron, BP and ConocoPhillips, entered China's offshore sector in the 1990s, and own legacy assets in Bohai Bay and shallow water South China Sea. In recent years, they have increased their exposure to onshore unconventional gas (tight, sour, and shale) and deepwater plays with mixed success. Others have chosen to leave over the last 24 months, such as BP's sale of its Yacheng 13–1 gas field in the South China Sea and Anadarko's sale of its Bohai Bay portfolio.

Conventional onshore exploration in China has long been dominated by NOCs, and largely closed to other domestic and international investors. But this is changing, and the recent concession round in July 2015 designed exclusively to invite privately owned domestic companies to take part in upstream exploration in the onshore sector, is another tentative step in China's long-awaited reform of the upstream sector. In 2012, private companies were allowed to bid on shale blocks, but this further moves towards opening up conventional exploration suggests Beijing is serious about increasing competition for the NOCs, promoting mixed ownership and diversifying the sources of upstream investment. This should open up new investment and partnership opportunities in China's upstream environment.

Macroeconomic driver — GDP



According to Wood Mackenzie estimates, China is expected to have constant GDP year-on-year growth of around 6.5% moving forward, going from US$5,850 billion (Real, Constant 2005 US$ bn) in 2015 to US$11,004 billion (Real, Constant 2005 US$ billion) in 2025F. Shorter term, China continues its managed, moderate economic slowdown. Despite recent market turmoil and increasing government intervention, there is little to suggest that growth has decreased largely. Longer term, Wood Mackenzie forecasts China to grow 6.5% on a Compound annual growth basis between 2016 and 2025, slowing to 5.5% between 2026 and 2035. The next 5 to 10 years will be a critical phase for China as reforms pave the way for sustainable growth into the long term.



China is the largest crude oil market in the Asia Pacific region. Oil is the second-most consumed fuel in China after coal. The transport sector is the largest demand sector, followed by the industry and the residential sub-sector. The transport sector will be responsible for much of the growth in China's oil demand as private car ownership continues to expand. Rapidly expanding car ownership rates currently drives strong transport sector demand. Car ownership in China currently stands below 90 cars per thousand people, which is low by OECD standards. Wood Mackenzie's forecast is for cars per thousand people to grow to 196 by 2025F, and to 277 by 2035F, resulting in the total car fleet increasing from 116 million in 2014 to over 400 million by 2035F. However, congestion, an underdeveloped road network outside and between major cities, and vehicles use restrictions act as constraints on transport demand. Should these factors improve long term, a 'driving culture' similar to the United

States could emerge — dramatically increasing vehicle ownership and fuel demand. Total product demand in China is forecast to grow from around 4,086 MMboe in 2015 to 4,679 MMboe in 2025F, at an average annual growth rate of 1.5% per annum.

China is the world's fifth largest oil producer and by far the largest oil producer in Asia. China's oil production is underpinned by a large number of mature onshore fields. Production has kept steady even though the major producing areas, particularly the Daqing and Shengli fields, are witnessing falling production. From 2015 to 2025F, China oil production is forecast to decrease from 1,551 MMboe to around 1,300 MMboe. However, the trend of China's future oil production will depend upon the success of exploration efforts in both onshore and offshore areas. Despite the maturity of the onshore oil fields in the North China, the region still contributes to over half of the domestic supply in the near term.

China became a net importer of oil in 1993, and this is expected to continue. With demand rising rapidly, China's oil import position has become the second largest in the world. The share of domestic crude in the overall intake is expected to drop to 34% by 2020F. Although Middle East is an important source for China's current crude intake, incremental crude oil requirements will be primarily met by crude from West Africa, which provides an incremental 1.0 million barrels per day of crude oil between 2014 and 2020, raising the share of West African crude from 11% in 2013 to 19% in 2020F. African crude exports to China will increase to replace the diminishing Chinese domestic crude, which are of similar medium sweet quality. The main receiving refinery — Petrochina's Qinzhou has recently finished its investment program in the first half of 2014 to diversify its crude appetite in order to minimise risks over such disruptions.

Strategic importance of oil

Energy security has been a key strategic concern for China in recent years. In the face of declining domestic production, China has been actively acquiring exploration and production assets overseas. This overseas drive has been carried out through China's energy giants — CNPC-PetroChina, Sinopec Group and CNOOC. Continued investment and development in the domestic industry is also mainly dependent on these three large companies. China faces the risk of rising import costs and increasing OPEC dependency — the OPEC share of Chinese imports rose from 52% in 2005 to 66% in 2012. With rapid demand growth and declining domestic supply, 88% of oil imports will be from OPEC by 2020F.

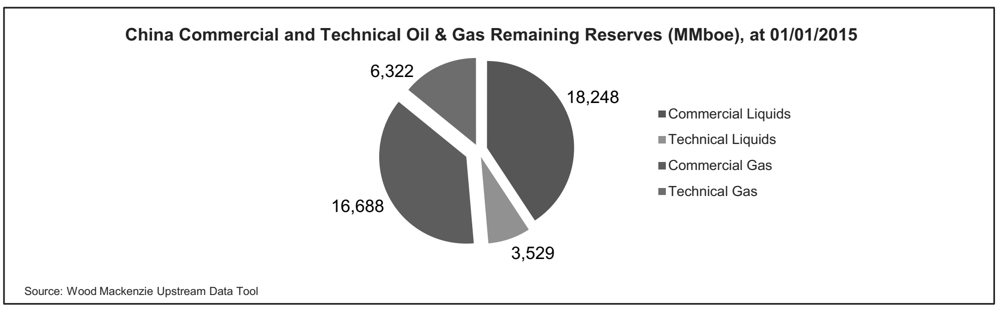
China's concerns over energy security are likely to ensure that investment levels in the domestic upstream industry remain healthy despite maturing assets.

China's economy and the evolution of its energy demand are tightly correlated. Large-scale industrialisation has been the engine of growth for both energy demand and GDP for more than a decade, and Wood Mackenzie expects this to remain the case until the mid to late 2020s. Wood Mackenzie expects the nature of this correlation to change over time, as China's era of rapid industrialisation slows, and the country increasingly adopts the characteristics of a developed economy.

More recently, in the midst of falling oil prices in January 2016, the National Development and Reform Commission (NDRC) announced it will not adjust the domestic retail prices for gasoline and diesel when international crude oil price falls below US$40/bbl. This policy effectively puts a floor on retail fuel prices. At a Brent crude oil price of US$30/bbl, consumers in China pay an extra 660 RMB/tonne (or US$12/bbl) for gasoline and diesel at the pump, as retail prices are not adjusted below $40/bbl. A 'special fund' will be formed to hold the profits from unadjusted retail prices in the above case.

Wood Mackenzie considers that one of the main beneficiaries of this policy could be the Chinese upstream companies. Wood Mackenzie expects the special fund may be used to subsidise the losses in the upstream sector to safeguard domestic crude production and to reduce the potential unemployment risk in the upstream industry.

Oil & gas reserves and resources



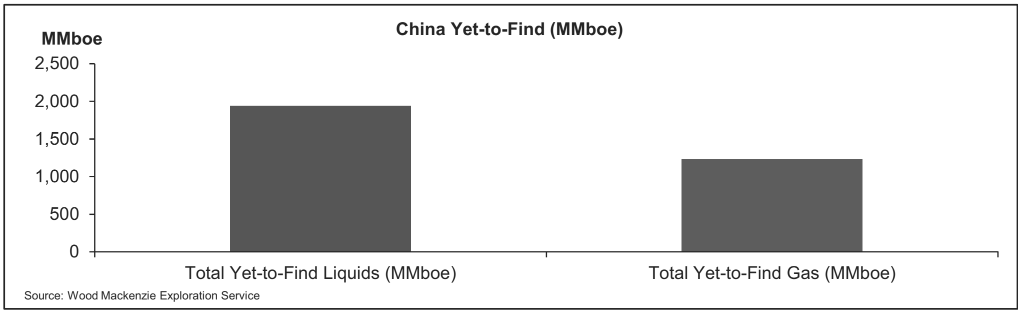
Wood Mackenzie states that China has 44,786 MMboe of remaining commercial *(Note 1)* and technical *(Note 2)* oil and gas reserves at 1 January 2015. The onshore sector accounts for the overwhelming majority of China's remaining gas and liquids reserves, and is dominated by CNPC-PetroChina and Sinopec Group. The Ordos, Sichuan and Tarim basins hold over 50% of China's remaining reserves.

Notes:

1. Using Wood Mackenzie's methodology, commercial reserves are broadly equivalent to proven and probable reserves. In particular, Wood Mackenzie considers commercial reserves to be fields which are currently in production, under development or regarded as probable developments. Fields under development are fields where the development plan has been approved by the government authorities and the field participants have made the final investment decision for the project to proceed. Probable developments are discoveries where reserve estimates have been sufficiently proved-up and any development plan would be economically viable. Wood Mackenzie would expect probable developments to be either on-stream or under development within a five-year timescale.

   This includes both conventional and unconventional commercial reserves such as shale gas, tight oil and oil sands.

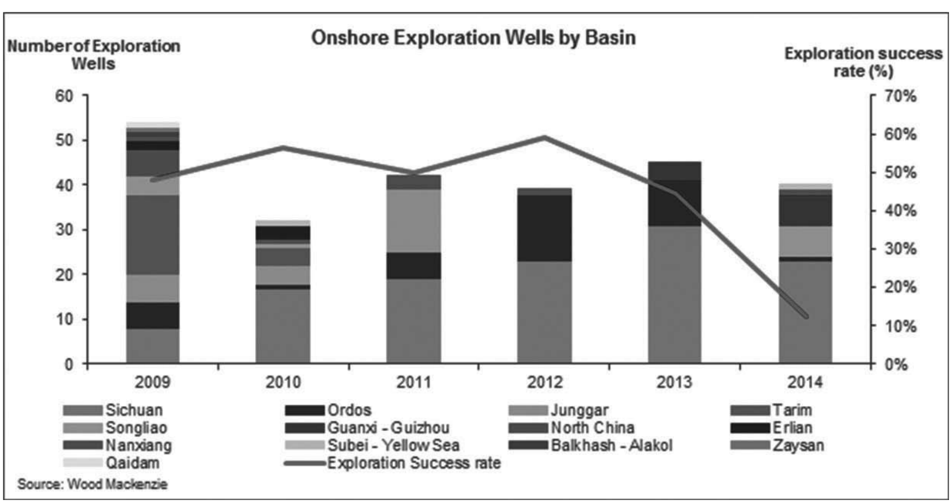
2. Technical reserves are defined as reserves that have been discovered but are currently not considered as commercial. This may be due to low levels of recoverable reserves, perceived technical difficulties with a development, low product quality or the lack of available markets (e.g. 'stranded gas' deposits).



Based on Wood Mackenzie's projections, the total Yet-to-Find (YTF) *(Note)* volume in China is 3,170 MMboe, of which 1,940 MMboe is liquids, accounting for 61% of the total volume.

Note: Wood Mackenzie bases its YTF resource on the potential from the discovery of conventional oil and gas new fields. Unconventional resource potential is excluded from the scope of reporting, as is the potential from upgrades and extensions on existing discoveries. Wood Mackenzie uses a projected creaming curve to derive the assumption of YTF potential in a basin. The curve is generated using best fit of a hyperbolic trend to historic data on cumulative reserves by cumulative exploration wells. The curve's trajectory is also an assumption of reserves that will be discovered per exploration well. The overall basin YTF assumption is constrained by Wood Mackenzie's forecast of exploration well numbers to 2030. This YTF assumption is intended to be a broadly realistic input to Wood Mackenzie's future economics evaluation, and is not a substitute for a geologically-constrained resource assessment.

Onshore exploration success rates



Between 2009 to 2014 there were 252 exploration wells drilled onshore China (in undrilled prospects or prospects upon which only dry holes have been drilled to date) with a success rate of 45%. Over half (160) of these wells were drilled in the Sichuan and Ordos basins. The Erlian basin during this time has five such wells drilled with 4 discoveries for an exploration success rate of 80%.

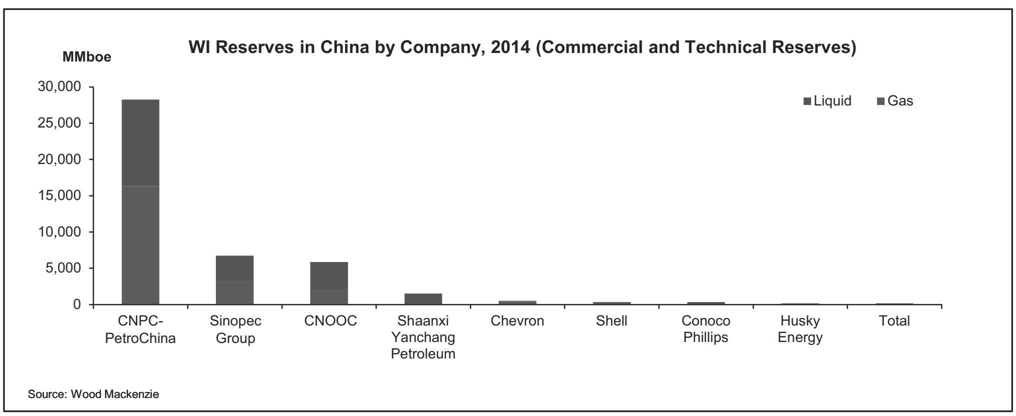
Erlian Basin

Block 212 and Block 378 are located at Erlian Basin which situates within Inner Mongolia, the PRC. The Erlian Basin covers over 100,000 km^2. Exploratory activity in the basin started in 1977, with the first oil discovery made in 1981. The CNPC-PetroChina-operated A'ershan cluster of oil fields are the largest source of production, and are located around 100 km north of Xinlinhot (Abagnar Qi) in the east of the basin. The main producing horizons are thought to be found in lower Cretaceous sandstones, located at a depth of 600 to 2,000 metres. The cluster is believed to contain about 410 million barrels of oil-in-place reserves.

COMPETITIVE LANDSCAPE

NOCs, Majors and independent operators

China's upstream industry is dominated by the three NOCs — CNPC-PetroChina, Sinopec Group and CNOOC. Majors and Independent operators entered the industry in the 1990s when China opened its offshore sector to foreign players, and later in the mid-2000s, when the NOCs needed help with onshore tight and sour gas development.

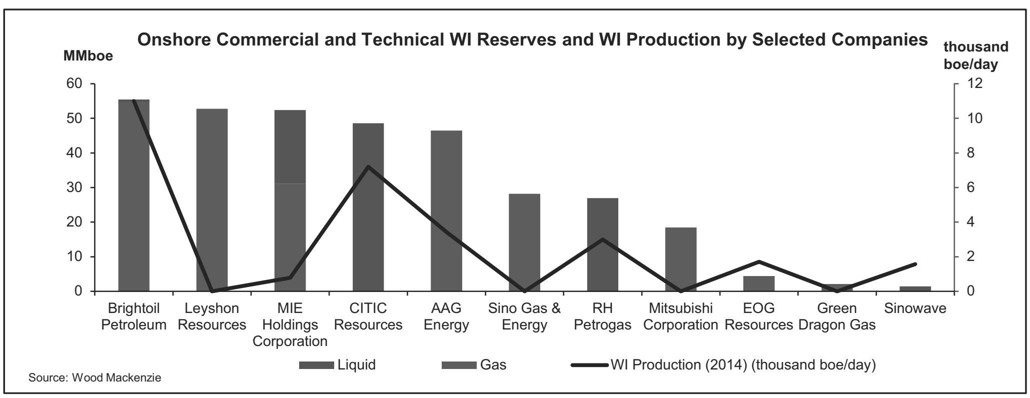


Traditionally, CNPC-PetroChina and Sinopec Group held assets in onshore China while CNOOC dominates the offshore sector. There is now greater competition between the NOCs as CNPC-PetroChina and Sinopec Group have been awarded limited offshore acreage by the MOLR, while CNOOC has been looking at opportunities to grow its domestic onshore business. Yanchang holds acreage in the Ordos and Erlian Basins and produces mainly oil. China is a technology-intensive play for the Majors, including Chevron, Shell, ConocoPhillips and Total. They entered the industry in the 1990s when China opened its offshore sector to foreign players, and later in the mid-2000s, when the NOCs needed help with onshore tight and sour gas development. In recent years, the Majors have been looking to increase their exposure to unconventional gas and deepwater plays. Given the change in oil prices and the pressure for international oil companies to reduce capital expenditure, Wood Mackenzie expects the Majors to reduce their China upstream spending.

The government has had a long standing goal to make NOCs more efficient, and the low oil price and weak demand outlook have helped accelerate reform plans. Accordingly, Wood Mackenzie expects NOCs to cut spending in projects with narrow margins, such as enhanced recovery and heavy oil projects. Given the NOCs focus on capital discipline and prioritising investment in higher return projects, NOCs will look to attract more private capital through divestment of stakes in mature upstream and infrastructure assets.

Yanchang has grown rapidly in recent years, becoming a Fortune 500 company and a main player in onshore China. It is now one of only four companies along with PetroChina, Sinopec and CNOOC which have mineral rights in China that is able to obtain Chinese exploration blocks under concession agreements. All other companies must sign cooperation agreements and partner with an NOC, these agreements cover the exploration, development and marketing of hydrocarbons. Yanchang has grown output from its Ordos and Erlian basin fields from just over 50,000 barrels per day in 2000 to over 250,000 barrels per day by 2014, partly through adopting technologically-challenging drilling techniques into deeper reservoirs within producing areas.

Other Selected E&P Companies



There are numerous other smaller exploration and production players in China. For example, a recent entrant is Brightoil Petroleum, a Hong Kong-listed bunker fuel trading firm, that acquired Anadarko's assets in offshore China in 2014 and also controls two small-scale gas projects in the Tarim Basin.

In terms of other independent players aiming to build upstream oil and gas businesses onshore China, there are various models out there, such as:

- Large international players looking to secure a foothold in the Chinese unconventional and tight gas business, such as US player EOG Resources and Japan's Mitsubishi Corp.

- Smaller regional E&P companies, listed in Singapore, such as RH Petrogas, chasing oil-led EOR partnership opportunities with the NOCs on existing field complexes, such as Daqing.

- There are also foreign listed coalbed methane players, such as Hong Kong-listed Green Dragon Gas and Australian-listed Sino Gas and Energy, which are hoping to build position in a niche market.

- And others, such as Sinowave, which are locally privately owned entities without oil and gas backgrounds that are able to leverage local knowledge to gain opportunistic upstream footholds.

Conventional onshore upstream oil industry in China has long been dominated by the tradition 'big three' NOCs, and largely closed to other domestic and international investors, this is changing, with the growth of Yanchang. Another tentative step in China's long-awaited reform of the upstream sector was a new concession round launched in July 2015. In this round, MOLR launched concessions for six blocks in the Xinjiang Uygur Autonomous Region, northwestern China on 7 July 2015. This round suggests the MOLR is serious about increasing competition for the traditional 'big three' NOCs, promoting mixed ownership and diversifying the sources of upstream investment.

Opportunities for independent operators

Going forward, Wood Mackenzie expects there to be more upstream opportunities to emerge for smaller players, like the Xilin Gol League Hongbo Mining Development Co., Ltd. (the "**PRC Target**"), with local representation, partners or contacts. This will be because the traditional NOCs will look both to reduce their spend and focus on non-core areas – potentially divesting some assets – and also bring in more local partners to share capital commitments. Expertise in challenging niche plays – such as EOR – will also be welcome.

Wood Mackenzie considers that, the key success factors of independent players, like the PRC Target, in the onshore China E&P industry are very diverse and may include:

- having a clearly defined corporate strategy,

- having the necessary financial strength, and

- having a good management team that has capabilities to handle both the below ground (technical) and above ground (political, local knowledge, cost) challenges in operating upstream petroleum assets in China.

Engagement of Wood Mackenzie

Wood Mackenzie, a global leader in commercial intelligence for the energy, metals and mining industries, and an independent third party not connected with the Company, was engaged by the Company at the fee of US$115,000 to conduct an analysis of and report on the global and China oil industry for the purpose of this circular, from which information was extracted for inclusion in this section.

For more than forty years, Wood Mackenzie has assessed and valued thousands of individual assets and companies around the world, evaluating economic indicators and analysing market supply, demand and price trends. Wood Mackenzie's approach to producing its reports and forecasts is to conduct primary research, supported by a range of data and information available in the public domain and our in-house deep industry and regional knowledge. This allows Wood Mackenzie to generate high-quality proprietary information and analysis, using its proprietary models, and insightful commentary on all the main global and country specific trends.

REGULATIONS OVER THE USE OF LAND

The PRC government carries out comprehensive regulations over the use of land by enterprises and individuals within the PRC by implementing such laws and regulations as the Regulation on the Implementation of the Land Administration Law of the People's Republic of China (《中華人民共和國土地管理法實施條例》) and the Interim Regulation of the PRC Concerning Granting and Transferring of State-Owned Land Use Rights in Urban Areas (《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》), which set out elaborate provisions over the ownership, administration, protection and development of land in the PRC and other relevant matters.

All land in the PRC is either state-owned or collectively owned by local farmers, while all land in the urban areas of a city or town is state-owned. In addition, all land in rural and suburban areas are, unless otherwise specified by law as state-owned, collectively owned by local farmers. In principle, any enterprise or individual who wishes to use land for non-agricultural construction shall apply for the use of state-owned land. However, land collectively-owned by local farmers, upon approval, can be used for the construction of township enterprises, houses for local villagers, public facilities of townships (towns) or public welfare establishments. In the event that a construction project requires the use of land collectively owned by local farmers, which involves conversion of farming land to construction land, it is necessary to go through examination and approval procedures for the conversion of use.

Land users who have acquired land use rights may transfer, lease out, or mortgage their land use rights during the term of the use rights, or otherwise use such rights in other economic activities, such legitimate rights and interests of which are protected by law. The maximum terms of various land-use rights are determined based on different uses of land as follows: (i) 70 years of residential land; (ii) 50 years of industrial land; (iii) 50 years of land for education, science, technology, culture, public health and sports; (iv) 40 years of land for commerce, tourism and entertainment; and (v) 50 years of land for comprehensive utilisation or other purposes. The State may not resume possession of the land-use rights lawfully granted to land users prior to expiration of the term of grant. If the public interest requires the resumption of possession by the State under special circumstances during the term of grant, the State shall do so in accordance with legal procedures and pay such compensation as determined based on the remaining term and actual condition of the development and use of the land.

For the purposes of project construction or geological survey, enterprises may obtain temporary use of state-owned land or land collectively-owned by local farmers provided that the certain conditions are satisfied including: (i) having obtained approval from the land administrative department of the government at or above the county level; (ii) land users having signed contracts with rural economic collective organisations or village committees (depending on the ownership of land) for the temporary use of land; (iii) payment of compensation fees as stipulated in the contracts for the temporary use of land. Temporary users of the land shall use the land according to the purposes agreed upon in the relevant temporary land use contract and no permanent structure is allowed to be erected thereon. The term for the temporary use of land shall generally not exceed two years, and temporary users shall restore the planting conditions of the land within one year from the date of expiry of temporary land use.

OIL EXPLORATION AND EXPLOITATION

Oil exploration and exploitation in the PRC are subject to extensive governmental regulation, with main applicable regulations including the Mineral Resources Law of the PRC (《中華人民共和國礦產資源法》), the Rules for the Implementation of the Mineral Resources Law of the PRC (《中華人民共和國礦產資源法實施細則》), the Administrative Measures on Registration of Tenement of Mineral Resources Exploration (《礦產資源勘查區塊登記管理辦法》) and the Administrative Measures for the Registration of Mining of Mineral Resources (《礦產資源開採登記管理辦法》).

Pursuant to the Mineral Resources Law of the PRC (《中華人民共和國礦產資源法》), mineral resources located within the PRC are owned by the State with the State Council exercising ownership over such resources on behalf of the State. The MOLR exercises its administrative authority over the exploration and production of mineral resources within the PRC, including the authority to issue exploration and production permits. An enterprise that intends to explore and exploit mineral resources shall apply for each exploration and production permits separately and be subject to approval according to law, and is required to undergo the registration procedures for each of the exploration and production permits.

Exploration and production permits are generally not transferable, except for the following two circumstances: (i) exploration permits holders have the right to carry out specified explorations in the designated areas and the priority to obtain production permits for mineral resources within the exploration areas. Exploration permits holders may, subject to approval, transfer their exploration permits to other parties after fulfilling the requirement of specified minimum input to exploration; (ii) in case a mining enterprise with production permits will have to change the owner of the production permits due to merger, spin-off, or joint venture or cooperative operation with other parties, or asset sale or other changes altering ownership of its assets, it may transfer its production permits to other parties for exploitation upon approval. Under law, no one is permitted to scalp exploration and production permits for profit.

Exploration permits applicants shall register the blocks to be explored with MOLR. The PRC adopts the compensated obtainment for exploration permits, and exploration permit holders shall pay exploration permit royalties within specified time in accordance with laws and regulations. Royalties for exploration permits are calculated based on the size of the block on a prospecting year basis and payable on an annual basis, that is, RMB100 per year for every square kilometer for the period from the first year to the third year of exploration and an increase of RMB100 per year for every square kilometer from the fourth year of exploration onwards but the maximum amount shall not exceed RMB500 per year for every square kilometer.

Petroleum exploration permits are valid for a maximum of seven years. When it is necessary to extend the time for the exploration work, the exploration permit holder shall file for the extension with competent registration and administration authorities 30 days prior to the expiration of the exploration permit. The duration of each extension shall not exceed 2 years. Should any holder of exploration permits fail to go through the formalities of registration for extension upon expiry, the exploration permit shall automatically be terminated.

Before submitting applications for production permits, production permit applicants shall apply to the relevant registration and administration authorities for the demarcation of mining areas in accordance with an approved reserve report. The PRC adopts the compensated obtainment for production permits, and production permit holders shall pay production permit royalties within specified time in accordance with laws and regulations. Royalties for production permits are payable on an annual basis based on the size of the mining area at the rate of RMB1,000 per year for every square kilometre.

For mineral resources mining, reasonable mining sequences and methods and ore processing techniques shall be adopted. Any mining enterprise which carries out mining activities beyond its approved mining area shall return to its mining area and pay compensation for any losses so caused, and the extracted minerals and illegal income outside approved areas shall be confiscated. If the mining enterprise refuses to return to its approved mining area for mining activities and causes damages against mineral resources, its production permit may be revoked and persons directly responsible for such offences may be subject to criminal liabilities.

PRODUCTION SAFETY

The PRC government supervises and regulates enterprise production safety through implementing laws and regulations, such as the Production Safety Law of the PRC (《中華人民共和國安全生產法》), the Regulations on Work Safety Permit of the PRC (《中華人民共和國安全生產許可證條例》) and the Measures on the Withholding and Usage of Safety Production Fees of Enterprises (《企業安全生產費用提取和使用管理辦法》). Those laws and regulations set out the standards for design, implementation and approval of enterprise production safety systems and safety facilities and for emergency response mechanisms and other aspects.

The Production Safety Law of the PRC (《中華人民共和國安全生產法》) sets out stringent production safety requirements for mining operations, including (i) mining entities shall establish an administrative organ for production safety or have full-time personnel for the administration of production safety; (ii) persons in charge of production safety must pass production safety examinations; (iii) safety assessment shall be done for mining construction projects according to the relevant regulations; (iv) the safety facility designs of mining construction projects shall be subject to the examination and approval of the relevant departments according to the relevant regulations; (v) safety facilities shall be constructed according to the approved safety facility designs and the construction entities shall be responsible for the construction quality; (vi) after a mining construction project is completed, but before it is put into production or use, the safety facilities constructed for the project shall be subject to review and approval according to the relevant laws and administrative regulations; and (vii) mining entities shall establish emergency rescue organisations. If a production or business operation is small in scale, it may designate part-time emergency rescue personnel instead of establishing an emergency rescue organisation. Mining entities shall always be equipped with regularly serviced and maintained rescue and emergency equipment.

Pursuant to the Measures on the Withholding and Usage of Safety Production Fees of Enterprises (《企業安全生產費用提取和使用管理辦法》), enterprises engaged in high-risk industries must set aside funds as safety fees. For a mineral enterprise which produces petroleum, a safety fee equal to RMB17 per tonne of crude oil produced must be set aside monthly. When the balance of the safety fee account for the previous year amounts to 5% for a small or medium-sized enterprise or micro-enterprise, or 1.5% for a large enterprise, of sales revenue of such enterprise for the previous year, such enterprise may defer or reduce contributions to the safety fee account in the current year, subject to approval by local production safety supervision and management authorities and finance authorities at county level or above.

ENVIRONMENTAL PROTECTION

The PRC government has implemented laws and regulations, such as the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》), the Implementing Rules on the Law of the PRC on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法實施細則》), the Law of the PRC on Prevention and Control of Air Pollution (《中華人民共和國大氣污染防治法》), the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste Materials (《中華人民共和國固體廢物污染環境防治法》) and the Administrative Provisions on Completion Inspection Concerning Environment Protection in Construction Projects (《建設竣工項目環境驗收管理辦法》), for regulating emissions control, waste discharges to surface and subsurface water and the generation, treatment, storage, transportation, disposal and discharge of solid wastes.

An enterprise is required to register or file an environmental impact report with the relevant environmental protection bureau for approval before it undertakes the construction of any new production facility or any major expansion or renovation of an existing production facility. Upon the completion of the subject of the construction project, its ancillary environmental protection facilities shall be put into production or operation in tandem with the subject. Where trial production is needed, the ancillary environmental protection facilities shall be put into trial operation in tandem with the subject.

The State implements the pollutant emission licence administration system in accordance with the provisions of the law. Enterprises under the pollutant emission licence administration shall discharge pollutants according to the requirements in their pollutant emission licences and shall not discharge pollutants without obtaining the pollutant emission licence.

LAND RECLAMATION

An oil exploration and exploitation enterprise is required to undertake the land reclamation obligations including land rehabilitation, which has been provided for by relevant laws and regulations, such as the Mineral Resources Law of the PRC (《中華人民共和國礦產資源法》) and the Implementation Rules of the Mineral Resources Law of the PRC (《中華人民共和國礦產資源法實施細則》).

In mining mineral resources, a mining enterprise or individual must observe the legal provisions on environmental protection to prevent environmental pollution. In mining mineral resources, a mining enterprise or individual must economically utilise land. In case cultivated land, grassland or forest land is damaged due to mining, the mining enterprise concerned shall take appropriate and flexible measures to utilise the affected land, including reclamation, and tree and grass plantation. If mining mineral resources results in losses to the production and well-being of other persons, compensations shall be made and necessary remedial measures shall be adopted.

If a mining enterprise is contemplated to be closed down, upon approval thereof, the mining enterprise should complete the following work: (1) to sort and file geological, measuring and mining information in accordance with the relevant governmental regulations and to summarise and deliver a mine-closing geological report, a mine closure report and other related information; and (2) to complete the relevant labor safety, the conservation of water and soil, land rehabilitation and environmental protection work, or to fully pay the relevant costs of land rehabilitation and environmental protection in accordance with the approved mine closure report.

TAXATION REGULATION

In accordance with laws and regulations, such as the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), the Provisional Regulations on Resources Tax of the PRC (《中華人民共和國資源稅暫行條例》), the Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》), the Tentative Regulations of the PRC on Land Use Tax in respect of Urban and Town Land (《中華人民共和國城鎮土地使用稅暫行條例》) and the Tentative Regulations on Stamp Duty (《印花稅暫行條例》), an enterprise undertaking oil exploration and exploitation in the PRC is required to pay various taxes.

In accordance with the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), in the PRC, enterprises and other organisations generating income are the taxpayers of enterprise income tax; in accordance with the Provisional Regulations on Resources Tax of the PRC (《中華人民共和國資源稅暫行條例》), all enterprises and individuals exploiting crude oil within the territory and jurisdictional seas of the PRC shall pay a resource tax at 5% to 10% of their sales; in accordance with the Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》), all enterprises and individuals that engage in the sale of goods, provision of processing, repair and replacement services and the importation of goods within the territory of the PRC must pay value-added tax. Any enterprise and individual that pays product tax, value-added tax or business tax shall be the taxpayer of municipal maintenance and construction tax and education surcharges and shall pay the municipal maintenance and construction tax and education surcharges in accordance with the rules; in accordance with the Tentative Regulations of the PRC on Land Use Tax in respect of Urban and Town Land (《中華人民共和國城鎮土地使用稅暫行條例》) and Provisional Regulations of the PRC on Real Estate Tax (《中華人民共和國房產稅暫行條例》), all entities and individuals that use land within the boundaries of cities, counties, towns operated under an organisational system and mining industrial districts shall be the taxpayer for urban and township land use tax and shall pay the land use tax in accordance with the rules and real estate tax shall be imposed in cities, counties, designated towns and industrial mining zones; in accordance with the

Tentative Regulations of the PRC on Stamp Duty (《中華人民共和國印花稅暫行條例》), all entities and individuals that create and obtain such documents listed in the Tentative Regulations of the PRC on Stamp Duty (《中華人民共和國印花稅暫行條例》) within the territory of the PRC shall be the obligatory taxpayers of stamp duty and shall pay the stamp duty in accordance with rules.

Under current PRC Law, there is no taxation in the nature of inheritance tax or estate duty.

TAXES ON THE OIL INDUSTRY

In accordance with the administrative measures on the Imposition of Special Oil Income Levy (《石油特別收益金徵收管理辦法》), all enterprises which independently exploit crude oil and sell them in the inland territory and jurisdictional seas of the PRC shall be obliged to pay special oil income levy. In accordance with the Notice on the Adjustment of Imposition Method of Special Oil Income Levy by Ministry of Finance (Cai Qi [2012] No. 42) (《財政部關於調整石油特別收益金徵收方式的通知》) and the Notice on the Increase of the Imposition Threshold of Special Oil Income Levy by Ministry of Finance (Cai Shui [2014] No. 115) (《財政部關於提高石油特別收益金起徵點的通知》), from 1 January 2015 the applicable imposition level of special oil income levy shall be determined in proportion to the income achieved by any oil producer from the sales of domestic crude oil at a price higher than US$65 per barrel and the special oil income levy shall be levied according to five-level progressive and valorem rates on the excess amounts and calculated on a monthly basis, filed on a quarterly basis and paid on a monthly basis.

LABOR AND SOCIAL INSURANCES AND HOUSING PROVIDENT FUND

The PRC labor laws and rules mainly include the Labor Law of the PRC (《中華人民共和國勞動法》), the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》), the Implementation Regulations on the Labor Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》), the Regulations on Occupational Injury Insurance (《工傷保險條例》), the Interim Provisions on Registration of Social Insurance (《社會保險登記管理暫行辦法》) and the Interim Regulations of the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》).

In accordance with the Labor Law of the PRC (《中華人民共和國勞動法》) and the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》), employers must enter into labor contracts with their employees to establish the employment relationship. The amount of wages paid by employers to their employees shall not be lower than local minimum wage standards. Employers must establish its labor safety and sanitation system that is in strict compliance with national rules, and provide trainings to their employees in respect of the safety of workspace. Violation of the Labor Law of the PRC (《中華人民共和國勞動法》) and the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》) may result in the imposition of fines and other administrative liabilities. Criminal liability may be incurred in serious cases.

In accordance with the requirements of the Regulations on Occupational Injury Insurance (《工傷保險條例》), the Provisional Insurance Measures for Maternity of Employees (《企業職工生育保險試行辦法》), the Interim Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》), the Interim Provisions on Registration of Social Insurance (《社會保險登記管理暫行辦法》) and the Regulations on Management of Housing Provident Fund (《住房公積金管理條例》), all employers are liable to provide benefit schemes for the Chinese employees, including pension insurance, unemployment insurance, maternity insurance, work-related injury insurance, medical insurance and housing provident fund.

FOREIGN EXCHANGE REGULATIONS

In accordance with the provisions of the Regulations on the Control of Foreign Exchange of the PRC etc (《中華人民共和國外匯管理條例》), overseas entities and foreigners who undertake direct investments within the PRC shall go through the foreign exchange registration procedure with local banks after obtaining approval from the relevant competent department. If a domestic company needs to remit its profits out of the PRC, it may directly process the purchase and payment of foreign exchange at banks after the completion of the aforesaid registration.

The PRC implements a scale management on foreign debts. Foreign-invested enterprises may borrow foreign loans at its own discretion within the limits of difference between the total investment quota and the registered capital, which shall be registered with relevant foreign exchange authorities within 15 working days after the signing of foreign loan agreement. Before reserving the foreign exchange income under the capital items or selling it to any financial institution operating foreign exchange sale of settlement business, approval of the competent foreign exchange administrative authorities shall be obtained. Foreign exchange and foreign exchange settlement funds under the capital account are required to be used only for purposes as approved by the competent authorities and foreign exchange administrative authorities.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

29 June 2016

The Directors
Shun Cheong Holdings Limited

REORIENT Financial Markets Limited
BOSC International Company Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Xilin Gol League Hongbo Mining Development Co., Ltd. (the "**PRC Target**") which comprise the statements of financial position as at 31 December 2013, 2014 and 2015 and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the cash flow statements, for each of the years ended 31 December 2013, 2014 and 2015 (the "**Relevant Periods**"), and a summary of significant accounting policies and other explanatory information (the "**Financial Information**"), for inclusion in the circular of Shun Cheong Holdings Limited (the "**Company**") dated 29 June 2016 (the "**Circular**") in connection with the proposed acquisition of the entire equity of the PRC Target.

The PRC Target was established in the People's Republic of China (the "**PRC**") on 29 July 2008 as a company with limited liability under the Company Law of the PRC.

The PRC Target has adopted 31 December as its financial year end date. The statutory financial statements of the PRC Target for the years ended 31 December 2013, 2014 and 2015 were prepared in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC and were audited by Xilinhot Anxin Certified Public Accountants (錫林浩特安信會計師事務所).

The directors of the PRC Target have prepared the financial statements of the PRC Target for the Relevant Periods (the "**Underlying Financial Statements**") in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). The Underlying Financial Statements for each of the years ended 31 December 2013, 2014 and 2015 were audited by KPMG Huazhen LLP (畢馬威華振會計師事務所(特殊普通合夥)) in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information has been prepared by the directors of the Company for inclusion in the Circular in relation to the acquisition of the entire equity interest in the PRC Target by the Company based on the Underlying Financial Statements with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with HKFRSs issued by the HKICPA and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of the PRC Target in respect of any period subsequent to 31 December 2015.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the financial position of the PRC Target as at 31 December 2013, 2014 and 2015 and of the PRC Target's financial performance and cash flows for the Relevant Periods then ended.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw your attention to Note 2(b) of Section B to the Financial Information which indicates that the PRC Target incurred a loss of RMB24,594,000 for the year ended 31 December 2015 and had net current liabilities of RMB252,748,000 as at 31 December 2015. These conditions indicate the existence of material uncertainties which may cast significant doubt on the PRC Target's ability to continue as a going concern.

The Financial Information has been prepared on a going concern basis, the validity of which is dependent on the availability of the ongoing financial support from the PRC Target's banker and its shareholder, Shanghai Hongbo Investment & Management (Group) Co., Ltd, and the successful completion of the Proposed Transactions (as defined in Note 1 of Section B to the Financial Information) to enable the PRC Target to operate as a going concern and meet its financial liabilities as they fall due for the foreseeable future. The Financial Information does not include any adjustments that would result should the PRC Target be unable to continue to operate as a going concern.

A. FINANCIAL INFORMATION OF THE PRC TARGET

1. STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Years ended 31 December		
	Section B	**2013**	**2014**	**2015**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*4*	232,176	191,341	98,761
Cost of sales		(157,112)	(118,547)	(88,773)
Gross profit		75,064	72,794	9,988
Other net loss	*5*	(23)	—	(20)
Exploration expenses, including dry holes		(26,187)	(11,238)	(1,215)
Taxes other than income tax	*6*	(17,973)	(15,406)	(6,897)
Administrative expenses		(39,251)	(40,832)	(18,026)
(Loss)/profit from operations		(8,370)	5,318	(16,170)
Finance income		59	29	108
Finance costs	*7(a)*	(14,600)	(15,000)	(9,131)
Net finance costs		(14,541)	(14,971)	(9,023)
Loss before taxation	*7*	(22,911)	(9,653)	(25,193)
Income tax	*8(a)*	(2,536)	(3,415)	599
Loss and total comprehensive income for the year		(25,447)	(13,068)	(24,594)

The accompanying notes form part of the Financial Information.

2. STATEMENTS OF FINANCIAL POSITION

		31 December		
	Section B Note	**2013** *RMB'000*	**2014** *RMB'000*	**2015** *RMB'000*
Non-current assets				
Property, plant and equipment	*11*	603,334	542,145	488,601
Construction in progress	*12*	3,398	3,398	108
Intangible assets	*13*	26,982	25,924	24,916
Lease prepayments	*14*	4,219	9,692	9,436
Other non-current assets	*15*	15,350	25,523	32,009
Deferred tax assets	*23(b)*	3,415	—	599
		656,698	606,682	555,669
Current assets				
Inventories	*16*	4,349	4,302	6,456
Trade receivables	*17*	34,956	35,000	43,180
Prepaid expenses and other current assets	*18*	39,005	68,259	17,963
Current tax recoverable	*23(a)*	—	—	22,000
Cash and cash equivalents	*19*	10,686	7,341	12,498
		88,996	114,902	102,097
Current liabilities				
Bank and other borrowings	*20*	183,326	185,656	90,000
Trade payables	*21*	165,338	168,205	144,435
Accrued expenses and other payables	*22*	271,935	260,336	120,410
		620,599	614,197	354,845
Net current liabilities		(531,603)	(499,295)	(252,748)
Total assets less current liabilities		125,095	107,387	302,921
Non-current liabilities				
Provisions	*24*	48,760	44,120	32,728
NET ASSETS		76,335	63,267	270,193
CAPITAL AND RESERVES				
Paid-in capital	*25(a)*	203,400	203,400	434,920
Reserves		(127,065)	(140,133)	(164,727)
TOTAL EQUITY		76,335	63,267	270,193

The accompanying notes form part of the Financial Information.

3. STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital	Capital reserve	Specific reserve	Accumulated losses	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 25(a)	*Note 25(b)*	*Note 25(b)*		
Balance at 1 January 2013	203,400	21,394	1,008	(124,020)	101,782
Changes in equity:					
Loss and total comprehensive income for the year	—	—	—	(25,447)	(25,447)
Appropriation of safety production fund	—	—	1,154	(1,154)	—
Utilisation of safety production fund	—	—	(43)	43	—
Balance at 31 December 2013	203,400	21,394	2,119	(150,578)	76,335
Changes in equity:					
Loss and total comprehensive income for the year	—	—	—	(13,068)	(13,068)
Appropriation of safety production fund	—	—	1,004	(1,004)	—
Utilisation of safety production fund	—	—	(167)	167	—
Balance at 31 December 2014	203,400	21,394	2,956	(164,483)	63,267
Changes in equity:					
Loss and total comprehensive income for the year	—	—	—	(24,594)	(24,594)
Capitalisation of amounts due to shareholders *(Note 19(b))*	231,520	—	—	—	231,520
Appropriation of safety production fund	—	—	967	(967)	—
Balance at 31 December 2015	434,920	21,394	3,923	(190,044)	270,193

The accompanying notes form part of the Financial Information.

4. CASH FLOW STATEMENTS

		Years ended 31 December		
	Section B	**2013**	**2014**	**2015**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Operating activities				
Loss before taxation		(22,911)	(9,653)	(25,193)
Adjustments for:				
Depreciation		97,440	62,090	43,876
Amortisation		2,738	2,663	2,848
Finance costs		14,481	14,400	8,923
Net loss on disposal of property, plant and equipment		23	—	20
Changes in working capital:				
Decrease/(increase) in inventories		3,032	47	(2,154)
Increase in trade receivables		(28,539)	(44)	(8,180)
(Increase)/decrease in prepaid expenses and other current assets		(9,794)	2,539	13,679
Increase/(decrease) in trade and other payables		47,339	9,386	(45,408)
Net cash generated from/(used in) operating activities		103,809	81,428	(11,589)
Investing activities				
Payment for the purchase of property, plant and equipment and intangible assets		(60,332)	(15,408)	(37,360)
Lease prepayments		—	(5,670)	—
Proceeds from disposal of property, plant and equipment		100	—	—
Net cash used in investing activities		(60,232)	(21,078)	(37,360)

	Section B Note	Years ended 31 December 2013 RMB'000	2014 RMB'000	2015 RMB'000
Financing activities				
Proceeds from advances and borrowings		218,780	253,395	167,179
Repayment of advances and borrowings		(258,104)	(309,625)	(110,990)
Interest paid		(2,320)	(7,465)	(2,083)
Net cash (used in)/generated from financing activities		(41,644)	(63,695)	54,106
Net increase/(decrease) in cash and cash equivalents		1,933	(3,345)	5,157
Cash and cash equivalents at the beginning of the year		8,753	10,686	7,341
Cash and cash equivalents at the end of the year	*19(a)*	10,686	7,341	12,498

The accompanying notes form part of the Financial Information.

B. NOTES TO FINANCIAL INFORMATION

1. BACKGROUND INFORMATION

Xilin Gol League Hongbo Mining Development Co., Ltd. (the "**PRC Target**") was established in the People's Republic of China (the "**PRC**") on 29 July 2008. The registered office and principal place of business of the PRC Target is Kulun South Road, Wuliyasitai Town, East Ujimqin Banner, Xilin Gol League, Inner Mongolia, the PRC.

At 31 December 2015, the PRC Target was held as to 60% by Shanghai Hongbo Investment & Management (Group) Co., Ltd (上海宏博投資管理(集團)有限公司, "**Hongbo Investment**") and 40% by Shanghai Lida Investment Management Company Limited (上海立大投資管理有限公司, "**Lida Investment**"). Lida Investment is 95% owned by Hongbo Investment.

The PRC Target is mainly engaged in the exploration, development, production and sale of crude oil through production cooperation contract in the PRC. The PRC Target entered into an exploration and production cooperation contract ("**EPCC**") with Shaanxi Yanchang Petroleum (Group) Company Limited (Yanchang Oil Mineral Administrative Bureau) (陝西延長石油(集團)有限責任公司(延長油礦管理局), "**Yanchang**") in July 2010. The EPCC gives the PRC Target the right to explore, develop, produce and sell the crude oil extracted from the two blocks (Block 212 and Block 378) located at Xilin Gol League, Inner Mongolia (the "**Area**"). Pursuant to the EPCC, all the capital expenditures and operation costs in relation to the Area shall be borne by the PRC Target and the revenue generated from the sales of crude oil extracted from the two blocks shall be shared between the PRC Target and Yanchang in the proportion of 80% and 20% respectively. The PRC Target commenced production in Block 212 during 2010. The PRC Target had not incurred significant exploration work in respect of Block 378 during the Relevant Periods.

Yanchang holds the mineral right in respect of the Area pursuant to two exploration permits granted by the Ministry of Land and Resources of the PRC ("**MOLR**") to it. The current exploration permit of Yanchang in respect of Block 212 will expire on 5 March 2017, and the current exploration permit of Yanchang in respect of Block 378 will expire on 9 November 2017. The EPCC was renewed in July 2012, June 2015 and February 2016 respectively and the expiry date of the EPCC is extended to 30 June 2018. Current production and development in Block 212 rely upon the exploration permit held by Yanchang for Block 212 and Yanchang's successful application of the production permit in relation to the relevant areas within Block 212. Yanchang is in the process of applying to the MOLR for a production permit for Block 212. Based on legal advice, subject to the fulfilment of the relevant terms of the EPCC by the PRC Target, Yanchang is obliged to renew the EPCC with the PRC Target with reference to the effective period of the production permit (to be obtained by Yanchang), which is usually 20 years and shall be renewable upon expiration of the initial effective period.

On 22 June 2015 (and as further amended), the PRC Target's shareholders entered into an acquisition agreement with Shun Cheong Holdings Limited (the "**Company**") pursuant to which the Company conditionally agreed to acquire from the PRC Target's shareholders the entire equity interests in the PRC Target at a consideration of RMB558,880,000 which shall be satisfied in cash upon completion of the acquisition (the "**Acquisition**"). The completion of the Acquisition is subject to certain conditions precedent and the completion of certain other agreements entered into by the Company ("**Proposed Transactions**"). As of the date of this report, the Acquisition is not completed.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Financial Information, the PRC Target has adopted all applicable new and revised HKFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting year beginning 1 January 2015. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning 1 January 2015 are set out in Note 33.

The Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) Going concern

During the year ended 31 December 2015, the PRC Target incurred a loss of RMB24,594,000. In addition, as at 31 December 2015, the PRC Target had net current liabilities of RMB252,748,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the PRC Target's ability to continue as a going concern and therefore the PRC Target may be unable to realise its assets and discharge their liabilities in the normal course of business.

In determining the appropriate basis of preparation of the Financial Information, the directors of the Company have reviewed the PRC Target's cash flow projections for the twelve months ending 31 December 2016. They are of the opinion that, taking into account the following measures, the PRC Target will have sufficient working capital to meet its financial obligations as and when they fall due and committed future capital expenditures within the next twelve months from the reporting period end date:

(i) Under the terms of the agreements entered into in connection with the Proposed Transactions and subject to the successful completion of the Proposed Transactions, the Company will raise proceeds from issue of new shares from certain subscribers. It is expected that the Company will provide funding amounting to approximately RMB798,000,000 for the PRC Target's working capital. The completion of the Proposed Transactions is subject to certain conditions including approvals by the Listing Committee of The Hong Kong Stock Exchange Limited and the independent shareholders of the Company; and

(ii) The PRC Target's shareholder, Hongbo Investment, has undertaken to provide continuing financial support to the PRC Target for, at least, the next twelve months from the reporting period end date should the Proposed Transactions not proceed.

Given the above, the directors of the Company consider it appropriate to prepare the Financial Information on a going concern. However, should the PRC Target be unable to continue to operate as a going concern, adjustments would be required that could have a material impact to the Financial Information. The effect of these adjustments has not been reflected in the Financial Information.

(c) Basis of measurement

The Financial Information is presented in Renminbi ("**RMB**"), rounded to the nearest thousand. It is prepared on the historical cost basis.

(d) Use of estimates and judgements

The preparation of Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in Note 3.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses (Note 2(i)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, other than oil and gas properties, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Buildings and structures	40 years
Machinery and equipment	14 years
Motor vehicles	8 years
Other property, plant and equipment	3–5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Oil and gas properties for the relevant area are amortised on a unit-of-production basis over the shorter of the economic life of the recoverable reserves or the terms of the relevant production licences.

(f) Exploration and evaluation costs

Geological and geophysical costs are charged to profit or loss as incurred.

Costs directly associated with an exploration well are initially capitalised as exploration and evaluation assets until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors.

If no potentially commercial hydrocarbons are discovered, the exploration asset is written off through the profit or loss as a dry hole. If extractable hydrocarbons are found and, subject to further appraisal activity (e.g., the drilling of additional wells), it is probable that they can be commercially developed, the costs continue to be carried as exploration and evaluation assets while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons. Costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalised as exploration and evaluation assets.

Regular review is undertaken for each area to determine the appropriateness of continuing to carry forward accumulated capitalised exploration and evaluation expenditure. To the extent that capitalised exploration and evaluation expenditure is no longer expected to be recovered, it is charged to profit or loss.

No amortisation is charged during the exploration and evaluation phase.

When the technical feasibility and commercial viability of extracting natural resources become demonstrable, the relevant capitalised expenditure is first assessed for impairment and (if required) any impairment loss is recognised, then the remaining balance is transferred to property, plant and equipment — oil and gas properties.

(g) Intangible assets

Intangible assets that are acquired by the company are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(i)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss. Cooperation right is amortised on a unit-of-production basis over the shorter of the economic life of the recoverable reserves or the expected terms of the relevant production licences to be granted.

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the company determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the company

Assets that are held by the company under leases which transfer to the company substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the company are classified as operating leases.

(ii) Operating lease charges

Where the company has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Lease prepayments represent land use rights paid to the relevant government authorities. Land use rights are carried at cost less accumulated amortisation and impairment losses (see Note 2(i)). The cost of lease prepayments is amortised on a straight line basis over the respective periods of the land use rights.

(i) Impairment of assets

(i) Impairment of receivables

Current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the company about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised. Impairment loss on current and non-current receivables carried at amortised cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

For impairment losses recognised in respect of trade debtors, whose recovery is considered doubtful but not remote, the impairment losses for doubtful debts are recorded using an allowance account. When the company is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— construction in progress;

— intangible assets; and

— lease prepayments

If any such indication exists, the asset's recoverable amount is estimated.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the cash-generating unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method less allowance for impairment of doubtful debts (see Note 2(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(o) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the company can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Provisions for future dismantlement costs are initially recognised based on the present value of the future costs expected to be incurred in respect of the company's expected dismantlement and abandonment costs at the end of related oil and gas exploration and development activities. Any subsequent change in the present value of the estimated costs, other than the change due to passage of time which is regarded as interest cost, is reflected as an adjustment to the provision and the oil and gas properties.

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) Related parties

(a) A person, or a close member of that person's family, is related to the company if that person:

(i) has control or joint control over the company;

(ii) has significant influence over the company; or

(iii) is a member of the key management personnel of the company or the company's parent.

(b) An entity is related to the company if any of the following conditions applies:

(i) The entity and the company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the company or an entity related to the company.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity provides key management personnel services to the company or to the company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the company's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the company's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The PRC Target is engaged in the development, production and sale of crude oil. The PRC Target's most senior executive management regularly review its financial statements to assess the performance and make resource allocation decisions. Accordingly, no segment information is presented.

All of the PRC Target's external customers and non-current assets are located in the PRC.

3. ACCOUNTING JUDGEMENTS AND ESTIMATES

Key sources of estimation uncertainty are as follows:

(a) Oil and gas properties and reserves

The accounting for the exploration and production's oil and gas activities is subject to accounting rules that are unique to the oil and gas industry. Engineering estimates of the PRC Target's oil and gas reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated oil and gas reserves can be designated as "proved". Proved and proved developed reserves estimates are updated at least annually and take into account recent production and technical information about each field. In addition, as prices and cost levels change from year to year, the estimate of proved and proved developed reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in relation to depreciation rates.

Future dismantlement costs for oil and gas properties are estimated with reference to engineering estimates after taking into consideration the anticipated method of dismantlement required in accordance with industry practices in similar geographic area, including estimation of economic life of oil and gas properties, technology and price level. The present values of these estimated future dismantlement costs are capitalised as oil and gas properties with equivalent amounts recognised as provisions for dismantlement costs.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expense, impairment loss and future dismantlement costs. Depreciation rates are determined based on estimated proved developed reserve quantities (the denominator) and capitalised costs of producing properties (the numerator). Producing properties' capitalised costs are amortised based on the units of oil or gas produced.

(b) Impairment losses of non-current assets

If circumstances indicate that the carrying amount of a non-current asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised. The carrying amounts of non-current assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets or cash-generating units are not readily available. In determining the value in use, expected cash flows generated by the asset or the cash-generating unit are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. Management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

(c) Depreciation

Property, plant and equipment, other than oil and gas properties, are depreciated on a straight line basis over the estimated useful lives of the assets, after taking into account the estimated residual values, if any. The PRC Target reviews the estimated useful lives and the residual values of the assets regularly in order to determine the amount of depreciation charge to be recorded during any reporting period. The determination of the useful lives and the residual values are based on the PRC Target's historical experience with similar assets and taking into account anticipated technological changes. The depreciation charge for future periods is adjusted if there are significant changes from previous estimates.

4. REVENUE

The PRC Target is engaged in the development, production and sale of crude oil. Revenue represents the sales value of goods supplied to customers, net of value added tax. The PRC Target only has one customer during the Relevant Periods.

5. OTHER NET LOSS

	Years ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Net loss on disposal of property, plant and equipment	23	—	20

6. TAXES OTHER THAN INCOME TAX

	Years ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Special oil income levy	3,236	3,373	—
Resources tax	11,538	9,797	5,910
City construction tax	1,704	1,397	617
Education surcharge	1,375	839	370
Others	120	—	—
	17,973	15,406	6,897

7. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

(a) Finance costs

	Years ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Interest on bank and other borrowings	11,741	11,453	6,482
Accretion expenses *(Note 24)*	2,740	2,947	2,441
Bank charges	119	600	208
	14,600	15,000	9,131

(b) Staff costs

	Years ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, wages and other benefits	30,505	29,297	12,758
Contributions to defined contribution retirement plan	1,707	1,768	888
	32,212	31,065	13,646

Pursuant to the relevant labour rules and regulations in the PRC, the PRC Target participates in defined contribution retirement scheme (the "**Scheme**") organised by the relevant local government authority for their employees. The PRC Target is required to make contributions to the Scheme at 20% of basic salaries of the employees. The local government authority is responsible for the entire pension obligations payable to retired employees. The PRC Target has no other material obligation to make payments in respect of pension benefits associated with this scheme other than the annual contribution described above.

(c) Other items

	Years ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Amortisation			
— intangible assets	1,215	1,058	1,008
— lease prepayments	115	197	256
— other non-current assets	1,408	1,408	1,584
Depreciation			
— property, plant and equipment	97,440	62,090	43,876
Operating leases charges: minimum lease payments			
— buildings	1,815	1,943	800
Auditors' remuneration			
— audit service	50	50	50
Cost of inventories# *(Note 16(b))*	157,112	118,547	88,773

Cost of inventories includes RMB105,471,000, RMB69,970,000, and RMB49,981,000 relating to staff costs and depreciation and amortisation charges for the years ended 31 December 2013, 2014 and 2015 respectively, which amount is also included in the respective total amounts disclosed separately above or in Note 7(b) for each of these types of expenses.

8. INCOME TAX IN THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Taxation in the statement of profit or loss and other comprehensive represents:

	Years ended 31 December 2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Deferred tax			
Origination and reversal of temporary differences	2,536	3,415	(599)

(b) Reconciliation between tax expense and accounting loss at applicable tax rate:

	Years ended 31 December 2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Loss before taxation	(22,911)	(9,653)	(25,193)
Notional tax on loss before taxation at PRC corporate income tax rate	(5,728)	(2,413)	(6,298)
Effect of non-deductible expenses	2,650	9,278	5,746
Effect of unrecognised temporary differences and tax losses	5,614	(3,450)	(47)
Actual tax expense	2,536	3,415	(599)

The PRC Target is subject to PRC corporate income tax at the statutory rate of 25% during the Relevant Periods. No provision for PRC corporate income tax has been made as the PRC Target sustained losses for taxation purpose or there was tax loss available for offsetting taxable profit during the Relevant Periods.

9. DIRECTORS' REMUNERATION

Directors' remuneration during the Relevant Periods is as follows:

	Year ended 31 December 2013				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chairman					
Shi Wei	—	961	77	36	1,074
Directors					
Wang Ping	—	417	32	36	485
Shi Jianji	—	661	55	—	716
Supervisor					
Xu Wenqin	—	304	25	—	329
	—	2,343	189	72	2,604

	Year ended 31 December 2014				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chairman					
Shi Wei (resigned as Chairman on 22 October 2014)	—	785	33	31	849
Shi Jianji (appointed as Chairman on 22 October 2014)	—	101	4	—	105
Directors					
Wang Ping	—	402	20	37	459
Shi Jianji (resigned as director on 22 October 2014)	—	539	22	—	561
Shi Wei (appointed as director on 22 October 2014)	—	157	7	6	170
Supervisor					
Xu Wenqin	—	288	20	—	308
	—	2,272	106	74	2,452

	Year ended 31 December 2015				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chairman					
Shi Jianji *(note b)*	—	—	—	—	—
Directors					
Wang Ping	—	730	—	40	770
Shi Wei *(note b)*	—	—	—	—	—
Supervisor					
Xu Wenqin *(note b)*	—	—	—	—	—
	—	730	—	40	770

Notes:

(a) During the Relevant Periods, no emoluments were paid by the PRC Target to the directors (including supervisor) as an inducement to join or upon joining the PRC Target or as compensation for loss of office. No director or supervisor has waived or agreed to waive any emoluments during the Relevant Periods.

(b) Remuneration of these persons were borne by Hongbo Investment during the year ended 31 December 2015.

10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The number of directors, supervisor, non-directors and non-supervisors included in the five highest paid individuals for the years ended 31 December 2013, 2014 and 2015 are set forth below:

	Years ended 31 December		
	2013	**2014**	**2015**
Directors and supervisor	2	2	1
Non-directors and non-supervisors	3	3	4
	5	5	5

The emoluments of the directors (including supervisor) are disclosed in Note 9. The aggregate of the emoluments in respect of the remaining highest paid individuals are as follows:

	Years ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other emoluments	1,810	1,404	1,777
Discretionary bonuses	186	208	—
Retirement scheme contributions	—	37	59
	1,996	1,649	1,836

The emoluments of the non-directors and non-supervisors with the highest emoluments are within the following bands:

	Years ended 31 December		
	2013	**2014**	**2015**
Nil to HKD1,000,000 (Nil to RMB840,000)	3	3	4

During the Relevant Periods, no emoluments were paid by the PRC Target to the five highest paid individuals as an inducement to join or upon joining the PRC Target or as compensation for loss of office.

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings and structures	Machinery and equipment	Motor vehicle	Oil and gas properties	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:						
At 1 January 2013	88,434	54,838	8,035	538,095	13,324	702,726
Additions	120	4,415	1,048	8,751	4,531	18,865
Reassessment of provision *(Note 24)*	—	—	—	(176)	—	(176)
Transferred from construction in progress	4,146	—	—	92,572	—	96,718
Disposals	—	—	(494)	—	—	(494)
At 31 December 2013	92,700	59,253	8,589	639,242	17,855	817,639
Additions	264	162	511	—	1,397	2,334
Reassessment of provision *(Note 24)*	—	—	—	(7,587)	—	(7,587)
Transferred from construction in progress	1,200	—	—	4,954	—	6,154
At 31 December 2014	94,164	59,415	9,100	636,609	19,252	818,540
Additions	—	587	—	364	165	1,116
Reassessment of provision *(Note 24)*	—	—	—	(14,197)	—	(14,197)
Transferred from construction in progress	—	—	—	3,433	—	3,433
Disposals	—	—	—	—	(315)	(315)
At 31 December 2015	94,164	60,002	9,100	626,209	19,102	808,577
Accumulated depreciation:						
At 1 January 2013	(2,686)	(8,013)	(1,554)	(102,385)	(2,598)	(117,236)
Charge for the year	(1,947)	(4,361)	(1,329)	(87,084)	(2,719)	(97,440)
Written back on disposals	—	—	371	—	—	371
At 31 December 2013	(4,633)	(12,374)	(2,512)	(189,469)	(5,317)	(214,305)
Charge for the year	(2,309)	(4,545)	(997)	(51,065)	(3,174)	(62,090)
At 31 December 2014	(6,942)	(16,919)	(3,509)	(240,534)	(8,491)	(276,395)
Charge for the year	(2,394)	(4,576)	(1,071)	(32,861)	(2,974)	(43,876)
Written back on disposals	—	—	—	—	295	295
At 31 December 2015	(9,336)	(21,495)	(4,580)	(273,395)	(11,170)	(319,976)
Net book value:						
At 31 December 2013	88,067	46,879	6,077	449,773	12,538	603,334
At 31 December 2014	87,222	42,496	5,591	396,075	10,761	542,145
At 31 December 2015	84,828	38,507	4,520	352,814	7,932	488,601

During the Relevant Periods, certain property, plant and equipment with the following net book values have been pledged to bank to secure a credit facility granted to the PRC Target:

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Buildings	—	63,609	62,055

12. CONSTRUCTION IN PROGRESS

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	26,313	3,398	3,398
Additions	73,803	6,154	143
Transferred to property, plant and equipment	(96,718)	(6,154)	(3,433)
At the end of the year	3,398	3,398	108

13. INTANGIBLE ASSETS

	Cooperation right
	RMB'000
Cost:	
At 1 January 2013, 31 December 2013, 31 December 2014, and 31 December 2015	30,000
Accumulated amortisation:	
At 1 January 2013	(1,803)
Charge for the year	(1,215)
At 31 December 2013	(3,018)
Charge for the year	(1,058)
At 31 December 2014	(4,076)
Charge for the year	(1,008)
At 31 December 2015	(5,084)
Net book value:	
At 31 December 2013	26,982
At 31 December 2014	25,924
At 31 December 2015	24,916

14. LEASE PREPAYMENTS

Lease prepayments comprise interests in leasehold land held for own use under operating leases located in the PRC as follows:

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Land use rights held under medium-term leases	4,219	9,692	9,436

During the Relevant Periods, certain land use right with the following net book values has been pledged to bank to secure a credit facility granted to the PRC Target:

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Land use right	—	4,104	3,996

15. OTHER NON-CURRENT ASSETS

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Prepayments for construction in progress			
— a fellow subsidiary	—	—	3,000
— third parties	4,197	3,490	3,801
Performance deposit	5,455	5,455	5,455
Expenditures on public facilities	5,698	16,578	19,753
	15,350	25,523	32,009

16. INVENTORIES

(a) Inventories in the statement of financial position comprise:

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Spare parts and consumables	3,948	4,076	3,084
Finished goods	401	226	3,372
	4,349	4,302	6,456

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	Years ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount of inventories sold *(Note 7(c))*	157,112	118,547	88,773

17. TRADE RECEIVABLES

	31 December		
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables			
— third party	34,956	35,000	43,180

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

	31 December		
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Within 1 month	19,084	22,983	8,818
1–6 months	15,872	12,017	34,362
	34,956	35,000	43,180

According to the crude oil sales agreement, payment by the customer should be made one day in advance of each delivery. In June 2013, a supplementary agreement was signed by the PRC Target and the customer. Pursuant to the supplementary agreement, a guarantee deposit of RMB35,000,000 was paid by the customer to the PRC Target in return for a maximum 180 days credit period for an amount up to RMB35,000,000.

(b) Impairment of trade receivables

Impairment loss in respect of trade receivables is recorded using an allowance account unless the PRC Target is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivable (see Note 2(k)).

The ageing analysis of the PRC Target's trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	31 December		
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Neither past due nor impaired	34,956	35,000	35,000
Less than 1 month past due	—	—	8,180
	34,956	35,000	43,180

Receivables that were past due but not impaired relate to an independent customer that has a good track record with the PRC Target. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

(c) Transfer of financial assets

During the years ended 31 December 2013, 2014 and 2015, the PRC Target discounted certain trade receivables with an aggregate amount of RMB32,911,000, RMB98,799,000 and RMB32,891,000 to a bank for cash proceeds amounting to RMB29,600,000, RMB88,800,000 and RMB29,600,000 respectively. If the trade receivables are not paid at maturity, the bank has the right to request the PRC Target to pay the unsettled balance. As the PRC Target has not transferred the significant risks and rewards relating to these trade receivables, it continues to recognise the full carrying amount of the trade receivables and has recognised the cash received on the transfer as a secured borrowing.

At 31 December 2013, 2014 and 2015, the carrying amount of the trade receivables that have been transferred but have not been derecognised amounted to RMB32,911,000, RMB32,899,000 and Nil respectively, and the carrying amounts of the associated liability were RMB29,600,000, RMB29,600,000 and Nil respectively (see Note 20).

18. PREPAID EXPENSES AND OTHER CURRENT ASSETS

		31 December	
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Prepayment to suppliers	7,115	6,671	7,034
Value-added tax recoverable	2,900	—	974
Amounts due from related parties			
— holding company	—	19,671	—
— fellow subsidiaries	20,828	32,607	3,294
Others	8,162	9,310	6,661
	39,005	68,259	17,963

At 31 December 2013, 2014 and 2015, amounts due from related parties were unsecured, interest free and had no fixed terms of repayment.

All of the prepaid expenses and other current assets (including amounts due from related parties) are expected to be recovered or recognised as expense within one year.

19. CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

		31 December	
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Cash at bank and in hand	10,686	7,341	12,498

(b) Major non-cash transactions

During the year ended 31 December 2015, pursuant to agreements between the PRC Target, the PRC Target's shareholders (Hongbo Investment and Lida Investment) and certain fellow subsidiaries (collectively "**Hongbo Investment and its affiliates**"), amounts due from, amounts due to and loans from Hongbo Investment and its affiliates, amounting to RMB22,024,000, RMB92,338,000 and RMB161,206,000 respectively, were restructured into net amounts due to Hongbo Investment and Lida Investment of RMB138,912,000 and RMB92,608,000 respectively. Pursuant to a resolution passed at the shareholders' meeting held on 21 May 2015, the above amounts due to Hongbo Investment and Lida Investment were converted into the PRC Target's paid-in capital.

20. BANK AND OTHER BORROWINGS

		31 December		
		2013	**2014**	**2015**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Bank borrowing	*(i)*	29,600	29,600	—
Other borrowings				
— related parties	*(ii)*	153,726	156,056	—
— third party	*(iii)*	—	—	90,000
		183,326	185,656	90,000

Notes:

(i) During the Relevant Periods, the PRC Target obtained a one-year trade finance bank facility of RMB29,600,000 which was expired on 24 February 2016. The bank facility was secured by certain buildings and land use rights of the PRC Target (see Notes 11 and 14) and guaranteed by Hongbo Investment. The bank facility was utilised to the extent of RMB29,600,000, RMB29,600,000 and Nil at 31 December 2013, 2014 and 2015 respectively (see Note 17(c)).

(ii) Borrowings from related parties comprise:

- Unsecured loan from holding company, Hongbo Investment with no fixed terms of repayment. The loan was bearing interest at prevailing market interest rate published by the People's Bank of China ("**PBOC**"). The outstanding balances of the loan at 31 December 2013, 2014 and 2015 were RMB20,000,000, RMB20,000,000 and Nil, respectively.

- Unsecured loan from a fellow subsidiary, Shanghai Zhongshan Lida Industry Co., Ltd. with no fixed terms of repayment. The loan was bearing interest at prevailing market interest rate published by the PBOC. The outstanding balances of the loan at 31 December 2013, 2014 and 2015 were RMB59,840,000, RMB64,010,000 and Nil, respectively.

- Unsecured loan from a fellow subsidiary, Shanghai B&K Trading Co., Ltd. with no fixed terms of repayment. The loan was bearing interest at prevailing market interest rate published by the PBOC. The outstanding balances of the loan at 31 December 2013, 2014 and 2015 were RMB69,046,000, RMB72,046,000 and Nil, respectively.

- Unsecured loan from a fellow subsidiary, Shanghai New Mainstream Media Technology Service Co., Ltd. with no fixed terms of repayment. The loan was bearing interest at prevailing market interest rate published by the PBOC. The outstanding balances of the loan at 31 December 2013, 2014 and 2015 were RMB4,840,000, Nil and Nil, respectively.

(iii) During the year ended 31 December 2015, the PRC Target obtained certain short-term loans amounting to RMB90,000,000 in aggregate from a third party, Guangzhou Zhang Su Investment Consulting Co., Ltd. ("Zhang Su"). The loans, amounting to RMB70,000,000, are bearing interest at 110% of the prevailing market interest rate published by the PBOC and secured by the PRC Target's paid-in capital of RMB120,026,000 held by Hongbo Investment, representing 27.6% of the equity interest in the PRC Target at 31 December 2015. The remaining loan of RMB20,000,000 is unsecured, bearing interest at 4.80% per annum and repayable in 6 months.

21. TRADE PAYABLES

	31 December 2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
A fellow subsidiary	1,188	1,188	—
Third parties	164,150	167,017	144,435
	165,338	168,205	144,435

All of the trade payables are expected to be settled within one year or are repayable on demand.

As of the end of the reporting period, the ageing analysis of trade payables, based on the invoice date (or date of recognition, if earlier), is as follows:

	31 December 2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	150,141	105,377	57,211
Over 1 year but within 2 years	13,726	61,136	79,262
Over 2 years but within 3 years	871	221	6,998
Over 3 years	600	1,471	964
	165,338	168,205	144,435

22. ACCRUED EXPENSES AND OTHER PAYABLES

	31 December 2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Amounts due to related parties			
— holding company	71,581	57,970	—
— fellow subsidiaries	60,033	50,864	—
— other related party	20,066	19,370	—
Taxes other than income tax	19,036	16,028	7,689
Guarantee deposit	35,000	35,000	35,000
Payable to Yanchang	62,439	76,903	74,170
Others	3,780	4,201	3,551
	271,935	260,336	120,410

All of the accrued expenses and other payables (including amounts due to related parties) are expected to be settled within one year or are repayable on demand.

23. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Current tax recoverable in the statement of financial position represents:

	31 December 2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	—	—	—
Income tax paid	—	—	22,000
At 31 December	—	—	22,000

(b) Deferred tax assets and liabilities recognised

The components of deferred tax assets/(liabilities) recognised in the statement of financial position and the movements during the Relevant Periods are as follows:

	Provision for future dismantlement costs	Property, plant and equipment	Intangible assets	Accruals	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2013	600	(340)	(29)	5,720	5,951
Credited/(charged) to profit or loss	684	825	(26)	(4,019)	(2,536)
At 31 December 2013	1,284	485	(55)	1,701	3,415
Credited/(charged) to profit or loss	737	(6,501)	(5)	2,354	(3,415)
At 31 December 2014	2,021	(6,016)	(60)	4,055	—
Credited/(charged) to profit or loss	610	(8,233)	10	8,212	599
At 31 December 2015	2,631	(14,249)	(50)	12,267	599

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(p), the PRC Target has not recognised deferred tax assets in respect of cumulative tax losses amounting to RMB46,005,000, RMB32,347,000 and RMB48,830,000 and deductible temporary differences amounting to RMB33,621,000, RMB33,482,000 and Nil at 31 December 2013, 2014 and 2015 respectively, as it is not probable that future taxable profits against which the losses and deductible temporary differences can be utilised/reversed will be available in the relevant tax jurisdiction of the PRC Target.

The unutilised tax losses in the PRC Target can be carried forward up to five years from the year in which the loss was originated to offset future taxable profits. At 31 December 2015, the PRC Target's unutilised tax losses will be expired in 2017 and thereafter.

24. PROVISIONS

The amount represents provision for future dismantlement costs of oil and gas properties. Movements of provision during the Relevant Periods are set out as follows:

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	37,445	48,760	44,120
Additions	8,751	—	364
Reassessment	(176)	(7,587)	(14,197)
Accretion expense	2,740	2,947	2,441
At the end of the year	48,760	44,120	32,728

25. CAPITAL AND RESERVES

(a) Paid-in capital

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Registered and paid-in capital:			
At the beginning of the year	203,400	203,400	203,400
Capital contributions	—	—	231,520
At the end of the year	203,400	203,400	434,920

According to the resolution passed at the shareholders' meeting held on 21 May 2015, the registered capital of the PRC Target was increased by RMB231,520,000 to RMB434,920,000. Pursuant to which, amounts due to shareholders, amounting to RMB231,520,000, were converted into the PRC Target's paid-in capital (see Note 19(b)).

(b) Nature and purpose of reserves

(i) Capital reserve

Capital reserve represents the PRC Target's share premium, being the difference between the paid-in capital and the fair value of the considerations received from the capital contributions made by the investors.

(ii) Specific reserve

According to relevant PRC rules and regulations, the PRC Target is required to transfer an amount to specific reserve for the safety production fund based on the production volume of crude oil and natural gas. The amount of safety production fund utilised would be transferred from the specific reserve back to retained earnings.

26. CAPITAL MANAGEMENT

The PRC Target's primary objectives when managing capital are to safeguard the PRC Target's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The PRC Target actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The PRC Target monitors its capital structure on the basis of adjusted net debt-to-equity ratio. For this purpose, adjusted net debt is defined as interest-bearing loans and borrowings less cash and cash equivalents.

The PRC Target's strategy is to maintain adequate funding from bank and related parties according to the operating needs and the capital commitments, and to maintain the net debt-to-equity ratio at a range considered reasonable by management.

The adjusted net debt-to-equity ratio at 31 December 2013, 2014 and 2015 was as follows:

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Bank and other borrowings	183,326	185,656	90,000
Less: cash and cash equivalent	(10,686)	(7,341)	(12,498)
Adjusted net debt	172,640	178,315	77,502
Total equity	76,335	63,267	270,193
Adjusted net debt-to-equity ratio	2.26	2.82	0.29

The PRC Target is not subject to externally imposed capital requirements.

27. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and price risks arises in the normal course of the PRC Target's business.

The PRC Target's exposure to these risks and the financial risk management policies and practices used by the PRC Target to manage these risks are described below.

(a) Credit risk

The PRC Target's credit risk is primarily attributable to cash at bank and trade and other receivables. Management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis.

Substantially all of the PRC Target's cash at bank are deposited in the stated-owned/controlled or listed PRC banks which the directors of the PRC Target assessed the credit risk to be insignificant.

In respect of trade and other receivables, individual credit evaluations are performed on all debtors. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

The PRC Target does not provide any guarantees which would expose the PRC Target to credit risk.

(b) Liquidity risk

The PRC Target is responsible for its overall cash management, including raising of loans to cover expected cash demands. At 31 December 2013, 2014 and 2015, the PRC Target had net current liabilities of RMB531,603,000, RMB499,295,000 and RMB252,748,000, respectively. The liquidity of the PRC Target is primarily dependent on its ability to (1) obtain sufficient financing from its banker and shareholder; and (2) the Proposed Transactions will be successfully completed and sufficient funding will be provided by the Company to the PRC Target to enable the PRC Target to meet its financial obligations as and when they fall due and to meet its committed future capital expenditures. The directors of the Company have carried out a detailed review of the PRC Target's cash flow projections for the twelve months ending 31 December 2016. Based on such projections, the directors of the Company have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements during that period. In preparing the cash flow projections, the directors of the Company have considered historical cash requirements of the PRC Target as well as other key factors including sufficient financing from its banker, shareholder and the Company. The directors of the Company are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

The following tables show the remaining contractual maturities at the end of the reporting period of the PRC Target's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the PRC Target can be required to pay:

	31 December 2013	
	Contractual undiscounted cash outflow — within 1 year or on demand	**Carrying amount**
	RMB'000	*RMB'000*
Bank and other borrowings	183,326	183,326
Trade payables	165,338	165,338
Accrued expenses and other payables	236,935	236,935
	585,599	585,599

	31 December 2014	
	Contractual undiscounted cash outflow — within 1 year or on demand	**Carrying amount**
	RMB'000	*RMB'000*
Bank and other borrowings	185,656	185,656
Trade payables	168,205	168,205
Accrued expenses and other payables	225,336	225,336
	579,197	579,197

	31 December 2015	
	Contractual undiscounted cash outflow — within 1 year or on demand	Carrying amount
	RMB'000	*RMB'000*
Bank and other borrowings	91,697	90,000
Trade payables	144,435	144,435
Accrued expenses and other payables	85,410	85,410
	321,542	319,845

(c) Interest rate risk

The PRC Target's interest rate risk arises primarily from interest-bearing borrowings. The PRC Target regularly reviews and monitors the mix of fixed and variable rate bank borrowing in order to manage its interest rate risks.

The following table details the interest rate profile of the PRC Target's interest-bearing borrowings at the respective reporting period end dates.

	31 December 2013	
	Effective interest rate	Carrying amount
	%	*RMB'000*
Fixed rate — bank borrowing	5.88%	29,600
Floating rate — other borrowings	6.55%–6.56%	153,726
		183,326

	31 December 2014		31 December 2015	
	Effective interest rate	Carrying amount	Effective interest rate	Carrying amount
	%	*RMB'000*	%	*RMB'000*
Fixed rate — other borrowing	5.88%	29,600	4.80%	20,000
Floating rate — other borrowings	6.00%–7.00%	156,056	5.06%	70,000
		185,656		90,000

At the respective reporting period end dates, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have (increased)/decreased the PRC Target's loss after tax and accumulated losses as follows:

	31 December		
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
100 basis points increase	(1,537)	(1,561)	(700)
100 basis points decrease	1,537	1,561	700

(d) Price risk

The PRC Target is engaged in petroleum-related activities. Prices of crude oil are affected by a wide range of global and domestic political, economic and military factors which are beyond the control of the PRC Target. A decrease in such prices could adversely affect the PRC Target's financial position. The PRC Target has not used any derivative instruments to hedge against potential price fluctuations of crude oil.

(e) Fair values measurement

The PRC Target did not have financial instruments carried at fair value during the Relevant Periods. The carrying amounts of the PRC Target's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2013, 2014 and 2015 because of the short term maturity of the financial instruments.

28 EXPLORATION SERVICE AGREEMENT

(a) Agreement signed on 1 May 2015

On 1 May 2015, the PRC Target entered into a service agreement ("**Exploration Service Agreement**") with Xilin Gol League Hongjin Engineering Technical Service Company Limited ("**Hongjin Engineering**"). Hongjin Engineering is held as to 60% by Hongbo Investment and 40% by Lida Investment. Pursuant to the Exploration Service Agreement, the PRC Target shall pay Hongjin Engineering a fixed fee of RMB30,000,000 within 3 years from the date of the Exploration Service Agreement, based on the progress of the exploration and development works as agreed between the PRC Target and Hongjin Engineering, and a monthly variable fee equivalent to 95% of the crude oil sales revenue generated from Block 378, after deduction of the 20% sharing by Yanchang. The PRC Target has the option to acquire 100% of the equity interests in Hongjin Engineering from its shareholders for a cash consideration of RMB200,000,000 within 3 years of the date of the Exploration Service Agreement ("**Call Option**"). If, within 3 years of the date of the Exploration Service Agreement, certain criteria relating to the production activities of any of the exploration wells in Block 378 are met, Hongjin Engineering will have the option to terminate the Exploration Service Agreement ("**Termination Option**") and the PRC Target shall pay Hongjin Engineering a termination fee of RMB200,000,000 less any fees paid/payable by the PRC Target to Hongjin Engineering under the Exploration Service Agreement prior to termination.

During the period from 1 May 2015 to the date of approval of New Exploration Service Agreement (see Note 28(b)), no major exploration work was performed on Block 378. Accordingly, the directors of the Company are of the opinion that the fair values of the Call Option and Termination Option were Nil.

(b) Agreement signed on 19 September 2015

The above agreement signed on 1 May 2015 was subsequently superseded by a new service agreement dated 19 September 2015 ("**New Exploration Service Agreement**"). The expiry date of the New Exploration Service Agreement is the same as that of EPCC subject to early termination as set out in the New Exploration Service Agreement. Pursuant to which, the PRC Target shall pay Hongjin Engineering a fixed fee of RMB30,000,000 within 3 years from the date of the New Exploration Service Agreement based on the progress of the exploration and development works as agreed between the PRC Target and Hongjin Engineering. After Hongjin Engineering has spent the fixed fee of RMB30,000,000 on the exploration work on Block 378, it can choose to terminate the New Exploration Service Agreement based on its judgement of Block 378's commerciality. If Hongjin Engineering does not decide to terminate the New Exploration Service Agreement, it will be responsible to finance any further exploration work of Block 378 thereafter at its own cost and expenses. If, within the term of the New Exploration Service Agreement, certain criteria relating to the production activities of any of the exploration wells in Block 378 are met, the PRC Target and Hongjin Engineering will have the right to terminate the New Exploration Service Agreement. Upon termination, the PRC Target shall pay Hongjin Engineering a success fee of RMB200,000,000, and Hongjin Engineering shall transfer all its property, plant and equipment, intangible assets and rights relating to Block 378's exploration and development to the PRC Target.

Up until 31 December 2015, no major exploration work was performed by Hongjin Engineering on Block 378.

29. COMMITMENTS

(a) Capital commitments outstanding at the respective reporting period end dates not provided for in the Financial Information were as follows:

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Contracted for			
— property, plant and equipment	—	10,865	5,365

(b) As at the respective reporting period end dates, total future minimum lease payments under non-cancellable operating leases payable are as follows:

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	75	800	800

The PRC Target leases certain buildings through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments.

30. MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the PRC Target, directly or indirectly, including directors and supervisor of the PRC Target.

Remuneration for key management personnel of the PRC Target, including amounts paid to the PRC Target's directors (including supervisor) as disclosed in Note 9 and certain of the highest paid employees as disclosed in Note 10, is as follows:

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Short-term employee benefits	5,692	4,944	2,805
Post-employment benefits	206	254	135
	5,898	5,198	2,940

Total remuneration is included in "staff costs" (see Note 7(b)).

(b) Contribution to defined contribution retirement plan

The PRC Target participates in a defined contribution retirement plan organised by the relevant local government authority. As at 31 December 2013, 2014 and 2015, there was no material outstanding contribution to post-employment benefit plan. Details of the PRC Target's defined contribution retirement plan are set out in Note 7(b).

(c) Transactions with other related parties

The PRC Target had the following material transactions with related parties during the Relevant Periods:

	Years ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
With Hongbo Investment and its affiliates			
— advances received	(70,975)	(66,909)	(16,950)
— repayment of advances	127,380	123,105	24,590
— proceeds from borrowings	(119,070)	(100,050)	(22,350)
— repayment of borrowings	130,724	97,720	17,200
— interest expense	10,876	9,959	2,467
— rental expense	—	—	800
— purchase of construction materials	522	—	—
— prepayment	—	—	3,000
— decrease/(increase) in net payables	977	7,993	(14,837)
With other related party *(note a)*			
— (increase)/decrease in net payables	(501)	696	19,370

The PRC Target's outstanding balances with related parties are as follows:

	31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Prepaid expenses and other current assets			
— holding company	—	19,671	—
— fellow subsidiaries	20,828	32,607	3,294
Other non-current assets			
— a fellow subsidiary	—	—	3,000
Other borrowings *(note b)*			
— holding company	(20,000)	(20,000)	—
— fellow subsidiaries	(133,726)	(136,056)	—
Trade payables			
— a fellow subsidiary	(1,188)	(1,188)	—
Accrued expenses and other payables			
— holding company	(71,581)	(57,970)	—
— fellow subsidiaries	(60,033)	(50,864)	—
— other related party *(note a)*	(20,066)	(19,370)	—

Notes:

(a) Other related party represents a close family member of a director of the PRC Target.

(b) Further details of borrowings from related parties are disclosed in Note 20.

31. CONTINGENT LIABILITIES

The PRC Target acquired the cooperation right with Yanchang under the EPCC pursuant to an agreement entered into between Hongbo Investment and a third party (the "**Third Party**") dated 15 June 2008 (the "**15 June 2008 Agreement**"), and an agreement entered into between the PRC Target, Hongbo Investment and Ningxia Tianpu Mining Investment Consulting Company Limited (寧夏天普礦業投資諮詢有限公司).

In September 2011, the Third Party commenced legal action against Hongbo Investment, the PRC Target and Yanchang. The Third Party's claim was for Hongbo Investment, the PRC Target and Yanchang to pay it outstanding mineral rights transfer fees of RMB20,000,000, and the entitlement to the profit and management rights in respect of 2 oil wells in Block 212 to be selected based on certain criteria. Shaanxi Higher People's Court issued a judgement dated 4 April 2014, pursuant to which Hongbo Investment was ordered to pay RMB20,000,000 of the outstanding mineral rights transfer fees to the Third Party together with penalty interest. The Third Party's claims for profit and management rights of the 2 oil wells were dismissed. Hongbo Investment subsequently paid RMB20,000,000 and penalty interest to the Third Party in 2014.

On 1 July 2015, the PRC Target and Hongbo Investment entered into an agreement pursuant to which Hongbo Investment would be responsible for any direct loss suffered by the PRC Target caused by any dispute with the Third Party relating to the 15 June 2008 Agreement.

On 10 August 2015, the Supreme People's Court issued an order for rehearing of the same case by the Supreme People's Court.

Based on legal advice from the legal counsel of Hongbo Investment and the PRC Target, the PRC Target is an independent legal entity and shall not be liable for obligations in the agreement signed between Hongbo Investment and the Third Party. Accordingly, this matter will not have material adverse impact on the financial position of the PRC Target.

32. IMMEDIATE HOLDING COMPANY

At 31 December 2013, 2014 and 2015, the directors consider the immediate parent and ultimate controlling party of the PRC Target to be Hongbo Investment, which is established in the PRC. This entity does not produce financial statements available for public use.

33. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2015

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2015 and which have not been adopted in these financial statements. These include the following which may be relevant to the PRC Target:

	Effective for accounting periods beginning on or after
HKFRS 14, Regulatory deferral accounts	1 January 2016
Amendments to HKFRS 11, Accounting for acquisitions of interests in joint operations	1 January 2016
Amendments to HKAS 16 and HKAS 38, Clarification of acceptable methods of depreciation and amortisation	1 January 2016
Amendments to HKAS 16 and HKAS 41, Agriculture: Bearer plants	1 January 2016
Amendments to HKAS 27, Equity method in separate financial statements	1 January 2016
Amendments to HKFRS 10, HKFRS 12 and HKAS 28, Investment entities: Applying the consolidation exception	1 January 2016
Amendments to HKAS 1, Disclosure initiative	1 January 2016
HKFRS 15, Revenue from contracts with customers	1 January 2018
HKFRS 9, Financial instruments	1 January 2018
HKFRS 16, Leases	1 January 2019

The PRC Target is in the process of making an assessment of what the impact of these amendments and interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the PRC Target's results of operations and financial position.

C. SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS

No audited financial statements have been prepared by the Company in respect of any period subsequent to 31 December 2015. No dividend or distribution has been declared or made by the PRC Target in respect of any period subsequent to 31 December 2015.

Yours faithfully,

KPMG
Certified Public Accountants
Hong Kong

1. AUDITORS' REPORTS, INTERIM REPORT AND FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial information of the Group for each of the three years ended 31 March 2013, 2014 and 2015 and the unaudited condensed consolidated financial information of the Group are disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.irasia.com/listco/hk/shuncheong) respectively:

- annual report of the Company for the year ended 31 March 2013 published on 30 July 2013 (pages 17 to 64);
- annual report of the Company for the year ended 31 March 2014 published on 28 July 2014 (pages 17 to 72);
- annual report of the Company for the year ended 31 March 2015 published on 20 July 2015 (pages 18 to 84); and
- interim report of the Company for the six months ended 30 September 2015 published on 30 December 2015 (pages 8 to 26).

2. INDEBTEDNESS OF THE GROUP

Borrowings

As at 30 April 2016, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular,the Group had outstanding secured bank borrowings of approximately HK$114 million, unsecured bank borrowing of approximately HK$36 million, amounts due to related companies of approximately HK$169 million and convertible bonds of approximately HK$110 million.

As at 30 April 2016, the Group had (i) secured bank borrowings due within one year and due beyond one year but not exceeding five years of approximately HK$38 million and HK$76 million respectively and (ii) unsecured bank borrowing due within one year amounted to approximately HK$36 million. These bank borrowings carried interest from 4.35% to 4.90% per annum. The aggregate banking facilities amounted to approximately HK$419 million whereas the unutilised banking facilities amounted to approximately HK$270 million. As at the close of business on 30 April 2016, the Group had pledged lands and buildings of approximately HK$241 million.

As at 30 April 2016, the Group had amounts due to related companies repayable on demand or due within one year and due beyond one year but not exceeding five years of approximately HK$24 million and HK$145 million respectively. The current amounts due to related companies of approximately HK$24 million was interest free whereas the non-current amounts due to the related companies of approximately HK$145 million carried fixed interest of 1% per annum.

Contingent liabilities

Save as disclosed above, as at 30 April 2016, the Group had no material contingent liabilities.

Save as disclosed above and apart from intra-group liabilities and normal trade payables, as at 30 April 2016, the Group did not have any outstanding mortgages, charges, debentures, other loan capital, bank overdrafts, loans, debt securities, other similar indebtedness, liabilities under acceptances or acceptances credits or hire purchase commitments, guarantees or other material contingent liabilities.

The Directors confirmed there was no material adverse change in the indebtedness and contingent liabilities of the Group since 30 April 2016 and being the date for determining the Group's indebtedness.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the rate of exchange prevailing at the close of business on 30 April 2016.

3. DIVIDEND AND FINANCIAL SUMMARY

No dividends have been declared/paid by the Company for the years ended 31 March 2013, 2014 and 2015 and the six months ended 30 September 2015.

The following summary financial information (i) for the six months ended 30 September 2015 is extracted from the unaudited condensed consolidated financial statements of the Company for the six months ended 30 September 2015 as set forth in the interim report of the Company for the six months ended 30 September 2015; (ii) for the financial years ended 31 March 2014 and 2015 is extracted from the audited consolidated financial statements of the Company for the financial year ended 31 March 2015 as set forth in the annual report of the Company for the financial year ended 31 March 2015, and (iii) for the financial year ended 31 March 2013 is extracted from the audited consolidated financial statements of the Company for the financial year ended 31 March 2013 as set forth in the annual report of the Company for the financial year ended 31 March 2013.

Consolidated statements of profit or loss and other comprehensive income

	Year ended 31 March		
	2013	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	157,908	121,384	143,695
Cost of sales	(116,343)	(106,938)	(115,825)
Gross profit	41,274	14,446	27,870
Other income	2,128	2,775	2,570
Administrative expenses	(29,769)	(25,287)	(36,854)
Other operating expenses	(14,144)	(2,882)	(2,866)
Impairment loss recognised in respect of property, plant and equipment	—	—	(120,865)
Provision for litigation	—	(166,780)	—
Fair value (loss) gain on equity investment at fair value through profit or loss	1,745	8,131	(7,209)
Finance costs	(30,739)	(23,372)	(23,432)
Gain on deregistration of a subsidiary	—	119	—
Gain/(loss) on modifications of terms of convertible bond	4,589	—	(68,890)
Share of results of joint ventures	(333)	(4,923)	(5,258)
Loss before tax	(25,249)	(197,773)	(234,934)
Income tax expense	—	—	—
Loss for the year	(25,249)	(197,773)	(234,934)
Other comprehensive income (expenses)			
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income (expenses) of joint ventures	536	(144)	450
Release of translation reserve upon deregistration of a foreign subsidiary	—	(119)	—
Exchange difference arising on translation of foreign operations	4,171	(73)	954
Other comprehensive income (expenses) for the year	4,707	(336)	1,404
Total comprehensive expenses for the year	(20,542)	(198,109)	(233,530)

	Year ended 31 March		
	2013	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*
Loss for the year attributable to:			
Owners of the Company	(24,667)	(197,298)	(234,020)
Non-controlling interests	(582)	(475)	(914)
	25,249	(197,773)	(234,934)
Total comprehensive expenses attributable to:			
Owners of the Company	(20,116)	(197,625)	(232,714)
Non-controlling interests	(426)	(484)	(816)
	(20,542)	(198,109)	(233,530)
Loss per share			
— Basic and diluted	(HK7.10 cents)	(HK56.80 cents)	(HK67.38 cents)

Consolidated statements of financial position

	As at 31 March		
	2013	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Property, plant and equipment	487,541	477,508	327,506
Interests in joint ventures	98,603	93,536	88,728
	586,144	571,044	416,234
Current assets			
Inventories	2,506	2,219	2,425
Trade receivables	6,450	5,236	5,393
Prepayments, deposits and other receivables	7,828	6,563	6,330
Equity investment at fair value through profit or loss	5,269	13,400	6,191
Deposits placed with financial institutions	2,140	2,326	2,491
Bank balances and cash	32,739	42,793	15,188
	56,932	72,537	38,018
Current liabilities			
Trade payables	13,505	13,572	14,716
Other payables, accruals and deposits	62,451	90,066	79,566
Provision for litigation	—	166,606	—
Amounts due to related companies	1,007	924	7,678
Tax payables	5,341	5,335	5,401
Convertible bond	—	112,991	—
Interest-bearing bank borrowings	39,384	76,814	77,767
	121,688	466,308	185,128
Net current liabilities	(64,756)	(393,771)	(147,110)
Total assets less current liabilities	521,388	177,273	269,124
Non-current liabilities			
Amounts due to related companies	10,572	10,921	148,941
Convertible bond	106,458	—	105,082
Interest-bearing bank borrowings	197,547	157,999	120,128
Total non-current liabilities	314,577	168,920	374,151
Net (liabilities) assets	206,811	8,353	(105,027)

	As at 31 March		
	2013	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*
Capital and reserves			
Share capital	3,473	3,473	3,473
Reserves	194,655	(3,319)	(115,883)
(Capital deficiency) equity attributable to owners of the Company	198,128	154	(112,410)
Non-controlling interests	8,683	8,199	7,383
(Capital deficiency) total equity	206,811	8,353	(105,027)

Condensed consolidated statements of profit or loss and other comprehensive income

	Six months ended 30 September 2014	2015
	HK$'000	*HK$'000*
	(Unaudited and represented)	(Unaudited)
Continuing operation		
Turnover	—	—
Cost of sales	—	—
Gross profit	—	—
Other income	195	195
Administrative expenses	(1,866)	(2,412)
Fair value loss on equity investment at fair value through profit or loss	(3,836)	(126)
Finance costs	(2,720)	(2,913)
Loss on extinguishment of convertible bond	(20,369)	—
Loss before tax	(28,596)	(5,256)
Income tax expense	—	—
Loss for the period from continuing operation	(28,596)	(5,256)
Discontinued operation		
Loss for the period from discontinued operation	(4,517)	(5,319)
Loss for the period	(33,113)	(10,575)
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences on translation of foreign operations	(993)	1,245
Total comprehensive expense for the period	(34,106)	(9,330)

	Six months ended 30 September	
	2014	2015
	HK$'000	*HK$'000*
	(Unaudited and represented)	(Unaudited)
Loss for the period attributable to Owners of the Company:		
— from continuing operation	(28,596)	(5,256)
— from discontinued operation	(4,173)	(5,183)
	(32,769)	(10,439)
Loss for the period attributable to non-controlling interest:		
— from continuing operation	—	—
— from discontinued operation	(344)	(136)
	(344)	(136)
	(33,113)	(10,575)
Total comprehensive expense for the period attributable to Owners of the Company:		
— from continuing operation	(28,596)	(5,256)
— from discontinued operation	(5,244)	(3,659)
	(33,840)	(8,915)
Total comprehensive expense for the period attributable to non-controlling interest:		
— from continuing operation	—	—
— from discontinued operation	(266)	(415)
	(266)	(415)
	(34,106)	(9,330)
Loss per share		
From continuing and discontinued operations Basic and Diluted	(HK 9.43 cents)	(HK 3.01 cents)
From continuing operations Basic and Diluted	(HK 8.23 cents)	(HK 1.51 cents)

Condensed consolidated statements of financial position

	31 March 2015	**30 September 2015**
	HK$'000	*HK$'000*
	(Audited)	(Unaudited)
Non-current assets		
Property, plant and equipment	327,506	1
Interest in joint ventures	88,728	—
	416,234	1
Current assets		
Inventories	2,425	—
Trade receivables	5,393	—
Prepayments, deposits and other receivables	6,330	605
Equity investment at fair value through profit or loss	6,191	6,065
Deposits placed with financial institutions	2,491	1,675
Bank balances and cash	15,188	1,196
	38,018	9,541
Asset classified as held for sale	—	429,888
	38,018	439,429
Current liabilities		
Trade payables	14,716	—
Other payables, accruals and deposits	79,566	8,290
Amounts due to related companies	7,678	—
Tax payables	5,401	—
Interest-bearing bank borrowings	77,767	—
	185,128	8,290
Liabilities directly associated with assets classified as held for sale	—	438,103
	185,128	446,393
Net current liabilities	(147,110)	(6,964)
Total assets less current liabilities	269,124	(6,963)

	31 March 2015	30 September 2015
	HK$'000	*HK$'000*
	(Audited)	(Unaudited)
Non-current liabilities		
Amounts due to related companies	148,941	—
Convertible bond	105,082	107,394
Interest-bearing bank borrowings	120,128	—
Total non-current liabilities	374,151	107,394
Net liabilities	(105,027)	(114,357)
Capital and reserves		
Share capital	3,473	3,473
Reserves	(115,883)	(124,798)
Capital deficiency attributable to owners of the Company	(112,410)	(121,325)
Non-controlling interests	7,383	6,968
Capital deficiency	(105,027)	(114,357)

4. MANAGEMENT DISCUSSION AND ANALYSIS OF HISTORICAL RESULTS OF OPERATIONS

Reproduced below is the management discussion and analysis of the Group's operations for the financial years ended 31 March 2013, 2014 and 2015 and the six months ended 30 September 2015, respectively. The information reproduced below is principally extracted from the sections of "Business review" and "Management discussion and analysis" of the annual report of the Company for each of the three financial years ended 31 March 2015 and the sections of "Review of operation", "Business prospect" and "Financial review" of the interim report of the Company for the six months ended 30 September 2015 to provide further information relating to the financial condition and results of operations of the Group during the respective periods stated. These extracted materials were prepared prior to the date of this circular and speak as of the date they were originally published. The Company's prospects and intentions may have changed since that date, and the readers should therefore not place undue reliance on this information, including the information consisting of or relating to forward-looking or future statements. Readers should instead pay attention to other sections of this circular, namely:

- Summary;
- Letter from the Board;
- Letter from the Independent Financial Advisor;
- Forward-looking statements;
- Share capital;
- Appendix V — Unaudited Financial Information of the Divestment Group;
- Appendix VI — Unaudited Pro Forma Financial Information of the Restructured Group;
- Appendix X — Valuation Report on Properties of the Divestment Group; and
- Appendix XII — Statutory and General Information.

For the six months ended 30 September 2015

Business review

1. Discontinued operation

The Divestment Group was mainly engaged in the hotel and restaurant operations of the Guangxi Wharton International Hotel Limited* (廣西沃頓國際大酒店有限公司) (the "**Nanning Hotel**") located in Guangxi Province, the PRC. During the period, although the Average Daily Rate ("**ADR**") of the Nanning Hotel was in general still lower than the previous levels, the turnover of the Divestment Group slightly increased by 2.3% to HK$71.6 million (2014: HK$70.0 million) following the completion of a majority of the renovation work. The net loss of the Divestment Group increased by 17.8% to HK$5.3 million (2014: HK$4.5 million) as a result of that (i) more losses was of the joint ventures was picked up, reflecting the worsening performance of the Beihai Hotel since the commencement of operations due to keen competition and the fact that the Beihai Hotel has only operated for a short period of time; and (ii) more finance costs were incurred due to the imputed interest associated with several related-party loans borrowed in December 2014.

2. *Continuing operation*

The continuing operation is investment holding and does not have any business in substance. During the period under review, the Divestment Group is still part of the Group's business. The Divestment is conditional upon the fulfillment or waiver (if applicable) of many conditions precedent and may or may not be completed as contemplated. The higher amount in the net losses of the Group in the six months ended 30 September 2014 was primarily due to a finance cost of HK$20.4 million incurred as a result of the modification of terms of the convertible bonds.

Business prospect

The Company's management believes that due to the slowdown of the overall national economic growth and the further implementation of the anti-corruption campaign, a much smaller revenue increase or even decrease in the hotel industry was observed in 2014 and is anticipated to continue. It is also stated that the management team will put in additional efforts to alleviate the negative impacts as stated above. According to the Company's management, the Divestment Group has faced and is expected to continue to face in the foreseeable future considerable headwind as regards to its hotel business, given the unstable economic outlook in the PRC and government spending policies, as well as challenges relating to increasing operational costs, leading to uncertainty as to future performance of the Divestment Group.

On 22 June 2015, the Company entered into various agreements (as amended on 23 October 2015 and 20 November 2015) in respect of the Proposed Transactions, including the disposal by the Company of its entire equity interests in the Divestment Group. Upon completion of the Proposed Transactions, the Group will no longer be engaged in the hotel and restaurant business carried on through the Divestment Group, and will be principally engaged in a new business, namely the exploration, development and production of crude oil carried out by the PRC Target. Further details of the Proposed Transactions are set out in the announcement dated 28 October 2015 jointly published by the Company and Titan Gas Technology Investment Limited and in the Company's announcement dated 20 November 2015.

Liquidity and financial resources

The Group's cash and bank balances are mostly in Hong Kong dollars and Renminbi. As at 30 September 2015, the Group had unpledged cash and bank deposit balances of approximately HK$2.3 million, including the cash & bank balance classified as held for sale (31 March 2015: HK$17.7 million). As at 30 September 2015, the Group had outstanding bank borrowings of HK$190.3 million (31 March 2015: HK$197.9 million). The gearing ratio of the Group which represented the total bank borrowings to the total assets was 43.3% (31 March 2015: 43.6%).

Treasury and funding policy

The assets and liabilities of the Group are mainly denominated in Hong Kong dollars and Renminbi. The Group's bank borrowing is on a floating rate at the prime lending rate of the People's Bank of China. Taking into account of the expected cash flows of the Group's operations and cash and investment in marketable securities currently in hand, the Group expects that it will have sufficient working capital for its financial liabilities as they fall due. As the main operation of the Group is in the PRC, the Group has minimal exposure to foreign exchange fluctuation in Renminbi.

Pledge of assets

As at 30 September 2015, the hotel properties held with an aggregate carrying amount of approximately HK$256.3 million (31 March 2015: HK$272.6 million) were mortgaged to a bank to secure banking facilities granted to the Group.

Employees and remuneration policies

The Group employed approximately 563 employees as at 30 September 2015 (31 March 2015:496). Remuneration is determined by reference to market terms and the qualifications and experience of the staff concerned. Salaries are reviewed annually depending on individual merits. The Group also provides other benefits including retirement benefit scheme, medical insurance and educational subsidies to all eligible staff.

For the year ended 31 March 2015

Business review

For the year ended 31 March 2015, the revenue of the Group's continuing operation, being the operation of the Guangxi Wharton International Hotel Limited* (廣西沃頓國際大酒店有限公司) (the "**Nanning Hotel**") located in Guangxi Province, the PRC, increased by 18.4% to HK$143.7 million (2014: HK$121.4 million). Tackling the intensified market competition, the increase in revenue was mainly attributable to the improved occupancy rate in the hotel operation of the Nanning Hotel while the average room rate is decreased. The cost of sales has increased by 8% to HK$115.8 million (2014: HK$106.9 million). The Group's gross profit increased to HK$27.9 million for the current year (2014: HK$14.4 million).

Due to the unrealised loss of convertible bonds at fair value through profit or loss and the significant assets impairment loss occurred, the Group recorded a loss before tax from continuing operation of HK$234.9 million for the year ended 31 March 2015 as compared to the results of HK$197.8 million loss for the prior year. During the year, the Nanning Hotel reported an average room rate of HK$678 (2014: HK$757) and an average occupancy rate of 55.76% (2014: 39.4%).

Liquidity and financial resources

The Group's cash and bank balances are mostly in Hong Kong dollars and Renminbi. As at 31 March 2015, the Group had unpledged cash and bank deposit balances of approximately HK$15.2 million (2014: HK$42.8 million). As at 31 March 2015, the Group had outstanding interest-bearing bank borrowings of HK$197.9 million (2014: HK$234.8 million). The gearing ratio of the Group which represented the total interest-bearing bank borrowings to the total assets was 43.6% (2014: 36.5%).

Treasury and funding policy

The assets and liabilities of the Group are mainly denominated in Hong Kong dollars and Renminbi. The Group's bank borrowing is on a floating rate at the prime lending rate of the People's Bank of China. Taking into account of the expected cash flows of the Group's operations and cash and investment in marketable securities currently in hand, the Group expects that it will have sufficient working capital for its financial liabilities as they fall due. As the main operation of the Group is in the PRC, the Group has minimal exposure to foreign exchange fluctuation in Renminbi.

Pledge of assets

As at 31 March 2015, the hotel properties held with an aggregate carrying amount of approximately HK$272.6 million (2014: HK$283.0 million) were pledged to a bank to secure banking facilities granted to the Group.

Employees and remuneration policy

The Group employed approximately 496 employees as at 31 March 2015 (2014: 540). Remuneration is determined by reference to market terms and the qualifications and experience of the staff concerned. Salaries are reviewed annually depending on individual merits. The Group also provides other benefits including retirement benefit scheme, medical insurance and educational subsidies to all eligible staff.

For the year ended 31 March 2014

Business review

For the year ended 31 March 2014, the revenue of the Group's continuing operation, being the operation of the Guangxi Wharton International Hotel Limited* (廣西沃頓國際大酒店有限公司) (the "**Nanning Hotel**") located in Guangxi Province, the PRC, was decreased by 23% to HK$121.4 million (2013: HK$157.9 million). The decrease was mainly attributable to the lower occupancy rate in the restaurant operation of the Nanning Hotel. In the financial year ended 31 March 2014, a large scale of the decoration has been initiated and accomplished in Nanning Hotel. The hotel has 16 floors and the decoration covered totally twelve floors of the Hotel. The decoration has significant impact on the normal hotel operation. Even though the cost of sales was managed to be decreased by 8% to HK$107 million (2013: HK$116.6 million), there was drop in the gross profit to HK$14.4 million for the current year (2013: HK$41.3 million).

On 5 June 2014, the wholly-owned subsidiary, Open Land Holdings Limited, received the Civil Judgment ((2013) Nan Shi Min San Chu Zi No. 41), and it does not agree with the Civil Judgment and intends to file appeal with lawyers. For the prudence purposes, the management of the Company made provision for the litigation issue.

As a result of such drop in gross profit and provision made for the litigation issue this year, the Group recorded a loss before tax from continuing operation of HK$197.8 million for the year ended 31 March 2014 as compared to the results of HK$25.2 million loss for the prior year. During the year, the Nanning Hotel reported an average room rate of HK$757 (2013: HK$764) and an average occupancy rate of 39.4% (2013: 60.5%).

Business and operation review

A review of the Group's business operations and prospects is included in the Chairman's Statement on page 4 of the annual report.

Liquidity and financial resources

The Group's cash and bank balances are mostly in Hong Kong dollars and Renminbi. As at 31 March 2014, the Group had unpledged cash and bank deposit balances of approximately HK$42.8 million (2013: HK$32.7 million). As at 31 March 2014, the Group had outstanding interest-bearing bank borrowings of HK$234.8 million (2013: HK$236.9 million). The gearing ratio of the Group which represented the total interest-bearing bank borrowings to the total assets was 36.5% (2013: 37%).

Treasury and funding policy

The assets and liabilities of the Group are mainly denominated in Hong Kong dollars and Renminbi. The Group's bank borrowing is on a floating rate at the prime lending rate of the People's Bank of China. Taking into account of the expected cash flows of the Group's operations and cash and investment in marketable securities currently in hand, the Group expects that it will have sufficient working capital for its financial liabilities as they fall due. As the main operation of the Group is in the PRC, the Group has minimal exposure to foreign exchange fluctuation in Renminbi.

Pledge of assets

As at 31 March 2014, the hotel properties held with an aggregate carrying amount of approximately HK$283 million (2013: HK$295 million) were pledged to a bank to secure banking facilities granted to the Group.

Employees and remuneration policy

The Group employed approximately 540 employees as at 31 March 2014 (2013: 574). Remuneration is determined by reference to market terms and the qualifications and experience of the staff concerned. Salaries are reviewed annually depending on individual merits. The Group also provides other benefits including retirement benefit scheme, medical insurance and educational subsidies to all eligible staff.

For the year ended 31 March 2013

Business review

For the year ended 31 March 2013, the revenue of the Group's continuing operation, being the operation of the Guangxi Wharton International Hotel Limited* (廣西沃頓國際大酒店有限公司) (the "**Nanning Hotel**") located in Guangxi Province, the PRC, was decreased by 3% to HK$157.9 million (2012: HK$163.3 million). The decrease was mainly attributable to the lower occupancy rate in the restaurant operation of the Nanning Hotel. It has also experienced an increasing cost pressure during the year. In particular, the material costs and staff costs increased significantly owing to the inflationary factor in the PRC and the high turnover and persistent shortage of hotel staff. Such cost pressure, together with the additional expenditure in the maintenance of the Group's hotel operations and the increasing depreciation charge on the Group's fixed assets, led to a significant drop in the gross profit to HK$41.2 million for the current year (2012: HK$46.9 million). As a result of such drop in gross profit and the increase in finance costs this year, the Group recorded a loss before tax from continuing operation of HK$25.2 million for the year ended 31 March 2013 as compared to the results of HK$8.3 million loss for the prior year. During the year, the Nanning Hotel reported an average room rate of HK$764 (2012: HK$700) and an average occupancy rate of 60.5% (2012: 76%).

In February 2012, the Group completed the transaction of the formation of a joint venture company (the "**JV Company**") which was established for the purpose of hotel investment and was owned by the Group as to 26.7% of its equity interest upon completion. The JV Company was treated as a jointly-controlled entity of the Group. As at the date of this announcement, the JV Company has invested RMB300 million in Beihai Yintan Project No. 1* (北海銀灘一號項目) (the "**Yintan Project**"), which is a project of one five-star hotel located in the major seashore tourism area of Beihai City, Guangxi Province, the PRC. The construction of the Yintan Project was completed as at the date of this announcement and started operation on 26 April 2013.

Business and operation review

A review of the Group's business operations and prospects is included in the Chairman's Statement on page 4 of the annual report.

Liquidity and financial resources

The Group's cash and bank balances are mostly in Hong Kong dollars and Renminbi. As at 31 March 2013, the Group had unpledged cash and bank deposit balances of approximately HK$32.7 million (2012: HK$64.0 million). As at 31 March 2013, the Group had outstanding interest-bearing bank borrowings of HK$236.9 million (2012: HK$271.8 million). The gearing ratio of the Group which represented the total interest-bearing bank borrowings to the total assets was 37% (2012: 39%).

Treasury and funding policy

The assets and liabilities of the Group are mainly denominated in Hong Kong dollars and Renminbi. The Group's bank borrowing is on a floating rate at the prime lending rate of the People's Bank of China. Taking into account of the expected cash flows of the Group's operations and cash and investment in marketable securities currently in hand, the Group expects that it will have sufficient working capital for its financial liabilities as they fall due. As the main operation of the Group is in the PRC, the Group has minimal exposure to foreign exchange fluctuation in Renminbi.

Pledge of assets

At 31 March 2013, the hotel properties held with an aggregate carrying amount of approximately HK$294.9 million (2012: HK$298.0 million) were pledged to a bank to secure banking facilities granted to the Group.

Employees and remuneration policy

The Group employed approximately 574 employees as at 31 March 2013 (2012: 520).

Remuneration is determined by reference to market terms and the qualifications and experience of the staff concerned. Salaries are reviewed annually depending on individual merits. The Group also provides other benefits including retirement benefit scheme, medical insurance and educational subsidies to all eligible staff.

5. HEDGING POLICY

During the three years ended 31 March 2015, the Group was mainly exposed to currency risk arise from US$. The Group believed that the pegged rate between the US$ and the HK$ will be materially unaffected by any changes in the value of US$ against other currencies. In this respect, the Group considered its exposure to foreign currency risk in respect of HK$ to be minimal. For the three years ended 31 March 2015, the Group was also exposed to cash flow interest rate risk in relation to variable-rate interest-bearing bank borrowings and equity price risk in respect of its investments in listed equity securities. The Group did not have any hedging policy but would consider hedging the risk exposure should the need arise.

6. SIGNIFICANT INVESTMENTS

The major significant investment made by the Group was its investment in the JV Company, which owned the Yintan Project in Beihai, the PRC, made in the year ended 31 March 2012. During the three years ended 31 March 2015, the Group recorded share of loss of joint ventures (including the JV Company and its subsidiaries) amounted to HK$0.3 million, HK$4.9 million and HK$5.3 million respectively. The results of the JV Company and its subsidiaries were affected by, among other things, that the hotel was only newly launched in late April 2013 and the general competitive market environment. Further details on the prospect of this investment are set out in the sub-section headed "4. Management Discussion and Analysis of Historical Results of Operations" in this Appendix above.

A. REPORT ON REVIEW OF UNAUDITED FINANCIAL INFORMATION BY FINANCIAL ADVISOR

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the financial advisor of the Company, REORIENT Financial Markets Limited.

瑞東 REORIENT

29 June 2016

The Board of Directors
Shun Cheong Holdings Limited
Suite 2302, Wing On Centre
111 Connaught Road Central
Hong Kong

Dear Sirs

SHUN CHEONG HOLDINGS LIMITED (THE "COMPANY", TOGETHER WITH ITS SUBSIDIARIES, THE "GROUP")

SPECIAL DEAL, CONNECTED TRANSACTION AND VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE DIVESTMENT OF 100% OF THE SHARES IN AYKENS HOLDINGS LIMITED AND HOPLAND ENTERPRISES LIMITED, BOTH BEING WHOLLY-OWNED SUBSIDIARIES OF THE COMPANY (THE "DIVESTMENT")

We refer to the circular dated 29 June 2016 issued by the Company in connection with, among others the Divestment (the "**Circular**"). Terms used in this letter shall have the same meanings as defined in the Circular unless otherwise stated.

We refer to (i) the gain expected to be recorded by the Group and the basis for calculating such gain as a result of the Divestment (the "**Estimated Gain**") as set out under the section headed "Letter from the Board — Estimated Financial Effect of the Transactions" in the Circular; and (ii) the unaudited net loss of the Divestment Group for the two years ended 31 March 2015 as set out under the section headed "Letter from the Board — Information on the Group" in the Circular (the "**Unaudited Financial Information**") (collectively, the "**Required Information**").

We have reviewed the Estimated Gain and have discussed with the Directors the basis and assumptions with reference to note 2 to "Appendix VI — Unaudited Pro Forma Financial Information of the Restructured Group" to the Circular, which has been prepared by the Directors and reported on by KPMG, the reporting accountants for the unaudited pro forma financial information of the Restructured Group, and the paragraph under the section headed "Letter from the Board — Estimated Financial Effect of the Transactions" in the Circular, upon which the Estimated Gain has been prepared. We have also reviewed the Unaudited Financial Information and considered the "Unaudited Financial Information of the Divestment Group for the years ended 31 March 2013, 2014, 2015 and the six months ended 30 September 2015" together with a report thereon dated 29 June 2016, as well as the "Unaudited Financial Information of the Divestment Group for the three years ended 31 March 2013, 2014, 2015 and the nine months ended 31 December 2015" together with a report thereon dated 29 June 2016, both addressed to the Directors by SHINEWING (HK) CPA Limited, the auditors of the Company, as set out in Appendix V to the Circular. The preparation of the Required Information is the sole responsibility of, and has been approved by, the Directors.

Based on the above, we are satisfied that the Required Information has been prepared by the Directors after due care and consideration.

Yours faithfully
For and on behalf of
REORIENT Financial Markets Limited
Allen Tze
Managing Director

B. REPORT ON REVIEW OF UNAUDITED FINANCIAL INFORMATION FOR THE THREE YEARS ENDED 31 MARCH 2013, 2014, 2015 AND THE SIX MONTHS ENDED 30 SEPTEMBER 2015 BY AUDITORS

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the auditors of the Company, SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong.

信永中和 ShineWing

SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

29 June 2016

The Board of Directors of Shun Cheong Holdings Limited (the "**Company**")

INTRODUCTION

We have been engaged to review the unaudited financial information set out on pages V-6 to V-13, which comprises the unaudited combined statement of financial position of Aykens Holdings Limited ("**Aykens**"), Hopland Enterprises Limited ("**Hopland**") and their respective subsidiaries (collectively referred to as the "**Divestment Group**") as at 31 March 2013, 2014, 2015 and as at 30 September 2015, and the unaudited combined statements of profit or loss and other comprehensive income, the unaudited combined statements of changes in equity and the unaudited combined statements of cash flows for each of the three years ended 31 March 2013, 2014, 2015 and the six months ended 30 September 2015 (the "**Track Record Periods**"), and explanatory notes. The unaudited financial information of the Divestment Group has been prepared solely for the purpose of inclusion in the circular dated 29 June 2016 issued by the Company regarding to the proposed very substantial disposal in relation to the divestment by the Company of 100% of the shares in the Divestment Group in accordance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Main Board Listing Rules**") 14.68(2)(a)(i).

The directors of the Company are responsible for the preparation and presentation of the unaudited financial information of the Divestment Group in accordance with the basis of preparation set out in note 2 to the unaudited financial information and paragraph 14.68(2)(a)(i) of the Main Board Listing Rules. The directors of the Company are also responsible for such internal control as management determines is necessary to enable the preparation of the unaudited financial information that is free from material misstatement, whether due to fraud or error. The unaudited financial information does not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1 (Revised) "Presentation of Financial Statements" or an interim financial report as defined in Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). Our responsibility is to form a conclusion on the unaudited financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

Except for the inability to obtain sufficient appropriate evidence as described in "Basis for Disclaimer of Conclusion" paragraph, we conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and with reference to Practice Note 750 "Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal" issued by the HKICPA. A review of the unaudited financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Disclaimer of Conclusion

Material uncertainty relating to the going concern basis

The Divestment Group had net current liabilities and net liabilities of approximately HK$397,563,000 and HK$264,970,000 respectively as at 30 September 2015. The Divestment Group also incurred a loss of approximately HK$18,504,000, HK$197,119,000, HK$152,366,000 and HK$5,319,000 respectively during the Track Record Periods.

As explained in the basis of preparation set out in note 2 to the unaudited financial information, the unaudited financial information have been prepared by the directors of the Company on a going concern basis, the validity of which depends upon the successful implementation and outcome of the measures to be undertaken by the Group as described in note 2 to the unaudited financial information.

However, we are unable to verify the management's assessment regarding to the continuing provision of financing by the Divestment Group's principal banker to the Divestment Group, the successful implementation and outcome of the measures and therefore on the appropriateness of the application of the going concern assumption adopted for the preparation of the unaudited financial information. In view of the extent of the material uncertainties relating to the successful implementation and outcome of the measures to be undertaken by the Divestment Group as mentioned above which might cast a significant doubt on the Divestment Group's ability to continue as a going concern, we have disclaimed our review conclusion on the unaudited financial information for the six months ended 30 September 2015.

Should the Divestment Group be not able to continue its business as a going concern as at 30 September 2015, adjustments would be necessary to reclassify all non-current assets and liabilities as current assets and liabilities, write down the value of assets to their recoverable amounts and to provide for further liabilities which may arise. The unaudited financial information for the six months ended 30 September 2015 has not incorporated any of these adjustments.

Disclaimer of Conclusion

Because of the significance of the possible effects of the matters as described in the "Basis for Disclaimer of Conclusion" paragraph, we do not express a conclusion as to whether the unaudited financial information of the Divestment Group for the six months ended 30 September 2015 is prepared, in all material aspects, in accordance with the basis of preparation set out in note 2 to the unaudited financial information.

REPORT ON MATTERS UNDER RULE 10 OF THE CODE ON TAKEOVERS AND MERGERS (THE "CODE")

We are engaged by the Company to report on the unaudited financial information of the Divestment Group in accordance with Rule 10 of the Code. Based on our work done, the unaudited financial information of the Divestment Group for the Track Record Periods, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of the assumption as set out in note 2 to the unaudited financial information of the Divestment Group.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Wong Chuen Fai
Practising Certificate Number: P05589

Hong Kong

C. UNAUDITED FINANCIAL INFORMATION OF DIVESTMENT GROUP FOR THE THREE YEARS ENDED 31 MARCH 2013, 2014, 2015 AND THE SIX MONTHS ENDED 30 SEPTEMBER 2015

Set out below are the unaudited combined statement of financial position of the Divestment Group as at 31 March 2013, 2014, 2015 and as at 30 September 2015 and the unaudited combined statements of profit or loss and other comprehensive income, unaudited combined statements of changes in equity and unaudited combined statements of cash flows for each of the three years ended 31 March 2013, 2014 and 2015 and the six months ended 30 September 2015, and explanatory notes, which have been reviewed by the auditors of the Company, SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and with reference to the Practice Note 750 "Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal" issued by the Hong Kong Institute of Certified Public Accountants.

Unaudited Combined Statements of Profit or Loss and Other Comprehensive Income
For each of the three years ended 31 March 2013, 2014, 2015 and the six months ended 30 September 2014, 2015

	Year ended 31 March			Six months ended 30 September	
	2013	**2014**	**2015**	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	157,908	121,384	143,695	70,026	71,634
Cost of sales	(116,634)	(106,938)	(115,825)	(54,011)	(52,574)
Gross profit	41,274	14,446	27,870	16,015	19,060
Other income	1,938	2,588	2,375	246	1,524
Administrative expenses	(41,446)	(25,850)	(37,244)	(12,475)	(13,069)
Provision for litigation	—	(166,780)	—	—	—
Share of results of joint ventures	(333)	(4,923)	(5,258)	(518)	(2,415)
Finance costs	(19,937)	(16,719)	(19,244)	(7,785)	(10,419)
Gain on deregistration of a subsidiary	—	119	—	—	—
Impairment loss recognised in respect of property, plant and equipment	—	—	(120,865)	—	—
Loss before taxation	(18,504)	(197,119)	(152,366)	(4,517)	(5,319)
Income tax	—	—	—	—	—
Loss for the year/period	(18,504)	(197,119)	(152,366)	(4,517)	(5,319)

	Year ended 31 March			Six months ended 30 September	
	2013	2014	2015	2014	2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other comprehensive expenses					
Items that may be reclassified subsequently to profit or loss:					
Share of other comprehensive income (expenses) of joint ventures	536	(144)	450	—	—
Release of translation reserve upon deregistration of a foreign subsidiary	—	(119)	—	—	—
Exchange difference arising on translation of foreign operations	4,171	(73)	954	(993)	1,245
Other comprehensive income (expenses) for the year/period	4,707	(336)	1,404	(993)	1,245
Total comprehensive expenses for the year/period	(13,797)	(197,455)	(150,962)	(5,510)	(4,074)
Loss for the year/period attributable to:					
Owners of the Divestment Group	(17,922)	(196,644)	(151,452)	(4,173)	(5,183)
Non-controlling interests	(582)	(475)	(914)	(344)	(136)
	(18,504)	(197,119)	(152,366)	(4,517)	(5,319)
Total comprehensive expenses attributable to:					
Owners of the Divestment Group	(13,371)	(196,971)	(150,146)	(5,244)	(3,659)
Non-controlling interests	(426)	(484)	(816)	(266)	(415)
	(13,797)	(197,455)	(150,962)	(5,510)	(4,074)

Unaudited Combined Statement of Financial Position
As at 31 March 2013, 2014, 2015 and 30 September 2015

	At 31 March			At 30 September
	2013	2014	2015	2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	487,531	477,501	327,503	302,443
Investment in joint ventures	98,603	93,536	88,728	86,867
	586,134	571,037	416,231	389,310
Current assets				
Inventories	2,506	2,219	2,425	2,399
Trade receivables	6,450	5,236	5,393	9,818
Prepayments, deposits and other receivables	7,175	5,592	5,600	5,913
Bank balances and cash	28,835	40,032	14,603	22,448
	44,966	53,079	28,021	40,578
Current liabilities				
Trade payables	13,505	13,572	14,716	11,942
Other payables, accruals and deposits	59,934	85,727	73,004	69,770
Provision for litigation	—	166,606	—	—
Amount due to holding company	255,223	255,435	257,513	256,755
Amounts due to related companies	1,007	924	7,678	19,702
Tax payable	5,341	5,335	5,401	5,194
Interest bearing bank borrowings	39,384	76,814	77,767	74,778
	374,394	604,413	436,079	438,141
Net current liabilities	(329,428)	(551,334)	(408,058)	(397,563)
Total assets less current liabilities	256,706	19,703	8,173	(8,253)
Non-current liabilities				
Amounts due to related companies	10,572	10,921	148,941	141,206
Interest bearing bank borrowings	197,547	157,999	120,128	115,511
Total non-current liabilities	208,119	168,920	269,069	256,717
Net assets (liabilities)	48,587	(149,217)	(260,896)	(264,970)
Capital and reserves				
Share capital	2	2	2	2
Reserves	39,902	(157,418)	(268,281)	(271,940)
Equity attributable to owner of the Divestment Group	39,904	(157,416)	(268,279)	(271,938)
Non-controlling interests	8,683	8,199	7,383	6,968
Total equity (capital deficiency)	48,587	(149,217)	(260,896)	(264,970)

Unaudited Combined Statements of Changes in Equity

For each of the three years ended 31 March 2013, 2014, 2015 and the six months ended 30 September 2015

	Share Capital *HK$'000*	Exchange fluctuation reserve *HK$'000*	Other reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
At 1 April 2012	2	18,303	1,699	33,608	53,612	9,109	62,721
Loss for the year	—	—	—	(17,922)	(17,922)	(582)	(18,504)
Other comprehensive income							
Share of other comprehensive income of joint ventures	—	536	—	—	536	—	536
Exchange difference arising on translation of foreign operations	—	4,015	—	—	4,015	156	4,171
Total other comprehensive income for the year	—	4,551	—	—	4,551	156	4,707
Total comprehensive income (expenses) for the year	—	4,551	—	(17,922)	(13,371)	(426)	(13,797)
Imputed interest released on non-current amount due to related companies	—	—	(337)	—	(337)	—	(337)
At 31 March 2013	2	22,854	1,362	15,686	39,904	8,683	48,587
At 1 April 2013	2	22,854	1,362	15,686	39,904	8,683	48,587
Loss for the year	—	—	—	(196,644)	(196,644)	(475)	(197,119)
Other comprehensive expense							
Share of other comprehensive expenses of joint ventures	—	(144)	—	—	(144)	—	(144)
Release of translation reserve upon deregistration of a foreign subsidiary	—	(119)	—	—	(119)	—	(119)
Exchange difference arising on translation of foreign operations	—	(64)	—	—	(64)	(9)	(73)
Total other comprehensive expenses for the year	—	(327)	—	—	(327)	(9)	(336)
Total comprehensive expenses for the year	—	(327)	—	(196,644)	(196,971)	(484)	(197,455)
Imputed interest released on non-current amount due to related companies	—	—	(349)	—	(349)	—	(349)
At 31 March 2014	2	22,527	1,013	(180,958)	(157,416)	8,199	(149,217)

	Share Capital	Exchange fluctuation reserve	Other reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2014	2	22,527	1,013	(180,958)	(157,416)	8,199	(149,217)
Loss for the year	—	—	—	(151,452)	(151,452)	(914)	(152,366)
Other comprehensive income							
Share of other comprehensive income of joint ventures	—	450	—	—	450	—	450
Exchange difference arising on translation of foreign operations	—	856	—	—	856	98	954
Total other comprehensive income for the year	—	1,306	—	—	1,306	98	1,404
Total comprehensive income (expenses) for the year	—	1,306	—	(151,452)	(150,146)	(816)	(150,962)
Deemed capital contribution	—	—	39,283	—	39,283	—	39,283
At 31 March 2015	2	23,833	40,296	(332,410)	(268,279)	7,383	(260,896)
At 1 April 2014	2	22,527	1,013	(180,958)	(157,416)	8,199	(149,217)
Loss for the period	—	—	—	(4,173)	(4,173)	(344)	(4,517)
Other comprehensive income							
Exchange difference arising on translation of foreign operations	—	(1,071)	—	—	(1,071)	78	(993)
Total other comprehensive income for the period	—	(1,071)	—	—	(1,071)	78	(993)
Total comprehensive income (expenses) for the period	—	(1,071)	—	(4,173)	(5,244)	(266)	(5,510)
Imputed interest released on non-current amount due to related companies	—	—	(180)	—	(180)	—	(180)
At 30 September 2014	2	21,456	833	(185,131)	(162,840)	7,933	(154,907)
At 1 April 2015	2	23,833	40,296	(332,410)	(268,279)	7,383	(260,896)
Loss for the period	—	—	—	(5,183)	(5,183)	(136)	(5,319)
Other comprehensive expense							
Exchange difference arising on translation of foreign operations	—	1,524	—	—	1,524	(279)	1,245
Total other comprehensive income (expenses) for the period	—	1,524	—	—	1,524	(279)	1,245
Total comprehensive income (expenses) for the period	—	1,524	—	(5,183)	(3,659)	(415)	(4,074)
At 30 September 2015	2	25,357	40,296	(337,593)	(271,938)	6,968	(264,970)

Unaudited Combined Statements of Cash Flows
For each of the three years ended 31 March 2013, 2014, 2015 and the six months ended 30 September 2015

	Year ended 31 March			Six months ended 30 September	
	2013	**2014**	**2015**	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
OPERATING ACTIVITIES					
Loss before taxation	(18,504)	(197,119)	(152,366)	(4,517)	(5,319)
Adjustments for:					
Finance costs	19,937	16,719	19,244	7,785	10,419
Bank interest income	(439)	(50)	(71)	(1)	(12)
Depreciation of property, plant and equipment	34,388	38,234	38,992	14,428	14,608
Gain on deregistration of a subsidiary	—	(119)	—	—	—
Share of results of joint ventures	333	4,923	5,258	518	2,415
Impairment loss recognised on trade receivables	14,315	1,165	1,193	—	1,081
Reversal of trade receivables	—	(1,337)	(680)	—	(668)
Impairment loss recognised in respect of property, plant and equipment	—	—	120,865	—	—
Loss on disposal of property, plant and equipment	548	351	5	5	2
Impairment loss recognised on other receivables	—	1,574	1,173	—	—
Reversal of impairment loss recognised in respect of other receivables	—	—	—	—	(49)
Government grant related to expenses recognised as income	(723)	(418)	—	—	—
Operating cash flows before movements in working capital	49,855	(136,077)	33,613	18,218	22,477
Decrease (increase) in inventories	2,120	284	(176)	(185)	(69)
Decrease (increase) in trade receivables	2,133	1,378	(604)	(5,336)	(5,176)
Decrease (increase) in prepayments, deposits and other receivables	1,115	—	(1,333)	(4,567)	(544)
Increase in trade payables	1,215	85	950	581	(2,257)
Increase (decrease) in provision	—	166,780	(166,606)	—	—
Increase (decrease) in other payables, accruals and deposits	8,659	25,871	(13,755)	(7,852)	1,213
Net cash from (used in) operating activities	65,097	58,321	(147,911)	859	15,644

	Year ended 31 March			Six months ended 30 September	
	2013	2014	2015	2014	2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
INVESTING ACTIVITIES					
Bank interest received	439	50	71	1	12
Acquisition of property, plant and equipment	(12,657)	(29,013)	(4,843)	(2,885)	(522)
Proceeds from disposal of property, plant and equipment	6	1	—	—	—
Net cash used in investing activities	(12,212)	(28,962)	(4,772)	(2,884)	(510)
FINANCING ACTIVITIES					
(Repayments to) Advance from related companies	(19,805)	(83)	181,550	8	—
(Repayment to) Advance from holding company	(1,933)	212	2,078	(921)	(758)
Government grant received	723	418	—	—	—
Interest paid	(19,937)	(16,719)	(16,737)	(7,785)	(5,851)
Repayments of bank borrowings	(40,950)	(39,384)	(77,767)	—	—
New borrowings raised	—	37,590	37,935	—	—
Net cash (used in) from financing activities	(81,902)	(17,966)	127,059	(8,698)	(6,609)
Net (decrease) increase in cash and cash equivalents	(29,017)	11,393	(25,624)	(10,723)	8,525
Cash and cash equivalents at the beginning of the year/period	60,408	28,835	40,032	40,032	14,603
Effect of foreign exchange rate changes	(2,556)	(196)	195	(371)	(680)
Cash and cash equivalents at end of the year, represented by bank balances and cash	28,835	40,032	14,603	28,938	22,448

Notes to the Unaudited Financial Information

For each of the three years ended 31 March 2013, 2014, 2015 and six months ended 30 September 2015

1. GENERAL

Shun Cheong Holdings Limited (the "**Company**") entered into the sale and purchase agreement on 22 June 2015 (as amended on 27 October 2015, 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016) for the disposal of entire equity interest in Aykens Holdings Limited ("**Aykens**"), Hopland Enterprises Limited ("**Hopland**") and their respective subsidiaries (collectively referred to as the "**Divestment Group**") to Upsky Enterprises Limited ("**Upsky**"), a company incorporated in the British Virgin Islands. Mr. Mo Tianquan, a non-executive director of the Company, is the ultimate beneficial owner of Upsky.

The principal activity of the Divestment Group is hotel and restaurant operation.

The unaudited financial information of the Divestment Group is presented in Hong Kong dollars which is the same as the functional currency of Aykens and Hopland while the functional currency of the principal subsidiaries are Renminbi ("**RMB**").

2. BASIS OF PRESENTATION OF THE UNAUDITED FINANCIAL INFORMATION

The unaudited financial information of the Divestment Group has been prepared solely for the purpose of inclusion in the circular dated 29 June 2016 issued by the Company in connection with the disposal of the Divestment Group and prepared in accordance with paragraph 14.68(2)(a)(i) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Main Board Listing Rules**").

The amounts included in the unaudited financial information of the Divestment Group have been recognised and measured in accordance with the relevant accounting policies of the Company adopted in the preparation of the consolidated financial statements of the Company and its subsidiaries for the Track Record Periods, which conform with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

The unaudited financial information of the Divestment Group does not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1 (Revised) "Presentation of Financial Statements" or an interim financial report as defined in Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the HKICPA.

In preparing the unaudited financial information of the Divestment Group, the directors of the Company (the "**Directors**") have given careful consideration to the future liquidity of the Divestment Group. The unaudited financial information of the Divestment Group was prepared based on the assumption (the "**Assumption**") that the Divestment Group would be operated as a going concern in the foreseeable future notwithstanding that the Divestment Group had net current liabilities of approximately HK$397,563,000 and net liabilities of approximately HK$264,970,000 as at 30 September 2015. The Directors are satisfied that the Divestment Group will be able to meet in full its financial obligations as the principal banker of the Divestment Group shall continue to provide continuing funding to the Divestment Group under the existing available facilities, and the Divestment Group shall implement cost-saving measures to maintain adequate cash flows for the operation of the Divestment Group. In view of these undertakings, the Directors are of the view that the application of the Assumption in preparing the unaudited financial information of the Divestment Group for the six months ended 30 September 2015 is appropriate.

Accordingly, the Directors are of the opinion that it is appropriate to prepare the unaudited financial information for the six months ended 30 September 2015 on a going concern basis.

D. REPORT ON REVIEW OF UNAUDITED FINANCIAL INFORMATION FOR THE THREE YEARS ENDED 31 MARCH 2013, 2014, 2015 AND THE NINE MONTHS ENDED 31 DECEMBER 2015 BY THE AUDITORS

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the auditors of the Company, SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong.

信永中和 ShineWing

SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

29 June 2016

The Board of Directors of Shun Cheong Holdings Limited (the "**Company**")

INTRODUCTION

We have been engaged to review the unaudited financial information set out on pages V-17 to V-24, which comprises the unaudited combined statement of financial position of Aykens Holdings Limited ("**Aykens**"), Hopland Enterprises Limited ("**Hopland**") and their respective subsidiaries (collectively referred to as the "**Divestment Group**") as at 31 March 2013, 2014, 2015 and as at 31 December 2015, and the unaudited combined statements of profit or loss and other comprehensive income, the unaudited combined statements of changes in equity and the unaudited combined statements of cash flows for each of the three years ended 31 March 2013, 2014, 2015 and the nine months ended 31 December 2015 (the "**Track Record Periods**"), and explanatory notes. The unaudited financial information of the Divestment Group has been prepared solely for the purpose of inclusion in the circular dated 29 June 2016 issued by the Company regarding to the proposed very substantial disposal in relation to the divestment of 100% of the shares in the Divestment Group in accordance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Main Board Listing Rules**") 14.68(2)(a)(i).

The directors of the Company are responsible for the preparation and presentation of the unaudited financial information of the Divestment Group in accordance with the basis of preparation set out in note 2 to the unaudited financial information and paragraph 14.68(2)(a)(i) of the Main Board Listing Rules. The directors of the Company are also responsible for such internal control as management determines is necessary to enable the preparation of the unaudited financial information that is free from material misstatement, whether due to fraud or error. The unaudited financial information does not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1 (Revised) "Presentation of Financial Statements" or an interim financial report as defined in Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). Our responsibility is to form a conclusion on the unaudited financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

Except for the inability to obtain sufficient appropriate evidence as described in "Basis for Disclaimer of Conclusion" paragraph, we conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and with reference to Practice Note 750 "Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal" issued by the HKICPA. A review of the unaudited financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Disclaimer of Conclusion

Material uncertainty relating to the going concern basis

The Divestment Group had net current liabilities and net liabilities of approximately HK$393,835,000 and HK$271,001,000 respectively as at 31 December 2015. The Divestment Group also incurred a loss of approximately HK$18,504,000, HK$197,119,000, HK$152,366,000 and HK$12,310,000 respectively during the Track Record Periods.

As explained in the basis of preparation set out in note 2 to the unaudited financial information, the unaudited financial information have been prepared by the directors of the Company on a going concern basis, the validity of which depends upon the successful implementation and outcome of the measures to be undertaken by the Group as described in note 2 to the unaudited financial information.

However, we are unable to verify the management's assessment regarding to the continuing provision of financing by the Divestment Group's principal banker to the Divestment Group, the successful implementation and outcome of the measures and therefore on the appropriateness of the application of the going concern assumption adopted for the preparation of the unaudited financial information. In view of the extent of the material uncertainties relating to the successful implementation and outcome of the measures to be undertaken by the Divestment Group as mentioned above which might cast a significant doubt on the Divestment Group's ability to continue as a going concern, we have disclaimed our review conclusion on the unaudited financial information for the nine months ended 31 December 2015.

Should the Divestment Group be not able to continue its business as a going concern as at 31 December 2015, adjustments would be necessary to reclassify all non-current assets and liabilities as current assets and liabilities, write down the value of assets to their recoverable amounts and to provide for further liabilities which may arise. The unaudited financial information for the nine months ended 31 December 2015 has not incorporated any of these adjustments.

Disclaimer of Conclusion

Because of the significance of the possible effects of the matters as described in the "Basis for Disclaimer of Conclusion" paragraph, we do not express a conclusion as to whether the unaudited financial information of the Divestment Group for the nine months ended 31 December 2015 is prepared, in all material aspects, in accordance with the basis of preparation set out in note 2 to unaudited financial information.

REPORT ON MATTERS UNDER RULE 10 OF THE CODE ON TAKEOVERS AND MERGERS (THE "CODE")

We are engaged by the Company to report on the unaudited financial information of the Divestment Group in accordance with Rule 10 of the Code. Based on our work done, the unaudited financial information of the Divestment Group for the Track Record Periods, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of the assumption as set out in note 2 to the unaudited financial information of the Divestment Group.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Wong Chuen Fai
Practising Certificate Number: P05589

Hong Kong

E. UNAUDITED FINANCIAL INFORMATION OF DIVESTMENT GROUP FOR THE THREE YEARS ENDED 31 MARCH 2013, 2014, 2015 AND THE NINE MONTHS ENDED 31 DECEMBER 2015

Set out below are the unaudited combined statement of financial position of the Divestment Group as at 31 March 2013, 2014, 2015 and as at 31 December 2015 and the unaudited combined statements of profit or loss and other comprehensive income, unaudited combined statements of changes in equity and unaudited combined statements of cash flows for each of the three years ended 31 March 2013, 2014 and 2015 and the nine months ended 31 December 2015, and explanatory note, which have been reviewed by the auditor of the Company, SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and with reference to the Practice Note 750 "Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal" issued by the Hong Kong Institute of Certified Public Accountants.

Unaudited Combined Statements of Profit or Loss and Other Comprehensive Income

For each of the three years ended 31 March 2013, 2014, 2015 and the nine months ended 31 December 2015

	Year ended 31 March			Nine months ended 31 December	
	2013	**2014**	**2015**	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	157,908	121,384	143,695	112,921	106,584
Cost of sales	(116,634)	(106,938)	(115,825)	(85,787)	(79,893)
Gross profit	41,274	14,446	27,870	27,134	26,691
Other income	1,938	2,588	2,375	472	1,783
Administrative expenses	(41,446)	(25,850)	(37,244)	(22,004)	(21,163)
Provision for litigation	—	(166,780)	—	—	—
Share of results of joint ventures	(333)	(4,923)	(5,258)	(3,777)	(3,992)
Finance costs	(19,937)	(16,719)	(19,244)	(11,686)	(15,629)
Gain on deregistration of a subsidiary	—	119	—	—	—
Impairment loss recognised in respect of property, plant and equipment	—	—	(120,865)	—	—
Loss before taxation	(18,504)	(197,119)	(152,366)	(9,861)	(12,310)
Income tax	—	—	—	—	—
Loss for the year/period	(18,504)	(197,119)	(152,366)	(9,861)	(12,310)

	Year ended 31 March			Nine months ended 31 December	
	2013	2014	2015	2014	2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other comprehensive expenses					
Items that may be reclassified subsequently to profit or loss:					
Share of other comprehensive income (expenses) of joint ventures	536	(144)	450	642	1,032
Release of translation reserve upon deregistration of a foreign subsidiary	—	(119)	—	—	—
Exchange difference arising on translation of foreign operations	4,171	(73)	954	756	1,173
Other comprehensive income (expenses) for the year/period	4,707	(336)	1,404	1,398	2,205
Total comprehensive expenses for the year/period	(13,797)	(197,455)	(150,962)	(8,463)	(10,105)
Loss for the year/period attributable to:					
Owners of the Divestment Group	(17,922)	(196,644)	(151,452)	(8,950)	(12,222)
Non-controlling interests	(582)	(475)	(914)	(911)	(88)
	(18,504)	(197,119)	(152,366)	(9,861)	(12,310)
Total comprehensive expenses attributable to:					
Owners of the Divestment Group	(13,371)	(196,971)	(150,146)	(7,627)	(9,608)
Non-controlling interests	(426)	(484)	(816)	(836)	(497)
	(13,797)	(197,455)	(150,962)	(8,463)	(10,105)

Unaudited Combined Statement of Financial Position
As at 31 March 2013, 2014, 2015 and 31 December 2015

	The Group			
	At 31 March			At 31 December
	2013	2014	2015	2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Plant and equipment	487,531	477,501	327,503	295,609
Investment in joint ventures	98,603	93,536	88,728	83,703
	586,134	571,037	416,231	379,312
Current assets				
Inventories	2,506	2,219	2,425	2,297
Trade receivables	6,450	5,236	5,393	5,540
Prepayments, deposits and other receivables	7,175	5,592	5,600	7,395
Bank balances and cash	28,835	40,032	14,603	27,294
	44,966	53,079	28,021	42,526
Current liabilities				
Trade payables	13,505	13,572	14,716	15,504
Other payables, accruals and deposits	59,934	85,727	73,004	71,515
Provision for litigation	—	166,606	—	—
Amount due to holding company	255,223	255,435	257,513	256,710
Amounts due to related companies	1,007	924	7,678	14,120
Tax payable	5,341	5,335	5,401	5,099
Interest bearing bank borrowings	39,384	76,814	77,767	73,413
	374,394	604,413	436,079	436,361
Net current liabilities	(329,428)	(551,334)	(408,058)	(393,835)
Total assets less current liabilities	256,706	19,703	8,173	(14,523)
Non-current liabilities				
Amounts due to related companies	10,572	10,921	148,941	143,076
Interest bearing bank borrowings	197,547	157,999	120,128	113,402
Total non-current liabilities	208,119	168,920	269,069	256,478
Net assets (liabilities)	48,587	(149,217)	(260,896)	(271,001)
Capital and reserves				
Share capital	2	2	2	2
Reserves	39,902	(157,418)	(268,281)	(277,889)
Equity attributable to owner of the Divestment Group	39,904	(157,416)	(268,279)	(277,887)
Non-controlling interests	8,683	8,199	7,383	6,886
Total equity (capital deficiency)	48,587	(149,217)	(260,896)	(271,001)

Unaudited Combined Statements of Changes in Equity

For each of the three years ended 31 March 2013, 2014, 2015 and the nine months ended 31 December 2015

	Share Capital HK$'000	Exchange fluctuation reserve HK$'000	Other reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity (Capital deficiency) HK$'000
At 1 April 2012	2	18,303	1,699	33,608	53,612	9,109	62,721
Loss for the year	—	—	—	(17,922)	(17,922)	(582)	(18,504)
Other comprehensive income							
Share of other comprehensive income of joint ventures	—	536	—	—	536	—	536
Exchange difference arising on translation of foreign operations	—	4,015	—	—	4,015	156	4,171
Total other comprehensive income for the year	—	4,551	—	—	4,551	156	4,707
Total comprehensive income (expenses) for the year	—	4,551	—	(17,992)	(13,371)	(426)	(13,797)
Imputed interest released on non-current amount due to related companies	—	—	(337)	—	(337)	—	(337)
At 31 March 2013	2	22,854	1,362	15,686	39,904	8,683	48,587
At 1 April 2013	2	22,854	1,362	15,686	39,904	8,683	48,587
Loss for the year	—	—	—	(196,644)	(196,644)	(475)	(197,119)
Other comprehensive expense							
Share of other comprehensive expenses of joint ventures	—	(144)	—	—	(144)	—	(144)
Release of translation reserve upon deregistration of a foreign subsidiary	—	(119)	—	—	(119)	—	(119)
Exchange difference arising on translation of foreign operations	—	(64)	—	—	(64)	(9)	(73)
Total other comprehensive expenses for the year	—	(327)	—	—	(327)	(9)	(336)
Total comprehensive expenses for the year	—	(327)	—	(196,644)	(196,971)	(484)	(197,455)
Imputed interest released on non-current amount due to related companies	—	—	(349)	—	(349)	—	(349)
At 31 March 2014	2	22,527	1,013	(180,958)	(157,416)	8,199	(149,217)
At 1 April 2014	2	22,527	1,013	(180,958)	(157,416)	8,199	(149,217)
Loss for the year	—	—	—	(151,452)	(151,452)	(914)	(152,366)
Other comprehensive income							
Share of other comprehensive income of joint ventures	—	450	—	—	450	—	450
Exchange difference arising on translation of foreign operations	—	856	—	—	856	98	954
Total other comprehensive income for the year	—	1,306	—	—	1,306	98	1,404
Total comprehensive income (expenses) for the year	—	1,306	—	(151,452)	(150,146)	(816)	(150,962)
Deemed capital contribution	—	—	39,283	—	39,283	—	39,283
At 31 March 2015	2	23,833	40,296	(332,410)	(268,279)	7,383	(260,896)

	Share Capital *HK$'000*	Exchange fluctuation reserve *HK$'000*	Other reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity (Capital deficiency) *HK$'000*
At 1 April 2014	2	22,527	1,013	(180,958)	(157,416)	8,199	(149,217)
Loss for the period	—	—	—	(8,950)	(8,950)	(911)	(9,861)
Other comprehensive income							
Share of other comprehensive income of joint ventures	—	642	—	—	642	—	642
Exchange difference arising on translation of foreign operations	—	681	—	—	681	75	756
Total other comprehensive income for the period	—	1,323	—	—	1,323	75	1,398
Total comprehensive income (expenses) for the period	—	1,323	—	(8,950)	(7,627)	(836)	(8,463)
Imputed interest released on non-current amount due to related companies	—	—	(180)	—	(180)	—	(180)
At 31 December 2014	2	23,850	833	(189,908)	(165,223)	7,363	(157,860)
At 1 April 2015	2	23,833	40,296	(332,410)	(268,279)	7,383	(260,896)
Loss for the period	—	—	—	(12,222)	(12,222)	(88)	(12,310)
Other comprehensive expense							
Share of other comprehensive income of joint ventures	—	1,032	—	—	1,032	—	1,032
Exchange difference arising on translation of foreign operations	—	1,582	—	—	1,582	(409)	1,173
Total other comprehensive income (expenses) for the period	—	2,614	—	—	2,614	(409)	2,205
Total comprehensive income (expenses) for the period	—	2,614	—	(12,222)	(9,608)	(497)	(10,105)
At 31 December 2015	2	26,447	40,296	(344,632)	(277,887)	6,886	(271,001)

Unaudited Combined Statements of Cash Flows

For each of the three years ended 31 March 2013, 2014, 2015 and the nine months ended 31 December 2015

	Year ended 31 March			Nine months ended 31 December	
	2013	2014	2015	2014	2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
OPERATING ACTIVITIES					
Loss before taxation	(18,504)	(197,119)	(152,366)	(9,861)	(12,310)
Adjustments for:					
Finance costs	19,937	16,719	19,244	11,686	15,629
Bank interest income	(439)	(50)	(71)	(1)	(7)
Depreciation of property, plant and equipment	34,388	38,234	38,992	26,184	16,016
Gain on deregistration of a subsidiary	—	(119)	—	—	—
Share of results of joint ventures	333	4,923	5,258	3,777	3,992
Impairment loss recognised on trade receivables	14,315	1,165	1,193	—	5,179
Reversal of impairment loss recognised in respect of trade receivables	—	(1,337)	(680)	—	(638)
Impairment loss recognised in respect of property, plant and equipment	—	—	120,865	—	—
Loss (gain) on disposal of property, plant and equipment	548	351	5	61	(187)
Impairment loss recognised on other receivables	—	1,574	1,173	—	1,088
Reversal of impairment loss recognised in respect of other receivables	—	—	—	—	(194)
Government grant related to expenses recognised as income	(723)	(418)	—	—	—
Operating cash flows before movements in working capital	49,855	(136,077)	33,613	31,846	28,568
Decrease (increase) in inventories	2,120	284	(176)	(192)	(8)
Decrease (increase) in trade receivables	2,133	1,378	(604)	(3,373)	(5,006)
Decrease (increase) in prepayments, deposits and other receivables	1,115	—	(13,755)	(232)	(3,079)
Increase in trade payables	1,215	85	950	2,577	1,671
Increase (decrease) in provision	—	166,780	(166,606)	(167,953)	—
Increase (decrease) in other payables, accruals and deposits	8,659	25,871	(1,333)	(20,651)	2,061
Net cash from (used in) operating activities	65,097	58,321	(147,911)	(157,978)	24,207

	Year ended 31 March			Nine months ended 31 December	
	2013	2014	2015	2014	2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
INVESTING ACTIVITIES					
Bank interest received	439	50	71	1	7
Acquisition of property, plant and equipment	(12,657)	(29,013)	(4,843)	(2,628)	(2,570)
Proceeds from disposal of property, plant and equipment	6	1	—	—	—
Net cash used in investing activities	(12,212)	(28,962)	(4,772)	(2,627)	(2,563)
FINANCING ACTIVITIES					
(Repayments to) Advance from related companies	(19,805)	(83)	181,550	166,762	6,035
(Repayment to) Advance from holding company	(1,933)	212	2,078	2,516	(5,218)
Government grant received	723	418	—	—	—
Interest paid	(19,937)	(16,719)	(16,737)	(11,686)	(8,677)
Repayments of bank borrowings	(40,950)	(39,384)	(77,767)	—	—
New borrowings raised	—	37,590	37,935	—	—
Net cash (used in) from financing activities	(81,902)	(17,966)	127,059	157,592	(7,860)
Net (decrease) increase in cash and cash equivalents	(29,017)	11,393	(25,624)	(3,013)	13,784
Cash and cash equivalents at the beginning of the year/period	60,408	28,835	40,032	40,032	14,603
Effect of foreign exchange rate changes	(2,556)	(196)	195	344	(1,093)
Cash and cash equivalents at end of the year, represented by bank balances and cash	28,835	40,032	14,603	37,363	27,294

Note to the Unaudited Financial Information

For each of the three years ended 31 March 2013, 2014, 2015 and nine months ended 31 December 2015

1. GENERAL

Shun Cheong Holdings Limited (the "**Company**") entered into the sale and purchase agreement on 22 June 2015 (as amended on 27 October 2015, 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016) for the disposal of entire equity interest in Aykens Holdings Limited ("**Aykens**"), Hopland Enterprises Limited ("**Hopland**") and their respective subsidiaries (collectively referred to as the "**Divestment Group**") to Upsky Enterprises Limited ("**Upsky**"), a company incorporated in the British Virgin Islands. Mr. Mo Tianquan, a non-executive director of the Company, is the ultimate beneficial owner of Upsky.

The principal activity of the Divestment Group is hotel and restaurant operation.

The unaudited financial information of the Divestment Group is presented in Hong Kong dollars which is the same as the functional currency of Aykens and Hopland while the functional currency of the principal subsidiaries are Renminbi ("**RMB**").

2. BASIS OF PRESENTATION OF THE UNAUDITED FINANCIAL INFORMATION

The unaudited financial information of the Divestment Group has been prepared solely for the purpose of inclusion in the circular to be issued by the Company in connection with the disposal of the Divestment Group and prepared in accordance with paragraph 14.68(2)(a)(i) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Main Board Listing Rules**").

The amounts included in the unaudited financial information of the Divestment Group have been recognised and measured in accordance with the relevant accounting policies of the Company adopted in the preparation of the consolidated financial statements of the Company and its subsidiaries for the Track Record Periods, which conform with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

The unaudited financial information of the Divestment Group does not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1 (Revised), "Presentation of Financial Statements" nor an interim financial report as defined in Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the HKICPA.

In preparing the unaudited financial information of the Divestment Group, the directors of the Company (the "**Directors**") have given careful consideration to the future liquidity of the Divestment Group. The unaudited financial information of the Divestment Group was prepared based on the assumption (the "**Assumption**") that the Divestment Group would be operated as a going concern in the foreseeable future notwithstanding that the Divestment Group had net current liabilities of approximately HK$393,835,000 and net liabilities of approximately HK$271,001,000 as at 31 December 2015. The Directors are satisfied that the Divestment Group will be able to meet in full its financial obligations as the principal banker of the Divestment Group shall continue to provide continuing funding to the Divestment Group under the existing available facilities, and the Divestment Group shall implement cost-saving measures to maintain adequate cash flows for the operation of the Divestment Group. In view of these undertakings, the Directors are of the view that the application of the Assumption in preparing the unaudited financial information of the Divestment Group for the nine months ended 31 December 2015 is appropriate.

Accordingly, the Directors are of the opinion that it is appropriate to prepare the unaudited financial information for the nine months ended 31 December 2015 on a going concern basis.

The information set forth in this appendix does not form part of the accountants' report on the PRC Target from KPMG, the reporting accountants of the PRC Target, as set forth in Appendix III to this circular, and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information of the PRC Target" in this circular and "Appendix III — Accountants' Report on the PRC Target" and "Appendix IV — Financial Information of the Group" to this circular.

Capitalised terms used in this appendix have the same meaning as defined in the section headed "Definitions" in this circular.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION

INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE RESTRUCTURED GROUP

The following is the unaudited pro forma financial information of the Restructured Group as if the Subscription, the Acquisition, the CN Subscription, the Divestment and the Transfer (collectively the "**Transactions**") had been completed on 30 September 2015 for the Restructured Group's unaudited pro forma consolidated statement of financial position and at the beginning of the year ended 31 March 2015 for the Restructured Group's unaudited pro forma consolidated income statement and unaudited pro forma consolidated cash flow statement. The unaudited pro forma financial information of the Restructured Group is based upon the consolidated financial statements of the Company for the year ended 31 March 2015 as set out in the Company's 31 March 2015 annual report, the interim financial report of the Company for the six months ended 30 September 2015 as set out in the Company's 30 September 2015 interim report and adjusted to reflect the effect of the Transactions.

The unaudited pro forma financial information of the Restructured Group is based on a number of assumptions, estimates and uncertainties.

The unaudited pro forma financial information of the Restructured Group has been prepared by the Directors in accordance with Rules 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), for the purposes of illustrating the effect of the Transactions pursuant to the terms of relevant agreements and because of its hypothetical nature, it may not give a true picture of the financial position or results of the Restructured Group has the Transactions been completed as of the specified dates or any future date.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE RESTRUCTURED GROUP

Unaudited Pro Forma Consolidated Statement of Financial Position of the Restructured Group

	The Group as at 30 September 2015	The PRC Target as at 31 December 2015		Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma Restructured Group as at 30 September 2015
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 1)		*(Note 2)*	*(Note 2)*	*(Note 5)*	*(Note 7)*	*(Note 8)*	*(Note 9)*	*(Note 10)*	*(Note 11)*	
Non-current assets												
Property, plant and equipment	1	488,601	595,274	—	—	—	—	—	—	—	—	595,275
Construction in progress	—	108	132	—	—	—	—	—	—	—	—	132
Intangible assets	—	24,916	30,356	—	—	—	—	—	—	—	—	30,356
Lease prepayment	—	9,436	11,496	—	—	—	—	—	—	—	—	11,496
Other non-current assets	—	32,009	38,997	—	—	—	—	—	—	—	—	38,997
Deferred tax assets	—	599	730	—	—	—	—	—	—	—	—	730
	1	555,669	676,985	—	—	—	—	—	—	—	—	676,986
Current assets												
Inventories	—	6,456	7,865	—	—	—	—	—	—	—	—	7,865
Trade receivables	—	43,180	52,607	—	—	—	—	—	—	—	—	52,607
Prepayments, deposits and other receivables	605	39,963	48,688	—	—	—	1,944,194	—	—	—	—	1,993,487
Equity investment at fair value through profit or loss	6,065	—	—	—	—	(6,065)	—	—	—	—	—	—
Deposits placed with financial institutions	1,675	—	—	—	—	—	—	—	—	—	—	1,675
Bank balances and cash	1,196	12,498	15,227	—	1,653	6,065	995,806	—	(680,897)	—	(60,000)	279,050
	9,541	102,097	124,387	—	1,653	—	2,940,000	—	(680,897)	—	(60,000)	2,334,684
Assets classified as held for sale	429,888	—	—	(429,888)	—	—	—	—	—	—	—	—
	439,429	102,097	124,387	(429,888)	1,653	—	2,940,000	—	(680,897)	—	(60,000)	2,334,684

	The Group as at 30 September 2015	The PRC Target as at 31 December 2015		Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma Restructured Group as at 30 September 2015
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 1)		*(Note 2)*	*(Note 2)*	*(Note 5)*	*(Note 7)*	*(Note 8)*	*(Note 9)*	*(Note 10)*	*(Note 11)*	
Current liabilities												
Trade payables	—	144,435	175,969	—	—	—	—	—	—	—	—	175,969
Other payables, accruals and deposits	8,290	120,410	146,699	—	—	—	—	—	—	—	—	154,989
Interest-bearing bank and other borrowings	—	90,000	109,649	—	—	—	—	—	—	—	—	109,649
	8,290	354,845	432,317	—	—	—	—	—	—	—	—	440,607
Liabilities classified as held for sale	438,103	—	—	(438,103)	—	—	—	—	—	—	—	—
	446,393	354,845	432,317	(438,103)	—	—	—	—	—	—	—	440,607
Net current (liabilities)/assets	(6,964)	(252,748)	(307,930)	8,215	1,653	—	2,940,000	—	(680,897)	—	(60,000)	1,894,077
Total assets less current liabilities	(6,963)	302,921	369,055	8,215	1,653	—	2,940,000	—	(680,897)	—	(60,000)	2,571,063

	The Group as at 30 September 2015	The PRC Target as at 31 December 2015		Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma Restructured Group as at 30 September 2015
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 1)		*(Note 2)*	*(Note 2)*	*(Note 5)*	*(Note 7)*	*(Note 8)*	*(Note 9)*	*(Note 10)*	*(Note 11)*	
Non-current liabilities												
Convertible bond	107,394	—	—	—	—	—	214,575	435	—	—	—	322,404
Provisions	—	32,728	39,873	—	—	—	—	—	—	—	—	39,873
	107,394	32,728	39,873	—	—	—	214,575	435	—	—	—	362,277
Net (liabilities)/assets	(114,357)	270,193	329,182	8,215	1,653	—	2,725,425	(435)	(680,897)	—	(60,000)	2,208,786
Capital and reserves												
Share capital	3,473	434,920	529,873	—	—	—	40,173	—	—	(529,873)	—	43,646
Reserves	(124,798)	(164,727)	(200,691)	16,836	—	—	2,685,252	(435)	(680,897)	529,873	(60,000)	2,165,140
	(121,325)	270,193	329,182	16,836	—	—	2,725,425	(435)	(680,897)	—	(60,000)	2,208,786
Non-controlling interests	6,968	—	—	(6,968)	—	—	—	—	—	—	—	—
	(114,357)	270,193	329,182	9,868	—	—	2,725,425	(435)	(680,897)	—	(60,000)	2,208,786

Unaudited Pro Forma Consolidated Income Statement of the Restructured Group

	The Group for the year ended 31 March 2015	The PRC Target for the year ended 31 December 2015		Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma Restructured Group for the year ended 31 March 2015
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 1)		*(Note 3)*	*(Note 3)*	*(Note 8)*	*(Note 11)*	
Revenue	143,695	98,761	122,868	(143,695)	—	—	—	122,868
Costs of sales	(115,825)	(88,773)	(110,442)	115,825	—	—	—	(110,442)
Gross profit	27,870	9,988	12,426	(27,870)	—	—	—	12,426
Other income	2,570	88	109	(2,375)	—	—	—	304
Administrative expenses	(36,854)	(18,026)	(22,426)	34,378	—	—	—	(24,902)
Other operating expenses	(2,866)	(6,897)	(8,580)	2,866	—	—	—	(8,580)
Exploration expenses, including dry holes	—	(1,215)	(1,512)	—	—	—	—	(1,512)
Impairment loss recognised in respect of property, plant and equipment	(120,865)	—	—	120,865	—	—	—	—
Fair value loss on equity investment at fair value through profit or loss	(7,209)	—	—	—	—	—	—	(7,209)
Finance costs	(23,432)	(9,131)	(11,360)	19,244	—	—	—	(15,548)
Loss on modification of terms of convertible bond	(68,890)	—	—	—	—	—	—	(68,890)
Share of results of joint ventures	(5,258)	—	—	5,258	—	—	—	—
Loss on disposal of Divestment Group	—	—	—	—	(75,917)	—	—	(75,917)
Listing expense arising from the reverse acquisition	—	—	—	—	—	(278,281)	—	(278,281)
Transaction costs	—	—	—	—	—	—	(60,000)	(60,000)
Loss before tax	(234,934)	(25,193)	(31,343)	152,366	(75,917)	(278,281)	(60,000)	(528,109)
Income tax expense	—	599	745	—	—	—	—	745
Loss for the year	(234,934)	(24,594)	(30,598)	152,366	(75,917)	(278,281)	(60,000)	(527,364)
Loss for the year attributable to:								
Owners of the Company	(234,020)	(24,594)	(30,598)	151,452	(75,917)	(278,281)	(60,000)	(527,364)
Non-controlling interests	(914)	—	—	914	—	—	—	—

Unaudited Pro Forma Consolidated Cash Flow Statement of the Restructured Group

	The Group for the year ended 31 March 2015	The PRC Target for the year ended 31 December 2015		Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma Restructured Group for the year ended 31 March 2015
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 1)		*(Note 3)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 7)*	*(Note 8)*	*(Note 9)*	*(Note 11)*	
OPERATING ACTIVITIES												
Loss before tax	(234,934)	(25,193)	(31,343)	152,366	(75,917)	—	—	—	(278,281)	—	(60,000)	(528,109)
Adjustments for:												
Finance costs	23,432	8,923	11,101	(19,244)	—	—	—	—	—	—	—	15,289
Bank interest income	(71)	—	—	71	—	—	—	—	—	—	—	—
Share of results of joint ventures	5,258	—	—	(5,258)	—	—	—	—	—	—	—	—
Depreciation of property, plant and equipment	38,996	43,876	54,586	(38,992)	—	—	—	—	—	—	—	54,590
Amortisation of intangible assets and lease prepayment	—	2,848	3,543	—	—	—	—	—	—	—	—	3,543
Impairment loss recognised on other receivables	1,173	—	—	(1,173)	—	—	—	—	—	—	—	—
Impairment loss recognised on trade receivables	1,193	—	—	(1,193)	—	—	—	—	—	—	—	—
Impairment loss recognised on property, plant and equipment	120,865	—	—	(120,865)	—	—	—	—	—	—	—	—
Reversal of impairment loss recognised on trade receivables in prior years	(680)	—	—	680	—	—	—	—	—	—	—	—
Loss on disposal of Divestment Group	—	—	—	—	75,917	—	—	—	—	—	—	75,917
Listing expense arising from the reverse acquisition	—	—	—	—	—	—	—	—	278,281	—	—	278,281
Transaction costs	—	—	—	—	—	—	—	—	—	—	60,000	60,000
Loss on modification of terms of convertible bond	68,890	—	—	—	—	—	—	—	—	—	—	68,890
Loss on written off of property, plant and equipment	5	20	25	(5)	—	—	—	—	—	—	—	25
Fair value loss on equity investment at fair value through profit or loss	7,209	—	—	—	—	—	—	—	—	—	—	7,209
Dividend income from an equity investment at fair value through profit or loss	(195)	—	—	—	—	—	—	—	—	—	—	(195)
Operating cash flows before movements in working capital	31,141	30,474	37,912	(33,613)	—	—	—	—	—	—	—	35,440

	The Group for the year ended 31 March 2015 *HK$'000*	The PRC Target for the year ended 31 December 2015 *RMB'000* *(Note 1)*	*HK$'000*	Pro forma adjustments *HK$'000* *(Note 3)*	Pro forma adjustments *HK$'000* *(Note 3)*	Pro forma adjustments *HK$'000* *(Note 4)*	Pro forma adjustments *HK$'000* *(Note 5)*	Pro forma adjustments *HK$'000* *(Note 7)*	Pro forma adjustments *HK$'000* *(Note 8)*	Pro forma adjustments *HK$'000* *(Note 9)*	Pro forma adjustments *HK$'000* *(Note 11)*	Pro forma Restructured Group for the year ended 31 March 2015 *HK$'000*
Increase in inventories	(176)	(2,154)	(2,680)	176	—	—	—	—	—	—	—	(2,680)
Increase in trade receivables	(604)	(8,180)	(10,177)	604	—	—	—	—	—	—	—	(10,177)
(Increase)/decrease in prepayments, deposits and other receivables	(11,734)	13,679	17,018	1,333	—	—	—	—	—	—	—	6,617
Increase/(decrease) in trade and other payables	58	(45,408)	(56,492)	12,805	—	—	—	—	—	—	—	(43,629)
Decrease in provision	(166,606)	—	—	166,606	—	—	—	—	—	—	—	—
Net cash used in operating activities	(147,921)	(11,589)	(14,419)	147,911	—	—	—	—	—	—	—	(14,429)
INVESTING ACTIVITIES												
Interest received	71	—	—	(71)	—	—	—	—	—	—	—	—
Purchase of property, plant and equipment	(4,843)	(37,360)	(46,478)	4,843	—	—	—	—	—	—	—	(46,478)
Net proceeds for the Divestment, net of the cash disposed of	—	—	—	—	—	(38,379)	—	—	—	—	—	(38,379)
Proceeds from disposal of Equity Investment in Soufun	—	—	—	—	—	—	6,065	—	—	—	—	6,065
Advance to the Divestment Group	—	—	—	(2,078)	—	—	—	—	—	—	—	(2,078)
Placement of deposits with financial institutions	(165)	—	—	—	—	—	—	—	—	—	—	(165)
Dividends received from an equity investment at fair value through profit or loss	195	—	—	—	—	—	—	—	—	—	—	195
Payment for acquisition of the PRC Target	—	—	—	—	—	—	—	—	—	(680,897)	—	(680,897)
Net cash (used in)/generated from investing activities	(4,742)	(37,360)	(46,478)	2,694	—	(38,379)	6,065	—	—	(680,897)	—	(761,737)

	The Group for the year ended 31 March 2015 HK$'000	The PRC Target for the year ended 31 December 2015 RMB'000 (Note 1)	The PRC Target for the year ended 31 December 2015 HK$'000	Pro forma adjustments HK$'000 (Note 3)	Pro forma adjustments HK$'000 (Note 3)	Pro forma adjustments HK$'000 (Note 4)	Pro forma adjustments HK$'000 (Note 5)	Pro forma adjustments HK$'000 (Note 7)	Pro forma adjustments HK$'000 (Note 8)	Pro forma adjustments HK$'000 (Note 9)	Pro forma adjustments HK$'000 (Note 11)	Pro forma Restructured Group for the year ended 31 March 2015 HK$'000
FINANCING ACTIVITIES												
Advance from related companies	181,550	—	—	(181,550)	—	—	—	—	—	—	—	—
Proceeds from the issue of ordinary shares under the Subscription	—	—	—	—	—	—	—	850,000	—	—	—	850,000
Proceeds from the issue of preferred shares under Subscription	—	—	—	—	—	—	—	133,306	—	—	—	133,306
Proceeds from the CN subscription	—	—	—	—	—	—	—	12,500	—	—	—	12,500
Payment for the transaction costs	—	—	—	—	—	—	—	—	—	—	(60,000)	(60,000)
Interest paid	(16,856)	(2,083)	(2,591)	16,737	—	—	—	—	—	—	—	(2,710)
Repayment of bank and other borrowings	(77,767)	(110,990)	(138,082)	77,767	—	—	—	—	—	—	—	(138,082)
New bank and other borrowings raised	37,935	167,179	207,986	(37,935)	—	—	—	—	—	—	—	207,986
Net cash generated from/(used in) financing activities	124,862	54,106	67,313	(124,981)	—	—	—	995,806	—	—	(60,000)	1,003,000
Net (decrease)/increase in cash and cash equivalents	(27,801)	5,157	6,416	25,624	—	(38,379)	6,065	995,806	—	(680,897)	(60,000)	226,834
Cash and cash equivalents at beginning of year	42,793	7,341	9,133	—	—	—	—	—	—	—	—	51,926
Effect of foreign exchange rate changes	196	—	—	(195)	—	—	—	—	—	—	—	1
Cash and cash equivalents at end of year	15,188	12,498	15,549	25,429	—	(38,379)	6,065	995,806	—	(680,897)	(60,000)	278,761

Notes:

1 The amounts represent the unadjusted financial information of the PRC Target as at 31 December 2015 (for the purpose of unaudited pro forma consolidated statement of financial position) and for the year ended 31 December 2015 (for the purpose of unaudited pro forma consolidated income statement and unaudited pro forma consolidated cash flow statement), which is extracted from the Accountants' Report on the PRC Target as set out in Appendix III to the Circular, and is translated to Hong Kong dollars at the exchange rate of RMB0.8208 to HK$1 prevailing at 30 September 2015 in relation to the statement of financial position and RMB0.8038 to HK$1 in relation to the income statement and cash flow statement.

The Transactions are considered to be linked and shall be executed as a single package. Accordingly, the Directors determine to apply the principles of reverse acquisition in HKFRS 3 by analogy to the unaudited pro forma financial information. The consolidated financial statements prepared following a reverse acquisition represent a continuation of the financial statements of the legal subsidiary (accounting acquirer — the PRC Target), the assets and liabilities of which are recognised and measured at their pre-combination carrying amounts. Therefore, there is no adjustment in connection with the fair value of identifiable assets and liabilities of the PRC Target included in the unaudited pro forma financial information.

2 In respect of the Restructured Group's unaudited pro forma consolidated statement of financial position, the adjustments represent the receipt of cash consideration, which amounts to HK$1,653,000 (subject to adjustment of the Adjustment Amount) pursuant to the Divestment Agreement, and the disposal of the assets and liabilities of the Divestment Group as if the Divestment had been completed on 30 September 2015. The carrying amounts of the assets and liabilities of the Divestment Group as at 30 September 2015 are derived from the financial information of the Divestment Group as set out in Appendix V to the Circular.

	HK$'000
Initial consideration for the Divestment*	1,653
Add: net liabilities of the Divestment Group attributable to owners of the Company as at 30 September 2015	271,938
exchange fluctuation reserve relating to the Divestment Group transferred to profit or loss	25,357
Less: the net amounts due from the Divestment Group to the Company	(256,755)
Impact on profit or loss	42,193
Less: amount transferred from exchange fluctuation reserve relating to the Divestment Group	(25,357)
Impact on equity attributable to owners of the Company	16,836

* The consideration for the Divestment is subject to adjustment of the Adjustment Amount.

If the aggregate amount of the initial consideration and the Adjustment Amount is less than HK$1, the adjusted consideration for the Divestment shall be deemed to be HK$1.

3 In respect of the Restructured Group's unaudited pro forma consolidated income statement and unaudited pro forma consolidated cash flow statement, the adjustment represents the impact of the disposal of the Divestment Group on the results and cash flows, as if the Divestment had been completed on 1 April 2014. The results and cash flows of the Divestment Group for the year ended 31 March 2015 are extracted from the financial information of the Divestment Group as set out in Appendix V to the Circular. The adjustment will not have continuing effect on the consolidated income statement and consolidated cash flow statement of the Restructured Group.

	HK$'000
Initial consideration for the Divestment *(note 2)*	1,653
Add: net liabilities of the Divestment Group attributable to owners of the Company as at 1 April 2014	157,416
Less: the net amounts due from the Divestment Group to the Company	(257,513)
	(98,444)
Exchange fluctuation reserve relating to the Divestment Group transferred to profit or loss	22,527
Impact on profit or loss	(75,917)

4 The adjustment reflects the impact on cash flow as if the Divestment had completed on 1 April 2014.

	HK$'000
Initial consideration for the Divestment *(note 2)*	1,653
Less: Cash and cash equivalents held by the Divestment Group as at 1 April 2014	(40,032)
Net proceeds for the Divestment, net of the cash disposed of	(38,379)

5 This adjustment represents the disposal of equity investment in the securities of Soufun Holding Limited (NYSE: SFUN) ("**Equity Investment in Soufun**") held by the Company, which is carried at fair value in the Company's financial statements. Pursuant to the Divestment Agreement, all the shares of Soufun held by the Company shall be transferred from the Company to Aykens Holdings Limited at market price at the time of transfer. The market price of the Equity Investment in Soufun at 30 September 2015 of HK$6,065,000 is used for illustrating the effect of disposal of such equity investment in the Restructured Group's unaudited pro forma consolidated statement of financial position and the unaudited pro forma consolidated cash flow statement. There is no gain or loss on disposal of the Equity Investment in Soufun.

6 The income tax impact on the Divestment has not been made to the unaudited pro forma financial information, as the Directors determine that such impact is insignificant.

The adjustments in notes (2), (3), (4) and (5) will not have continuing effect on the consolidated income statement and consolidated cash flow statement of the Restructured Group.

The estimated gain/loss on disposal of the Divestment Group and net proceeds for the Divestment as illustrated in notes (2), (3), (4) and (5) are subject to change on the date of completion of the Divestment. The actual net liabilities of the Divestment Group, cash and cash equivalents held by the Divestment Group and the Adjustment Amount and thus the gain/loss on disposal and net proceeds for the Divestment and the actual market price of Equity Investment in Soufun at the date of completion will likely be different from those stated in the unaudited pro forma financial information.

7 The adjustment is related to the Subscription which represents:

- Issue of 1,269,414,575 Ordinary Subscription Shares at HK$0.6696 per share with proceeds of approximately HK$850,000,000, which are payable by the subscribers upon completion of the Subscription.

- Issue of 1,373,954,600 Tranche 1 Preferred Shares and 1,373,954,599 Tranche 2 Preferred Shares at HK$0.6696 per share with proceeds of approximately HK$1,840,000,000, among which HK$133,306,000, HK$853,347,000 and HK$853,347,000 shall be payable by the subscribers upon completion, within 180 days after completion and within 1 year after completion, respectively.

  The Company shall issue to the subscribers the Preferred Shares in accordance with the terms of the Subscription Agreement. It is assumed that the Preferred Share is a non-derivative for which the Company is not obligated to deliver the variable number of the Company's own equity instruments.

- Issue of Convertible Note with a principal amount of HK$250,000,000, among which HK$12,500,000 and HK$237,500,000 shall be payable by the subscribers upon completion and within 120 days after completion, respectively. No interest shall be payable on the entire principal amount. The principal amount of HK$250,000,000 and a redemption premium of HK$125,000,000 shall be payable upon redemption of the Convertible Note.

  The Company shall issue to the subscriber a Convertible Note in accordance with the terms of the CN Subscription Agreement. The conversion price is HK$0.6696 per share, subject to adjustment shall there be any stock split, stock combination, stock bonus dividends or similar events affecting the share capital of the Company after the issuance date of the Convertible Note. It is assumed that the Convertible Note will meet the fixed-for-fixed requirements, i.e. to be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's ordinary shares, subject to the adjustment of the conversion ratio to compensate holder for changes in the number of ordinary shares outstanding that relate to share issuances or redemption not at fair value.

  The liability and derivative component (redemption option) of the Convertible Note are measured at fair value as at 30 September 2015. The fair value of the liability component is determined by discounting the nominal amount of HK$250,000,000 at the discount rate of 5.45% as determined by the Directors with reference to valuation carried out by LCH (Asia-Pacific) Surveyors Limited, an independent valuer. The discount rate is based on the credit rating of the Company and comparable corporate bond spreads with similar credit rating. The fair value of the derivative component (redemption option) is determined using binomial model. The total fair value of the liability and derivative component of the Convertible Note as at 30 September 2015 is HK$214,575,000. The excess of proceeds of HK$250,000,000 over the liability component and the derivative component totalling HK$35,425,000 is recognised as the equity component.

8 The adjustment is related to the Acquisition.

As described in note 1, the Directors have applied the principles of reverse acquisition in HKFRS 3 by analogy to the unaudited pro forma financial information. Accordingly, the Acquisition would be accounted for in the Restructured Group's financial statements as a continuation of the financial statements of the PRC Target, together with a deemed issue of equity, and a re-capitalisation of the equity of the PRC Target.

The acquisition-date fair value of the consideration transferred by the accounting acquirer for its interest in the accounting acquiree is based on the number of equity interests the legal subsidiary would have had to issue to give the owners of the legal parent the same percentage equity interest in the combined entity that results from the reverse acquisition.

The PRC Target is deemed to issue shares to give the Company's existing shareholders the same percentage of ownership in the Restructured Group (without considering the impact of the Transfer, the Subscription, the CN Subscription), which is calculated to be equivalent to 25.46% interest in the PRC Target. Consequently, the fair value of the shares deemed to have been issued is measured to be RMB558,880,000 (equivalent to HK$680,897,000 translated to Hong Kong dollars at the exchange rate of RMB0.8208 to HK$1 prevailing at 30 September 2015, representing purchase consideration for the entire interest in the PRC Target pursuant to the Acquisition Agreement) multiplied by the percentage of ownership of the PRC Target (i.e. 25.46%) associated with the deemed issue of equity.

The Acquisition and the Divestment will be completed simultaneously and the Company is only a non-operating public shell corporation at the date of completion of the Acquisition. Because the Company is not a business under HKFRS 3, at the date of completion of the Acquisition and Divestment, the fair value of the shares deemed to have been issued by the accounting acquirer (the PRC Target) and the fair value of the accounting acquiree's (the Company's) identifiable net assets received should be treated in its entirety as a payment for a stock exchange listing and expensed as it is incurred.

The conversion price of the Company's convertible bond has been set at HK$0.3695 per share. The liability and equity components of the convertible bond have been measured at the fair value as at 30 September 2015. The fair value of the liability component is determined by discounting the nominal amount of HK$120,000,000 at the discount rate of 5.32% as determined by the Directors with reference to valuation carried out by LCH (Asia-Pacific) Surveyors Limited, an independent valuer. The fair value of the equity component is determined using binomial model. The discount rate is based on the credit rating of the Company and comparable corporate bond spreads with similar credit rating. The fair value of the liability component of the convertible bond as at 30 September 2015 is HK$107,829,000. As a result, the fair value adjustment on the liability component of the convertible bond is approximately HK$435,000 which is charged to the listing expenses.

	HK$'000
Fair value of deemed issued equity	173,357
Net liabilities of the Group (upon completion of the Divestment and without considering the impact of the Subscription and the CN Subscription) attributable to owners of the Company as at 30 September 2015	104,489
Fair value adjustment on the liability component of convertible bond	435
Estimated listing expenses charged to profit or loss	(278,281)

This adjustment in respect of the unaudited pro forma consolidated income statement above is not expected to have a continued effect on the Restructured Group.

9 The adjustment represents the payment of consideration for the Acquisition, which amounts to RMB558,880,000 (equivalent to HK$680,897,000 translated to Hong Kong dollars at the exchange rate of RMB0.8208 to HK$1 prevailing at 30 September 2015) to be satisfied in cash, pursuant to the sale and purchase agreement.

10 The adjustment is related to the presentation of issued capital of the Restructured Group upon the completion of the Transactions.

The share capital is adjusted to reflect the capital of the legal parent (the accounting acquiree — the Company). It is represented by the movements in the share capital of the Company as follows:

	Number of Ordinary Shares HK$0.01 each	**Number of Preferred Shares HK$0.01 each**	**Par or nominal value** *HK$'000*
Authorised:			
At 30 September 2015	8,000,000,000	—	80,000
Immediately after the changes to the authorised share capital of the Company	7,252,090,801	2,747,909,199	100,000
Issued and fully paid:			
At 30 September 2015	347,326,000	—	3,473
Shares to be issued upon completion of the Subscription	1,269,414,575	2,747,909,199	40,173
	1,616,740,575	2,747,909,199	43,646

11 This adjustment represents the estimated transaction-related costs, mainly comprise professional fees, of approximately HK$60,000,000, payable by the Company to the sponsors, legal advisors, financial advisor, reporting accountants, valuer and printer in connection with the Transactions.

This adjustment in respect of the unaudited pro forma consolidated income statement and unaudited pro forma cash flow statement above is not expected to have a continued effect on the Restructured Group.

12 Unaudited pro forma statement of adjusted net tangible (liabilities)/assets of the Restructured Group:

	Net tangible liabilities of the Group as at 30 September 2015 *HK$'000* *Note a*	**Net tangible liabilities of the Group per share as at 30 September 2015** *HK$* *Note b*	**Unaudited pro forma adjusted net tangible assets of the Restructured Group as at 30 September 2015** *HK$'000* *Note c*	**Unaudited pro forma adjusted net tangible assets of the Restructured Group per share as at 30 September 2015** *HK$* *Note d*
Net tangible (liabilities)/assets attributable to the owners of the Company	(121,325)	(0.35)	2,500,834	0.38

Notes:

a. The net tangible liabilities of the Group as at 30 September 2015 is based on the consolidated net liabilities attributable to the owners of the Company of HK$121,325,000 as at 30 September 2015.

b. The number of shares used for the calculation of the net tangible liabilities of the Group per share is 347,326,000, being the number of shares in issue as at 30 September 2015.

c. The unaudited pro forma adjusted net tangible assets of the Restructured Group are arrived at after the adjustments referred to in the preceding paragraphs and calculated on the amount of the unaudited pro forma adjusted net (liabilities)/assets attributable to the owners of the Company as at 30 September 2015, which is extracted from the unaudited pro forma consolidated statement of financial position of the Restructured Group, after excluding intangible assets of approximately HK$30,356,000 and liabilities of the Convertible Bonds and Convertible Note of approximately HK$322,404,000 assuming the Convertible Bonds and Convertible Note are fully converted.

d. The number of shares used for the calculation of the unaudited pro forma adjusted net tangible assets of the Restructured Group per share is 6,523,721,287, comprising (i) 347,326,000 Ordinary Shares in issue as at 30 September 2015; (ii) 1,785,714,285 CB Conversion Shares assumed to be converted from the Convertible Bonds as at 30 September 2015; (iii) 1,269,414,575 Ordinary Subscription Shares to be issued and 2,747,909,199 New Conversion Shares assumed to be converted from the Preferred Shares to be issued upon the Subscription Completion; (iv) 373,357,228 CN Conversion Shares assumed to be converted from the Convertible Note to be issued upon the CN Subscription Completion. The above assumes that each of the Subscription and the CN Subscription becomes unconditional and all the Convertible Bonds, Preferred Shares and Convertible Note have been fully converted into Ordinary Shares.

13 No adjustment has been made to the unaudited pro forma financial information to reflect any trading results or other transactions of the Restructured Group entered into subsequent to 30 September 2015 in respect of the unaudited pro forma consolidated statement of financial position or 31 March 2015 in respect of the unaudited pro forma consolidated income statement and unaudited pro forma consolidated cash flow statement.

B. REPORT FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this circular.

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

29 June 2016

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF SHUN CHEONG HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of Shun Cheong Holdings Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 September 2015, the unaudited pro forma consolidated income statement and unaudited pro forma consolidated cash flow statement for the year ended 31 March 2015 and related notes as set out in Part A of Appendix VI to the circular dated 29 June 2016 (the "**Circular**") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix VI to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the completion of the Subscription, the Acquisition, the CN Subscription, the Divestment and the Transfer (as defined in the section headed "Definitions" of the Circular, collectively the "**Transactions**") on the Group's financial position as at 30 September 2015 and the Group's financial performance and cash flows for the year ended 31 March 2015 as if the Transactions had taken place at 30 September 2015 and 1 April 2014, respectively. As part of this process, information about the Group's financial position as at 30 September 2015 has been extracted by the Directors from the interim financial report of the Company for the six months ended 30 September 2015, on which no review report has been published. The information about the Group's financial performance and cash flows for the year ended 31 March 2015 has been extracted by the Directors from the consolidated financial statements of the Company for the year ended 31 March 2015, on which an audit report has been published.

The audit report for the consolidated financial statements of the Company for the year ended 31 March 2015 contain a disclaimer of opinion on the Group's ability to continue as a going concern, as more fully described in the annual report of the Company for the year ended 31 March 2015 published on 20 July 2015. These facts and circumstances indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("**HKSAE**") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of events or transactions at 30 September 2015 or 1 April 2014 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group, and

(c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG
Certified Public Accountants
Hong Kong

C. REPORT FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA ADJUSTMENT ON FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the pro forma adjustment on financial information of the Group in this circular.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

29 June 2016

The Directors
Shun Cheong Holdings Limited

Dear Sirs,

Shun Cheong Holdings Limited (the "Company") and its subsidiaries (collectively the "Group")
The unaudited pro forma adjustment on financial information of the Group

We refer to the unaudited pro forma adjustment in connection with the impact on profit or loss as a result of the disposal of the Divestment Group (as defined in the circular of the Company dated 29 June 2016 (the "**Circular**")) on financial information of the Group, set forth in Part A, note 2 of Appendix VI to the Circular (the "**Pro Forma Adjustment**").

The Pro Forma Adjustment is regarded as a profit estimate under Rule 10 of the Code on Takeovers and Mergers issued by the Securities and Futures Commission (the "**Takeovers Code**").

Directors' Responsibilities

The basis of preparation of the Pro Forma Adjustment is set out under the section headed "Introduction to the Unaudited Pro Forma Financial Information of the Restructured Group" and note 2 in Part A of Appendix VI to the Circular.

The Company's directors are solely responsible for the Pro Forma Adjustment.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to report, as required by Rule 10.3(b) of the Takeovers Code, on the accounting policies and calculations of the Pro Forma Adjustment based on our procedures.

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 "Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness" and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company's directors have properly compiled the Pro Forma Adjustment on the basis of preparation as described under the section headed "Introduction to the Unaudited Pro Forma Financial Information of the Restructured Group" and note 2 in Part A of Appendix VI to the Circular and as to whether the Pro Forma Adjustment is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Pro Forma Adjustment has been properly compiled in accordance with the basis of preparation as described under the section headed "Introduction to the Unaudited Pro Forma Financial Information of the Restructured Group" and note 2 in Part A of Appendix VI to the Circular and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group in preparing the consolidated financial statements of the Company as at and for the year ended 31 March 2015.

Yours faithfully,

KPMG
Certified Public Accountants
Hong Kong

COMPETENT PERSON'S REPORT
FOR BLOCK 212,
ULIASTAI DEPRESSION, ONSHORE CHINA

Prepared for

Shun Cheong Holdings Limited

29 June, 2016

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Gaffney, Cline & Associates
(Consultants) Pte. Ltd.
80 Anson Road
#31-01C Fuji Xerox Towers
Singapore 079907
Telephone: +65 6225 6951

www.gaffney-cline.com

29 June, 2016

Board of Directors
Shun Cheong Holdings Limited
Suite 2302, Wing On Centre
111 Connaught Road Central
Hong Kong

Dear Sirs,

Competent Person's Report for Block 212, Uliastai Depression, Onshore China

INTRODUCTION

At the request of Shun Cheong Holdings Limited ("**Shun Cheong**" or "**the Client**"), Gaffney, Cline & Associates ("**GCA**") has prepared a Competent Person's Report ("**CPR**"), as of 31st December 2015, for Block 212 in the Uliastai Depression, Inner Mongolia, onshore China, in accordance with GCA Engagement Letters **YDH/dyh/PS-15-2043.07/L0053**, **YDH/jbi/PS-15-2043.05/L0346** and **YDH/jbi/PS-15-2043.01/L0186**.

Block 212, which is about 212.9 km^2 in size, is located in the Uliastai Depression of the Erlian Basin, Inner Mongolia, China **(Figure 1)**. Yanchang Petroleum Group ("**Yanchang**"), a State Owned Enterprise of Shaanxi Province secured rights to the block in 2009. Subsequently, Yanchang signed an Oil and Gas Resources Exploration and Exploitation Cooperation Agreement ("**the Cooperation Agreement**") with Xilin Gol League Hongbo Mining Development Co., Ltd. ("**Hongbo**"). Under the Cooperation Agreement, Hongbo became operator of the block with an 80% revenue interest and is responsible for conducting all exploration and exploitation operations. The remaining 20% revenue interest is held by Yanchang.

Pursuant to the Cooperation Agreement, Hongbo is also entitled to an 80% revenue interest in Block 378, which is also located in Erlian Basin, Inner Mongolia, China. Hongbo's interests in Block 212 and Block 378 are summarised as follows:

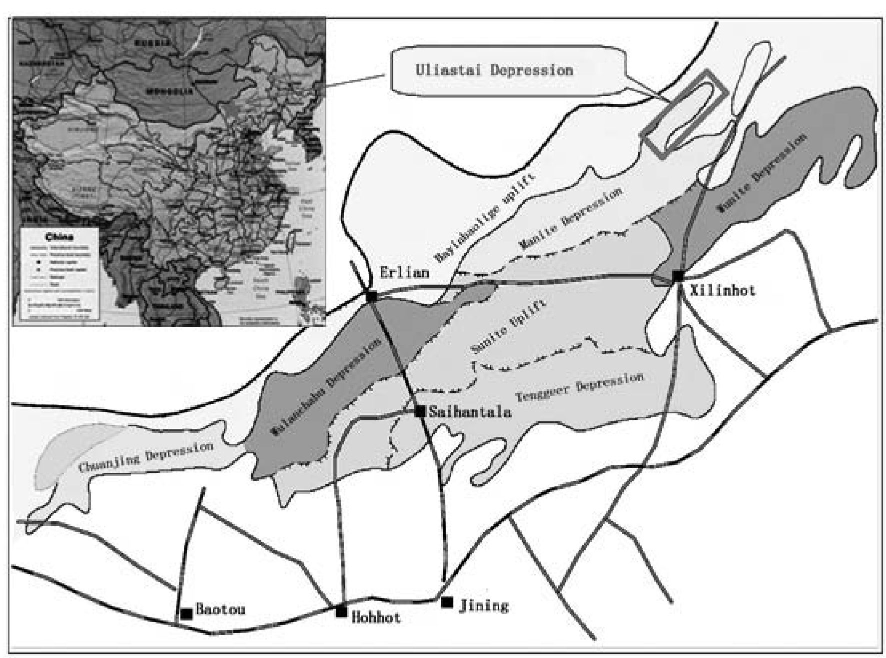
	Block 212	**Block 378**
Revenue sharing interest	80%	80%
Gross Area (km^2)	212.9	378.2
Net Area (km^2)	170.3	302.6

Based on the information provided by Hongbo, no material exploration work has been performed on Block 378, except for a 2D seismic survey, and there is insufficient data in respect of Block 378 to estimate any reserves.

Shun Cheong, a company listed on The Stock Exchange of Hong Kong Limited ("**HKEx**") (stock code: 00650), entered into an agreement on 22nd June, 2015 to acquire a 100% equity interest in Hongbo ("**Acquisition**"). In connection with the proposed acquisition, Titan Gas Technology Investment Limited ("**Titan Gas**") will invest in Shun Cheong together with some other subscribers, and will become the controlling shareholder of Shun Cheong. The proposed acquisition constitutes a reverse takeover ("**RTO**") for Shun Cheong under the Rules Governing the Listing of Securities on HKEx (the "**Listing Rules**").

This CPR has been prepared to support the potential transaction and has been prepared in accordance with the applicable requirements of Chapter 18 and Appendix 25 of the Listing Rules.

Figure 1: Block 212 Location Map



(Source: Modified from Hongbo)

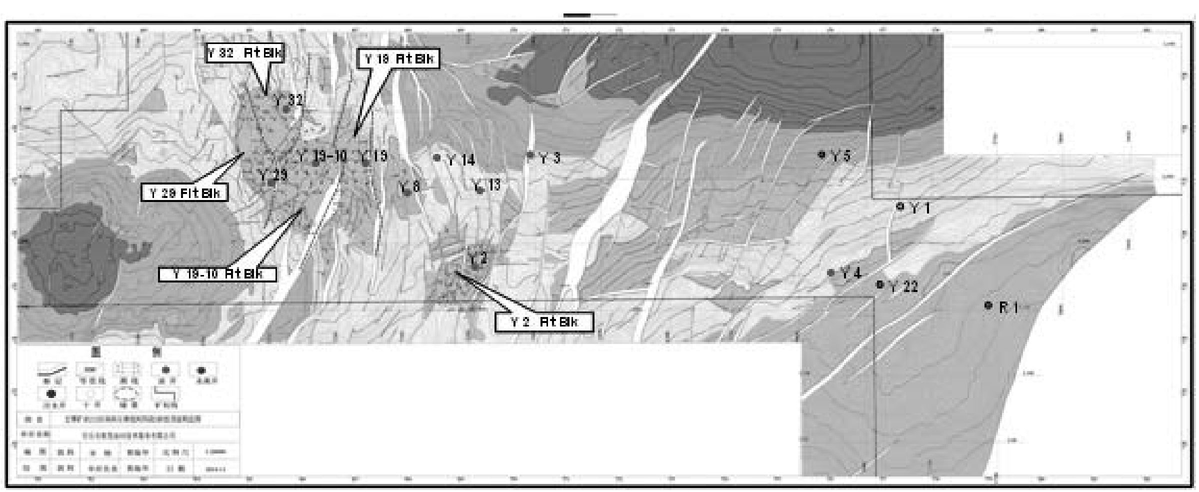
The Erlian basin is an established oil province, having produced oil since 1989. The Uliastai depression is a more recently established producing region within the basin, with first discovery having been made in 1987 and production not having been established until 2009.

The first successful exploration well drilled in Block 212, Y2, was drilled in 2008 in the Y2 fault compartment on the south central margin of the block **(Figure 2)**. The well was tested and produced oil at a rate of 5.2m^3/d (33 bpd) from the Lower Cretaceous K_1ba^4 II sandstone reservoir over the intervals 1,825–1,830m and 1,840–1,845m. The well was then hydraulically fractured and oil production increased to 21.1m^3/d (132 bpd). Pilot production from Y2 commenced on 21st October, 2009 with initial production at 19.6m^3/d (123 bpd). This was the first oil producing well in Block 212.

Since then, oil has been discovered in four additional "Major" fault compartments; Y19, Y19–10, Y29 and Y32, and five "Minor" fault compartments; Y3, Y4, Y8, Y13, Y14. The Y2 fault compartment area, also referred to as Unit 2, and the four other "Major" fault compartments, collectively named Unit 19, are the focus of the ongoing development program and a "Proved Reserves report" for these areas was submitted to the Ministry of Land and Resources (MOLR) in January 2014 and approval received on 13th August, 2014. Yanchang is in the process of preparing the necessary documentation required to submit an application for a Production Permit for these areas.

Pilot production commenced from the Unit 2 area in 2009 and from the Unit 19 area in 2010 and has continued to date. A total of 135 wells have been drilled in the block to date, including 101 producers and 23 water injectors and 11 dry holes. As of 31st December, 2015, the block's daily oil production was 188 m^3/d (1,180 bpd) and cumulative production was 0.36 MMm^3 (2.3 MMstb).

Figure 2: Block 212 Major and Minor Fault compartments



Whilst some of the exploration wells in the "Minor" fault compartments have also produced limited volumes of oil, these areas require further appraisal drilling and are not included as Reserves in this assessment. The resources associated with these fault compartments have been classified as Contingent Resources and will require a separate "Proved Reserves report" to be submitted and approved by MOLR before an application can be made for a Production Permit to cover these areas.

In addition, there are several prospects identified by Hongbo in the eastern part of the block that are the areas considered for future exploration drilling. The resources associated with these have been classified herein as Prospective Resources.

GCA's scope of work for this project was as follows:

- To provide an independent Reserves and Resources assessment of the Block 212 as of 31st December, 2015 and then a CPR accordingly.

- The work will independently opine on the Reserves and Resources of the Block 212 and is to be performed according to the guidelines and definitions of the Society of Petroleum Engineers ("**SPE**") Petroleum Resources Management System (SPE PRMS).

GCA has adopted a deterministic methodology in conducting its reserves and resources evaluation. A deterministic approach was favoured over a probabilistic methodology because the deterministic method uses a single value for each parameter for each case, based on a well-defined description of the reservoir, resulting in a single value for the resource or reserves estimate for each case.

Typically, three deterministic cases are developed to represent either low estimate, best estimate, or high estimate. Each of these categories can be related to specific areas or volumes in the reservoir and a specific development plan.

Advantages of the deterministic method particularly where there is a significant amount of reservoir and production performance data available from exploration, appraisal and development wells, as in Block 212, are:

- The method describes a specific physical case; physically inconsistent combinations of parameter values can be spotted and removed.

- The method is direct, easy to explain, and manpower efficient.

- The estimate is reproducible.

In carrying out the assessment, GCA has relied upon historical production data provided by Hongbo and GCA has employed decline curve analysis techniques to estimate reserves and resources. Further details of the production forecasting methodology and reasoning are provided in Section 6.5.1.

This report relates specifically and solely to the subject matter as defined in the scope of work, as set out herein, and is conditional upon the specified assumptions. The report must be considered in its entirety and must only be used for the purpose for which it is intended.

BASIS OF OPINION

This document reflects GCA's informed professional judgment based on accepted standards of professional investigation and, as applicable, the data and information provided by Hongbo and obtained from other sources (e.g., public domain), the limited scope of engagement, and the time permitted to conduct the evaluation. It is consistent with general petroleum engineering and geoscience practices in the industry.

In line with those accepted standards, this document does not in any way constitute or make a guarantee or prediction of results, and no warranty is implied or expressed that actual outcome will conform to the outcomes presented herein. GCA has not independently verified any information provided by, or at the direction of, Hongbo, and has accepted the accuracy and completeness of this data. GCA has considered the information provided by Hongbo and has no reason to believe that any material facts have been withheld or any information provided to it is inaccurate in any material aspect, but does not warrant that its inquiries have revealed all of the matters that a more extensive examination might otherwise disclose.

The opinions expressed herein are subject to and fully qualified by the generally accepted uncertainties associated with the interpretation of geoscience and engineering data and do not reflect the totality of circumstances, scenarios and information that could potentially affect decisions made by the report's recipients and/or actual results. The opinions and statements contained in this report are made in good faith and in the belief that such opinions and statements are representative of prevailing physical and economic circumstances.

In the preparation of this report, GCA has used definitions contained within the Petroleum Resources Management System (PRMS), which was approved by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists and the Society of Petroleum Evaluation Engineers in March 2007 (see **Appendix I**), which is consistent with the requirements of Appendix 25 of the Listing Rules. A list of industry standard terms and abbreviations is attached as **Appendix II** (Glossary).

There are numerous uncertainties inherent in estimating reserves and resources, and in projecting future production, development expenditures, operating expenses and cash flows. Oil and gas resources assessments must be recognised as a subjective process of estimating subsurface accumulations of oil and gas that cannot be measured in an exact way. Estimates of oil and gas resources prepared by other parties may differ, perhaps materially, from those contained within this report.

The accuracy of any resource estimate is a function of the quality of the available data and of engineering and geological interpretation. Results of drilling, testing and production that post-date the preparation of the estimates may justify revisions, some or all of which may be material. Accordingly, resource estimates are often different from the quantities of oil and gas that are ultimately recovered, and the timing and cost of those volumes that are recovered may vary from that assumed.

Oil and condensate volumes are reported in millions (10^6) of barrels at stock tank conditions (MMstb).

Based on the materials provided to GCA from Hongbo for the purpose of this report, including technical data, analyses, interpretations and reports, it appears to GCA that those materials have been prepared by staff that are experienced and technically competent in their fields of expertise.

GCA has only had limited contact with Hongbo's technical staff involved with the assessment and implementation of development and operation of its petroleum assets during GCA's site visit to the Block 212 facilities. Based on the operational status of the field facilities at the time of the site visit, GCA considers that the operational practices are consistent with those generally accepted in the petroleum industry.

GCA's review and audit involved reviewing pertinent facts, interpretations and assumptions made by Hongbo or others in preparing estimates of reserves and resources. GCA performed procedures necessary to enable it to render an opinion on the appropriateness of the methodologies employed, adequacy and quality of the data relied on, depth and thoroughness of the reserves and resources estimation process, classification and categorisation of reserves and resources appropriate to the relevant definitions used, and reasonableness of the estimates.

Definition of Reserves and Resources

Reserves are those quantities of petroleum that are anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria, based on the development project(s) applied: discovered, recoverable, commercial and remaining (as of the evaluation date).

Reserves are further categorised in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterised by development and production status. All categories of reserves volumes quoted herein have been derived within the context of an economic limit test (ELT) assessment (pre-tax and exclusive of accumulated depreciation amounts) prior to any net present value (NPV) analysis. For the purposes of the ELT and the NPV calculation associated with the Reserves, and in accordance with regulations and guidance promulgated by key regulatory bodies, GCA adopts an oil and gas price scenario that is reflective of typical contemporary planning assumptions of oil and gas companies. This oil and gas price assumption may vary from that used by companies in their valuation of oil and gas assets.

Contingent Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development because of one or more contingencies. Contingent Resources may include, for example, projects for which there are currently no evident viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorised in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterised by their economic status.

Prospective Resources are those quantities of petroleum that are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated "chance of discovery" and a "chance of development" (per PRMS). Prospective Resources are further subdivided in accordance with the level of certainty associated with recoverable estimates, assuming their discovery and development, and may be sub-classified based on project maturity.

There is no certainty that any portion of the Prospective Resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources. Prospective Resource volumes are presented as unrisked.

Lease fuel has been treated as shrinkage and is not included in sales quantities or the reserves and resources estimates.

This report has been prepared based on GCA's understanding of the effects of petroleum legislation and other regulations that currently apply to these properties. However, GCA is not in a position to attest to property title or rights, conditions of these rights (including environmental and abandonment obligations), or any necessary permits and consents (including planning permission, financial interest relationships, or encumbrances thereon for any part of the appraised properties). GCA is not aware of any potential changes in regulations applicable to these fields that could affect the ability of Hongbo to produce the reserves volumes contained herein.

Block 212 Operations

GCA undertook a site visit to the Block 212 area to examine the facilities and operations, and to assess their condition and state of operability. While the field area is remote, it is road accessible. Operations and equipment are appropriate for the type of operation involved and, with some minor maintenance issues noted, appeared to be well functioning. No major areas of concern were noted. GCA's scope of work did not include evaluating compliance with any applicable regulations in terms of standards, rating, health, safety, and environment. Nevertheless, GCA did not observe, nor has it become aware of any social or environmental issues that could impact the assessment of the evaluated properties.

Use of Net Present Values

It should be clearly understood that the NPVs contained herein do not represent a GCA opinion as to the market value of the subject property, nor any interest in it.

In assessing a likely market value, it would be necessary to take into account a number of additional factors including reserves risk (i.e., that Proved and/or Probable and/or Possible reserves may not be realised for the necessary costs expected to be incurred nor within the timeframe assumed for their exploitation); perceptions of sovereign risk, including the risk of potential changes to regulations; economic risk, including the risk that future oil prices may vary significantly from that used in the Reserves determination; potential upside; other benefits, encumbrances or charges that may pertain to a particular interest; and, the competitive state of the market at the time. GCA has explicitly not taken such factors into account in deriving the NPVs presented herein.

Qualifications

In performing this study, GCA is not aware that any conflict of interest has existed. As an independent consultancy, GCA is providing impartial technical, commercial, and strategic advice within the energy sector. GCA's remuneration was not in any way contingent on the contents of this report. In line with standard contract conditions for work of this kind Shun Cheong has indemnified GCA, its affiliated entities and persons involved in the preparation of this report against any claims that might be made by Shun Cheong or a third party resulting from use of or reliance on this report.

In the preparation of this report, GCA has maintained, and continues to maintain, a strict independent consultant-client relationship with the Client. Furthermore, the management and employees of GCA have no interest in any of the assets evaluated or related with the analysis performed, as part of this report.

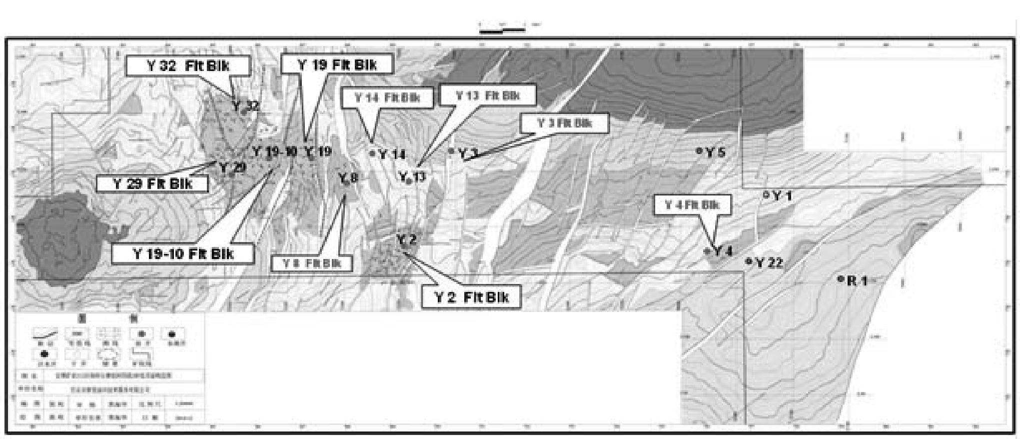
Staff members who prepared this report (see **Section 10)** hold appropriate professional and educational qualifications and have the necessary levels of experience and expertise to perform the work.

EXECUTIVE SUMMARY

Fault compartments in the Permit Area

Block 212 covers several faulted blocks including five major blocks which are on pilot production: Y2, Y19, Y19–10, Y29 and Y32, comprising the Unit 2 and Unit 19 areas. These 5 fault compartments represent the areas for which GCA has estimated Reserves. There are also several minor fault compartments, Y3, Y4, Y8, Y13, Y14, referred collectively as "Minor" fault compartments in this report, that have also produced oil from some of the exploration wells, the estimated recoverable volumes from these blocks are classified as Contingent Resources. The fault compartments in the eastern part of the block between the Y3 and Y4 fault compartments have been considered for the Prospective Resources assessment. The main fault compartments in the Block 212 are shown in **Figure 3**.

Figure 3: Fault compartments in the Block 212 Permit Area



Hydrocarbons In-Place

Table 1 presents GCA's Low, Best and High case estimates of stock tank oil initially in place (STOIIP), by fault compartment, for Block 212.

Table 1: Block 212 — STOIIP Estimates by Fault Compartment

Fault compartment	Low (MMstb)	Best (MMstb)	High (MMstb)
Y2	6.10	10.87	15.35
Y19	9.40	14.07	19.14
Y19–10	21.60	32.80	43.88
Y29	9.69	14.64	20.66
Y32	5.27	7.06	11.58
Minor	1.64	2.96	7.07
Total	**53.70**	**82.40**	**117.68**

Note: Totals may not add exactly due to rounding.

Development Plans

Hongbo's development plan for Block 212 involves drilling up to 124 new wells and 35 water injectors to develop the oil resources within the Unit 2 and Unit 19 areas. The planned wells are primarily infill wells and step-out wells within the producing areas and in off-set locations on structurally higher adjacent fault compartments. New wells will also include water injectors. Workovers are primarily hydraulic fracture jobs on existing wells.

GCA has reviewed this development plan and made modifications based on the results of GCA's geological and petrophysical interpretations and after discussion with Hongbo. At this stage of the development, it should be recognised that there are varying degrees of inherent technical and commercial uncertainties. GCA's modifications to the well numbers and drilling schedule resulted in the generation of three five-year drilling and workover programs which reflect these uncertainties and were used as the basis for the Low, Best and High case production forecasts.

GCA considers the development plans are sufficient to adequately develop the resources in the Unit 2 and Unit 19 areas of Block 212.

Estimated Ultimate Recovery

Table 2 presents the Low, Best and High case Estimated Ultimate Recoveries (EURs) of oil from within Block 212, based on the development plans outlined above.

Table 2: Block 212 — Estimated Ultimate Recovery by Block

Fault compartment	Low (MMstb)	Best (MMstb)	High (MMstb)
Y2	1.28	2.24	2.65
Y19	2.26	2.99	4.43
Y19–10	4.68	6.41	7.94
Y29	2.72	3.34	4.23
Y32	1.50	1.80	2.53
Minor	0.44	0.60	1.41
Total	**12.85**	**17.38**	**23.20**

Note: Totals may not add exactly due to rounding.

Reserves

GCA has evaluated the Reserves on the basis of the PRMS definitions which require the evaluator to use "current economic conditions" as at the date of the assessment (i.e. 31st December 2015).

Table 3 shows the Proved Developed Producing (PDP), Proved (1P) and Proved + Probable (2P) Gross and Net Oil Reserves for Block 212 as at 31st December, 2015 which were estimated using a deterministic methodology in accordance with SPE PRMS. The economic cut offs were applied following Economic Limit Tests (ELTs) at Block level, using costs and prices which are escalated throughout the analyses period.

Table 3: Block 212 — Gross (100%) Reserves and Hongbo Net Reserves As of 31st December, 2015

Block 212 Units 2 & 19	PDP (MMstb)	1P (MMstb)	2P (MMstb)
Gross 100% Reserves	4.7	10.1	14.2
80% Net Reserves attributable to Hongbo	3.7	8.1	11.4

Gross Reserves represent 100% commercially recoverable volumes attributable to Block 212 by the particular development plans adopted for the PDP, Low, and Best case development scenarios and after economic cutoffs have been applied.

Under the Cooperation Agreement governing Block 212, Hongbo sells (and is required to sell) all production from the block to an agreed refinery. From this, Hongbo receives 80% of gross revenue from the sale and pays the remaining 20% to Yanchang in cash. Resource tax payable to the state government is also paid only in cash. As a result of this arrangement Net Reserves attributable to Hongbo are equivalent to 80% of the Gross Reserves of Block 212.

As the Listing Rules do not allow Possible Reserves to be combined with information on any other category of Reserves, Possible Reserves for Block 212 as at 31st December, 2015 estimated on the same basis as 1P and 2P Reserves are shown in **Table 4**. Possible Reserves for Block 212 have been calculated as the difference between estimated Proved + Probable + Possible (3P) Reserves and the 2P Reserves volumes tabulated above.

Table 4: Block 212 — Gross (100%) Reserves and Hongbo Net Possible Reserves As of 31st December, 2015

Block 212 Units 2 & 19	Possible Reserves (MMstb)
Gross 100% Reserves	4.7
80% Net Reserves attributable to Hongbo	3.8

Net Present Values

The post-tax NPVs as at 31st December, 2015, attributable to Hongbo's 80% revenue interest in the Unit 2 and Unit 19 areas of Block 212 have been estimated at various discount rates based on the terms of the Cooperation Agreement for Block 212 and after considering the deduction of Commodity Factor, Resource tax, Local taxes, Yanchang Oil Revenue Share, Oil Levy, Income tax, and other applicable taxes.

Production profiles were developed on the basis of the Field Development and the Water Injection Plans of Hongbo. Capital and operating costs assumed were based on the operator's estimates and benchmarked against historical costs. Further details are provided in **Sections 7** and **8**.

Table 5 summarises the NPVs attributable to Hongbo's 80% revenue interest for PDP, Proved (1P) and Proved + Probable (2P) Reserves cases at various discount rates. They do not reflect any contribution from Possible Reserves, Contingent Resources or Prospective Resources.

Table 5: Block 212 — Uliastai Depression
Summary Post-Tax NPVs Net to Hongbo at Various Discount Rates
As of 31st December, 2015

Discount Rate	PDP (US$ MM)	1P (US$ MM)	2P (US$ MM)
5.0%	43	106	166
8.0%	38	87	133
10.0%	35	76	115
12.0%	32	67	100
15.0%	28	55	82

Notes:

1. The NPVs are calculated from discounted cash flows incorporating the fiscal terms governing the assets.

2. The NPVs reported here do not represent an opinion as to the market value of a property or any interest therein.

3. The NPVs reported here do not reflect any contribution from Possible Reserves, Contingent Resources or Prospective Resources.

Oil Price Sensitivities

Shun Cheong has requested GCA to also include a sensitivity analysis based on an assumed realised 2016 oil price of US$32/Bbl, being the lowest selling price of Hongbo crude since 1st January 2012 to the most recent practicable date. Shun Cheong has also requested that an additional sensitivity analysis be conducted based on the prevailing lowest selling price of Brent Crude since 1st January 2016, which was recorded as US$26.01/Bbl on 20th January 2016.

In order to address the first request, a sensitivity analysis was conducted to test the economic viability of Reserves volumes using a scenario of the Brent crude oil price of US$32/Bbl for 2016 and then based on the forward strip prices from 2017 to 2020 and at 2% inflation rate thereafter. Capital and Operating costs were reduced by a further 10% based on Hongbo's assessment of potential cost reductions under an aggressive cost reduction programme. Costs were escalated at 2% from 1st January, 2020. No adjustments were made to the assumed development plan, although, in practice, under such a scenario this could also occur.

Under such an assumption there would be no change in recoverable volumes at any Reserves confidence level, however, NPVs would reduce to around 75% of those shown in Table 5.

In order to address the second request, a sensitivity analysis was conducted to test the economic viability of Reserves volumes using a scenario of a constant Brent crude oil price of US$26/Bbl, which assumes that the average Brent oil price for 2016 will fall to and remain at US$26/Bbl thereafter. In this analysis, Capital and Operating costs were also reduced by a further 10% from the base case, but no price escalation or cost inflation was applied. Under such an assumption all recoverable volumes would become economically unviable.

Although the Brent crude price did drop to around US$26/Bbl for a few days in January, 2016, it has averaged US$33.62/Bbl over the first two and a half months of 2016 and continues to increase. Furthermore, Hongbo has recently provided additional information on Block 212 crude sales during January 2016 which averaged RMB1719/ton (US$36.45/Bbl). On these bases, GCA considers that the US$32/Bbl scenario is a representative low case from the standpoint of estimating reserves and that based on the results from this scenario, the bases and assumptions used as of 31st December, 2015 remain materially valid for the purpose of Reserves estimation up to the date of this report.

Contingent Resources

Recoverable volumes estimated for the "Minor" fault compartment areas (Y3, Y4, Y8, Y13, Y14), which were not included in the Proved Reserves report submitted to MOLR have been classified as Contingent Resources under the "Development Pending" sub-class. As development of these areas proceeds and an appropriate Reserves report is submitted to MOLR and any subsequent application for a Production Permit granted, it is anticipated that some of these volumes could be re-classified as Reserves.

Based on data provided, GCA considers that there is a high chance that these resources will be further appraised and, subject to successful appraisal, subsequently developed. The operator expects to submit a reserves report and plan of development for these areas in or before 2019.

The key risks associated with these resources are thus: that there are delays in the successful appraisal drilling and the associated submission of a "Proved Reserves" report to MOLR; that the future appraisal wells fail to prove sufficient resource volumes for economic development; or that the MOLR may not approve or delays the approval of the "Proved Reserves" report and/or plans submitted for their future development.

In addition to the "Minor" fault compartments, additional Contingent Resources have been estimated for the K_1ba^3 I reservoir in fault compartment Y19–10. The K_1ba^3 I reservoir is deeper than the main reservoir intervals in this fault block and the sands are less continuous and of poorer quality with the result that well productivity is likely to be poorer and ultimate recovery lower. The reservoir was not included in the reserves report submitted to MOLR as the STOIIP volumes are low and associated recoverable volumes are considered sub-economic. GCA considers that there is a low chance of development for the K_1ba^3 I reservoir resources unless further appraisal can confirm better productivity and significant additional volumes.

A summary of the Contingent Resources for the "Minor" fault compartments and the Y19–10 K_1ba^3 I reservoir are shown in **Table 6.**

Table 6: Block 212 Gross (100%) and Hongbo Net Contingent Resources As of 31st December, 2015

	Gross (100%)			80% Net to Hongbo		
Fault Compartments	**1C (MMstb)**	**2C (MMstb)**	**3C (MMstb)**	**1C (MMstb)**	**2C (MMstb)**	**3C (MMstb)**
Y3, Y4, Y8, Y13, Y14	0.44	0.60	1.41	0.35	0.48	1.13
Y19–10 (K_1ba^3 I)	0.05	0.11	0.26	0.04	0.09	0.21

Notes:

1. Gross Field Contingent Resources are 100% of the volumes estimated to be recoverable from the "Minor" fault compartments in the event that they are developed.

2. Net volumes represent the 80% Net Revenue Interest attributable to Hongbo under the Cooperation Agreement with Yanchang.

3. The volumes reported here are "unrisked" in the sense that no adjustment has been made for the risk that the blocks may not be developed in the form envisaged or may not go ahead at all (i.e. no "Chance of Development" factor has been applied).

4. Contingent Resources should not be aggregated with Reserves because of the different levels of risk involved.

Prospective Resources

GCA has estimated Prospective Resources and Geological Chance of Success (GCoS) for ten areas identified by Hongbo in the region covered by the eastern half of the 3D seismic survey.

The prospects each have different characteristics to the main producing fields to the west with regards to structural style and seismic character. In addition, there have been five exploration wells drilled in settings similar to those of the prospects with only one well, Y4, producing oil and that in only minor quantities. As a result, the associated GCoS for most of the prospects is comparatively low. The main risks to the prospects are with the reservoir presence/quality, trap definition and seal effectiveness. Source and migration are not considered to be significant risks due to the presence of oil to the west and in the Y4 well.

A summary of the Best Case Prospective Resources and the associated GCoS for each prospect is shown in **Table 7**.

Table 7: Block 212 — Best Case Gross (100%) and Net Prospective Resources and GCoS As of 31st December, 2015

Prospect	Best Case Prospective Resources (MMstb) Gross 100%	80% Net to Hongbo	GCoS
Prospect A	1.1	0.88	22%
Prospect B 1	1.4	1.12	21%
Prospect B 2	1.3	1.04	21%
Prospect C 1	1.1	0.88	15%
Prospect C 2	0.6	0.48	15%
Prospect D 1	0.7	0.56	14%
Prospect D 2	0.5	0.40	14%
Prospect D 3	1.1	0.88	14%
Prospect E	1.1	0.88	17%
Prospect F	0.8	0.64	12%

Notes:

1. Gross Prospective Resources are 100% of the volumes estimated to be recoverable from the Prospect in the event that a discovery is made and subsequently developed.

2. Net volumes represent the 80% Net Revenue Interest attributable to Hongbo under the Cooperation Agreement with Yanchang in the event that a discovery is made and subsequently developed.

3. The GCoS reported here represents an indicative estimate of the probability that drilling the Prospect would result in a discovery. This does not include any assessment of the risk that the discovery, if made, may not be developed.

4. The volumes reported here are "unrisked" in the sense that no adjustment has been made for the risk that no discovery will be made or that any discovery would not be developed.

5. Identification of Prospective Resources associated with a Prospect is not indicative of any certainty that the Prospect will be drilled, or will be drilled in a timely manner.

6. Prospective Resources should not be aggregated with each other, or with Reserves or Contingent Resources, because of the different levels of risk involved and the different basis on which the volumes are determined.

DISCUSSION

1 License Terms, Permitting and Resource Classification Summary

The rights to Block 212 were secured by Yanchang in 2009 after the area was relinquished by the previous holder. In accordance with government regulations, Yanchang, as one of only four State Owned Entities vested by the State Council of China to own petroleum exploration and production permits, was issued an exploration permit for Block 212 by MOLR. The permit was initially valid for 2 years and can be renewed every 2 years. The latest 2 year renewal of the exploration permit issued to Yanchang for Block 212 was awarded in March 2015 with an expiry date of 5th March, 2017.

Yanchang has signed a Cooperation Agreement with Hongbo to explore and produce oil and gas in the cooperation area which includes Block 212. The Cooperation Agreement is summarised below.

Summary of the Cooperation Agreement

Under the Cooperation Agreement, Yanchang owns the lawfully registered exploration rights, and performs a monitoring and supervisory role, including reviewing budgets and plans and designating the customer for sale of production. Hongbo is the operator of the cooperation area and provides all management, exploration and development funds, equipment, staff and technology required to operate and produce from the cooperation area.

Yanchang designates a refinery to which Hongbo must sell all the crude oil produced in the cooperation area at price determined with reference to market price. Sales revenue is shared pursuant to an agreed revenue sharing agreement whereby Yanchang receives a 20% of the revenue and Hongbo receives the remaining 80%.

Each party is responsible for its own share of the state Special Oil Gain Levy (Yanchang collects the payment from Hongbo of its share and makes the total payment to the government) and is liable for corporate income tax on its own income. Hongbo is responsible for payment of all other taxes and fees due under central or local government regulations (however Yanchang's proportion of such other taxes and fees is deducted from its 20% revenue share).

Reserves Classification

Although pilot production, which is allowed under an exploration permit, commenced in recent years, the permit holder must apply for and be granted a Production Permit to continue full development of the field. Prior to applying for a Production Permit, there is also a requirement under government regulations for the operator to submit what is known as a Proved Reserves report to the MOLR for approval. In January, 2014, Yanchang submitted a Proved Reserves report covering the Unit 2 and Unit 19 fault compartment areas to MOLR for approval. Approval of the Proved Reserves report was granted on 13th August, 2014.

Yanchang, is now in the process of preparing for an application to MOLR for a Production Permit for the Unit 2 and Unit 19 fault compartment areas. In order for resource volumes (beyond the minor amounts currently being produced under the exploration permit) to be classified as Reserves it requires that, *inter alia*, there is reasonable expectation that the necessary Production Permit(s) covering Unit 2 and Unit 19 will be granted. The PRC legal counsel to Shun Cheong has advised that it is not aware of any case where the holder of an exploration permit has failed to obtain the petroleum production permit for the same block after the holder received approval of the reserve report from MOLR. On the basis of this advice GCA believes that there is a reasonable expectation that the necessary Production Permit(s) will be granted and has therefore classified the recoverable volumes from these areas as Reserves under the sub-class "Justified for Development". Assuming that this will be awarded for a period of up to 20 years (from application) with expiry in 2035, Yanchang has agreed to extend the term of the Cooperation Agreement with Hongbo to coincide with the expiration date of the Production Permit(s).

Recoverable volumes estimated for the "Minor" fault compartment areas, which were not included in the Proved Reserves report have been classified as Contingent Resources under the "Development Pending" sub-class.

2 Regional Geology

The Erlian Basin, in which Block 212 is located, is situated in the east Inner Mongolia region. It is one of the non-marine Cretaceous basins in NE China that developed during the late Mesozoic continental extension in eastern Asia. Within this region there are several similar continental basins (Yingen, South Gobi, East Gobi, Hailar-Tamtsag, Choibalsan) which all contain producing oil deposits. These basins have all shared a common depositional history since the mid-Mesozoic and have similar principal structural geometries and major unconformities: consisting of a series of deformed grabens separated by horsts with primary bounding extensional faults, locally inverted, common basement, and late Jurassic and mid-Cretaceous regional unconformities. They also share almost identical petroleum systems: lacustrine source, reservoir, and seal rocks of early Cretaceous age; trap types and geometries; and oil migration in the early to mid-Cretaceous. The faults and unconformities are the important paths for hydrocarbon migration.

2.1 Basin Development

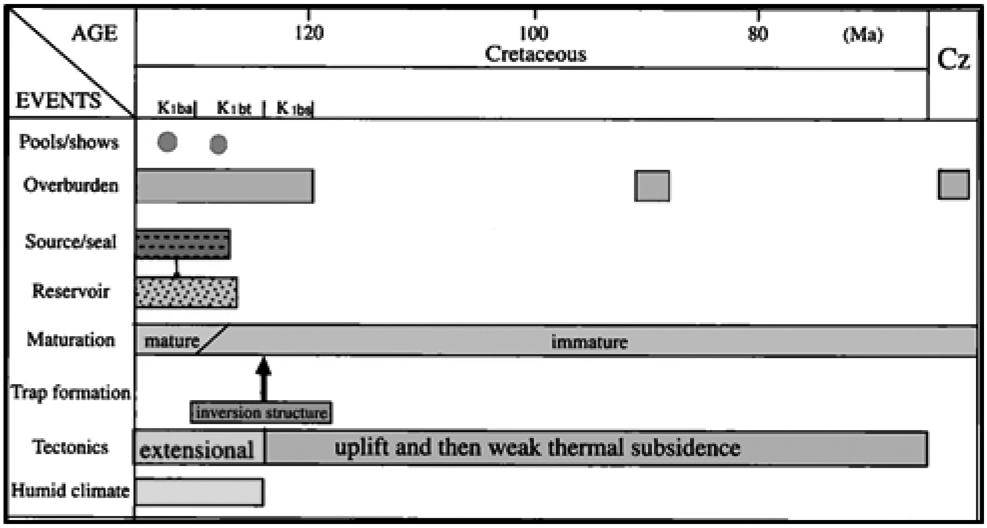
The Erlian Basin is an Early Cretaceous rift basin developed on Hercynian age folded basement. Following pre-rift deposition in the Late Jurassic, it experienced two major tectonic events: (i) a syn-rift stage in the early-middle Early Cretaceous that was dominated by a fluvial lacustrine depositional environment and (ii) a post-rift stage after the late Early Cretaceous that was dominated by a fluvial environment. Lacustrine sedimentary environments developed during a critical phase of extension and subsidence in the Late Jurassic and Early Cretaceous. Widespread inversion of the basin began in the mid- to late Cretaceous in a mild transpressional deformation regime that remains active today.

Five main sub-basins developed within the Erlian Basin: Chuanjin, Wulanchabu, Manite, Tengger and Wunite, including 52 smaller sub-basins or depressions. The elongate rift sub-basins of Early Cretaceous age were controlled predominantly by NE-SW oriented faults and are characterised by length-to-width ratios of 1/6–1/10.

2.2 Petroleum Systems

The Early Cretaceous petroleum systems in the Erlian Basin are of a typical "continental rift" type. Oil accumulations are confined to the syn-rift sequences, forming an individual oil system (**Figure 4**).

Figure 4: Event Diagram of Early Cretaceous Syn-rift Oil System in the Erlian Basin



(Source: modified from Dou Lirong, et al. 1997.)

2.2.1 Source Rocks

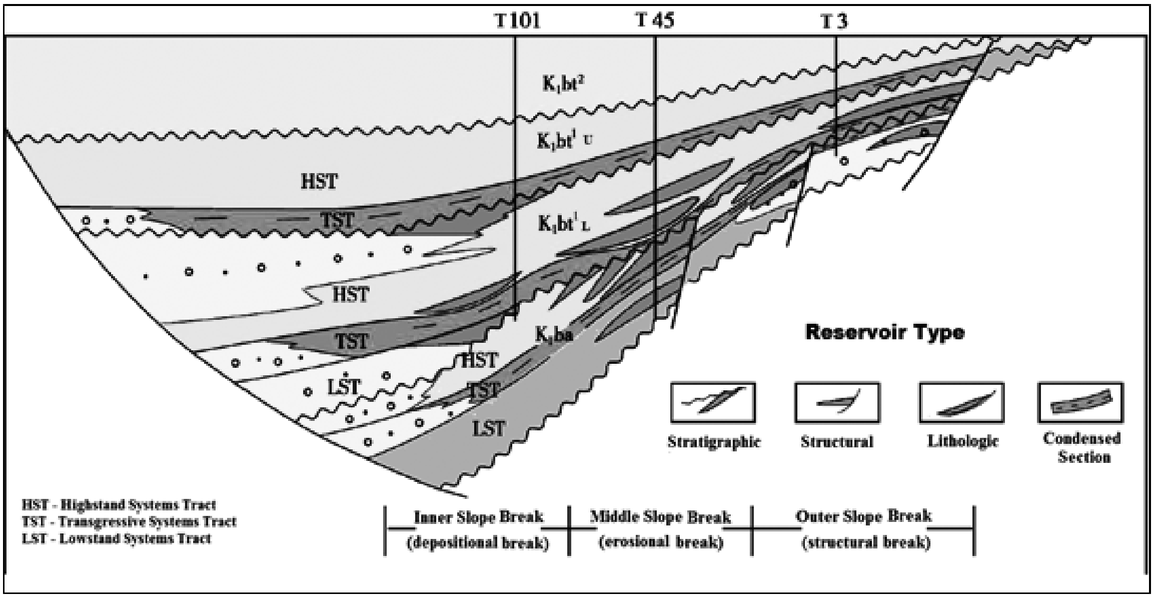
Studies show that the lacustrine mudstones in the Lower Cretaceous Upper Arshan (K_1ba) and Lower Tengger (K_1bt) Formations are major source rocks in the basin.

A statistical study of 24 northern depressions of the Erlian Basin shows the source rock Total Organic Carbon (TOC) measurements of Early Cretaceous mudstones range from 0.57–3.48 wt%, with an average (of each depression average) of 1.62 wt%. Chloroform-extract bitumen content ranges from 170–6,100 ppm, with an average of 1,572 ppm; hydrocarbon generative capacities *(S1+S2)* ranges from 1–14 mg/g, with an average of 5 mg/g; and total hydrocarbon contents from 93–1,852 ppm, with an average of 656 ppm. These parameters suggest that most depressions have good to very good oil-prone source rocks.

2.2.2 Reservoirs and Traps

The major reservoirs within many producing oilfields within the Erlian Basin are sandstones within the Lower Cretaceous, from K1ba^{1+2} up to K_1bt^1 Lower Formations, which are largely derived from granitic source areas with a minor contribution from acid and basic volcanic rocks. These coarse clastic sediments are mixed with volcanic breccias, mudstones and minor carbonates deposited within fluvial and lacustrine systems and transported over relatively short distances from their provenance areas. The depositional environment was primarily braided river delta front sub-facies. Most reservoirs are found on slope breaks, typically lithological, stratigraphic and structural traps controlled by "three surfaces": flooding surfaces, unconformity surfaces and fault planes **(Figure 5)**.

Figure 5: Uliastai Depression Depositional Systems and Reservoir Types



(Source: modified from Yi Shiwei, et al, 2006)

3 Exploration, Appraisal and Development History

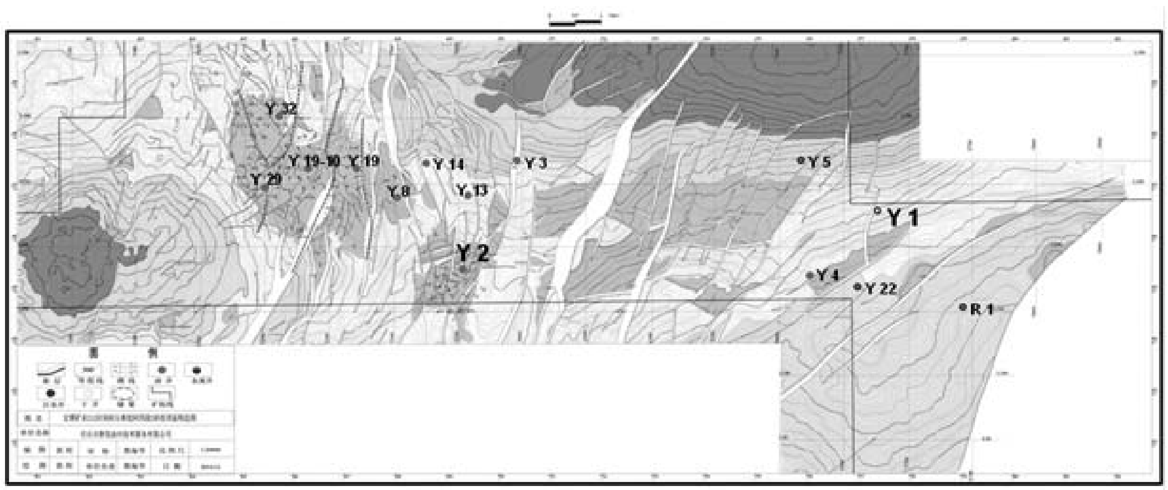
Exploration activities in the Uliastai depression area began with gravity and magnetic prospecting in the 1950's. The first 2D seismic survey of 42 lines was shot during 1980–1990 by CNPC. Subsequent studies show that the sedimentary basins are about 4,500 m in depth and many Cretaceous age structures are considered favorable for hydrocarbon accumulation.

3.1 Discovery

The first hydrocarbon discovery in the Uliastai depression was made by the TC 1 well, which was drilled in 1987. The well encountered good oil shows in the K_1bt^1 Lower Zone reservoir which was tested at a rate of 5.8 t/d (42 bpd) after hydraulic fracturing. No other significant discovery was made until 2006. There was limited exploration activity in the area of Block 212 in the subsequent 3 years during which time the exploration permit areas, including the Block 212 area, were relinquished. Yanchang secured the mineral rights to the Block 212 relinquished area in 2009.

The first well in Block 212, Y1, was drilled in the Northern Sag **(Figure 6)** in 2008 based on old 2D seismic data but was a dry hole. The first successful exploration well, Y2, was drilled in the same year. Testing of the Y2 well was carried out in September, 2009 over two intervals 1,825–1,830 m and 1,840–1,845 m in the K_1ba^4 II reservoir. The well flowed oil at a rate of 5.2m^3/d (33 bpd). The well was then hydraulically fractured and oil production increased to 21.1 m^3/d (132 bpd). Pilot production from Y2 commenced on 21st October 2009 with initial production at 19.6m^3/d (123 bpd). This was the first oil producing well in Block 212.

Figure 6: Block 212 Area Showing Early Exploration Wells



3.2 3D Seismic and Appraisal/Development Drilling

In 2009, 13 exploration/appraisal wells were drilled in the block, of which eight found oil and three were then converted to pilot production.

Also in 2009, a 3D seismic survey covering an area of 98.14 km^2 was shot and this was subsequently processed in 2010. Based on the interpretation of this data, a further 116 appraisal and development wells were drilled during the period from 2010 to 2013. Of these wells, 91 wells penetrated oil reservoirs and 83 of were tested with production yields in the range of 9–15 m^3/d (57–94 bpd) per well with the highest reaching 35 m^3/d (220 bpd).

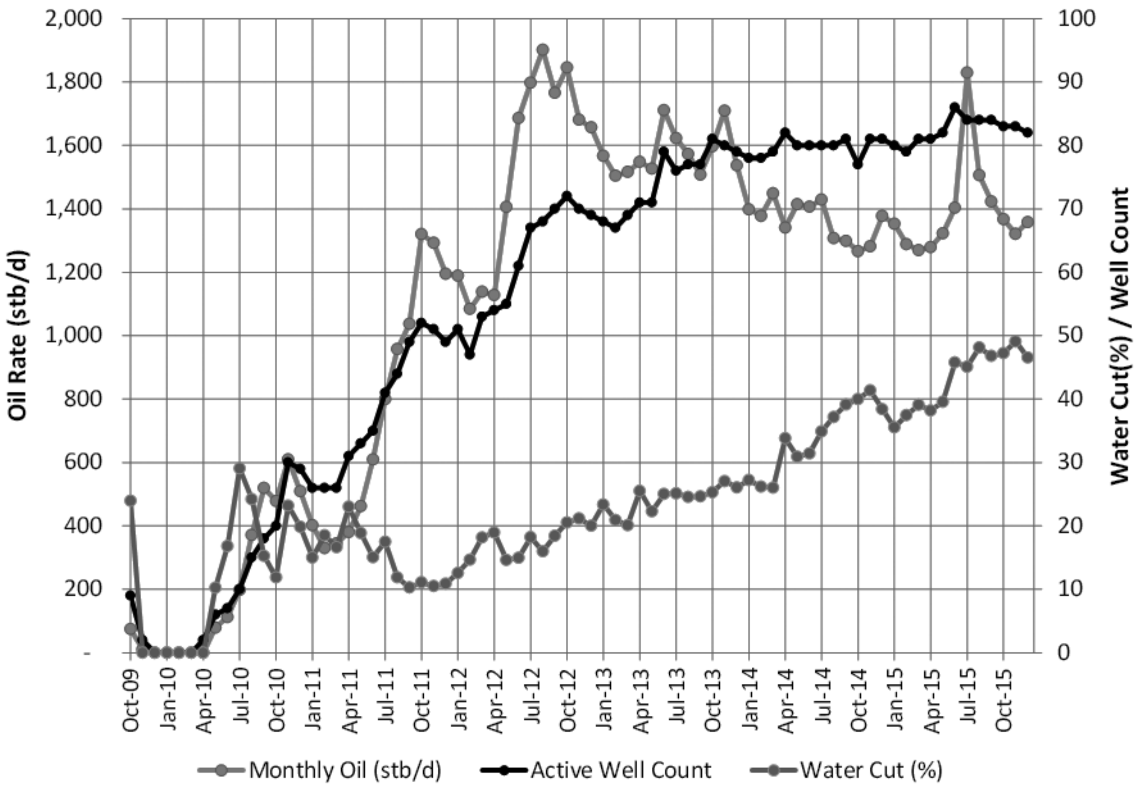
A total of 135 wells have been drilled up to the end of 2013, including 29 exploration/ appraisal wells and 106 development wells (producer/injector). 101 wells were tested and have produced oil.

No additional wells have been drilled since 2014 and field operations have been focused on development. However, workovers (hydraulic fracturing in 18 wells and re-perforation/re-completion in 10 wells) were performed to increase/maintain production rates. Four additional low production wells were converted to injectors. In an effort to reduce Capital expenditure and to maintain cash flow levels in the current low oil price environment, the same strategy, with no further investment in new wells, has continued into 2015.

3.3 Production History

As of 31st December, 2015, there were 81 active oil producers, and 14 active water injectors. The verified wellhead oil production rate as at 31st December, 2015 was 188 m^3/d (1,180 bpd). Average oil production per well is about 2.3 m^3/d (14.6 bpd). Water cut has reached about 47%. Daily water injection is approximately 155 m^3. Cumulative oil production from Block 212 as at 31st December, 2015 was 0.36 MMm^3 (2.3 MMstb). The Block 212 production history is shown in **(Figure 7)**.

Figure 7: Block 212 Production History



4 Field Geology

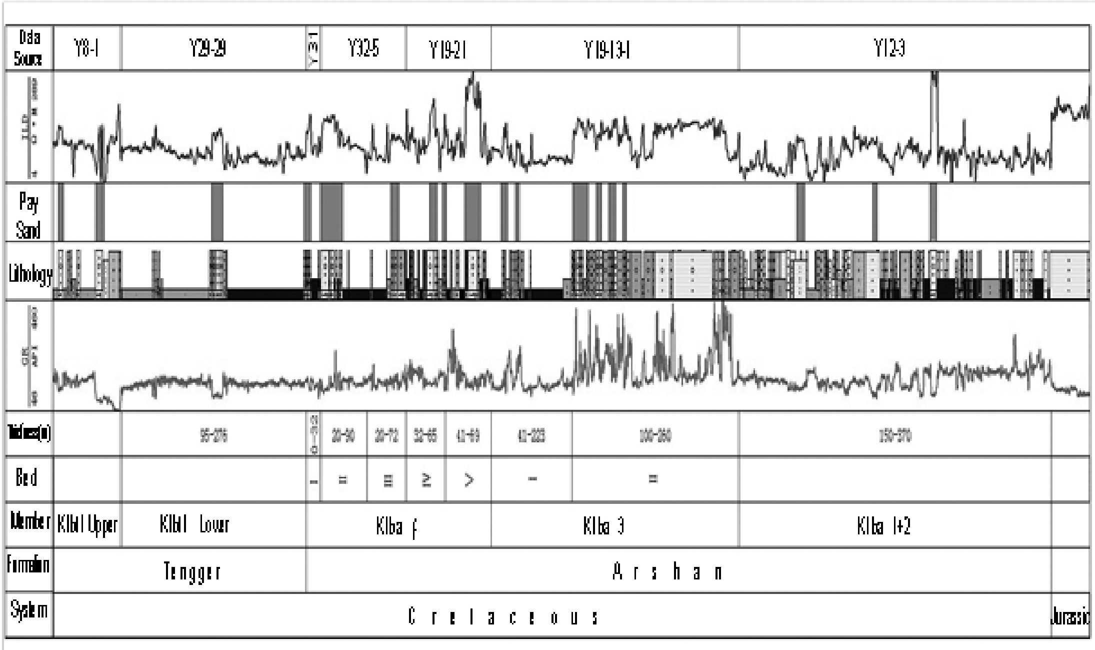
Hongbo has carried out in-depth geophysical and geological studies based on the 135 existing wells and 3D seismic data. GCA was provided with depth structure maps and associated digital data for nine key reservoir zones: K_1bt^1 Lower; K_1ba^4 I, II, III, IV, V; K_1ba^3 I, II and $K1ba^{1+2}$. These were reviewed in conjunction with the seismic horizon interpretations, well log data, petrophysical interpretations and well test results.

Based on checks of the well markers, log data and 3D seismic data, the overall structural configuration of the depth structure maps for the major reservoir horizons provided to GCA by Hongbo were audited and considered reasonable. In the producing areas of the field represented by Unit 2 and Unit 19 where well spacing in is approximately 200m there is very little uncertainty in the structural interpretation. Based on these checks, GCA has accepted Hongbo's interpretations of reservoir structure and net sand distributions as the basis for calculation of hydrocarbon in-place volumes.

4.1 Stratigraphy

As noted in Section 2, all the reservoir intervals and main hydrocarbon source rocks in Block 212 are Lower Cretaceous in age and comprise argillaceous sandstones and conglomerates. The main reservoir intervals are found in the K_1ba^4 II member of the Arshan Formation. A composite stratigraphic section and "type" log for Block 212 based on seven key wells showing all the oil bearing reservoirs and their corresponding geological ages is shown in **Figure 8.**

Figure 8: Block 212 Stratigraphy and Type Log



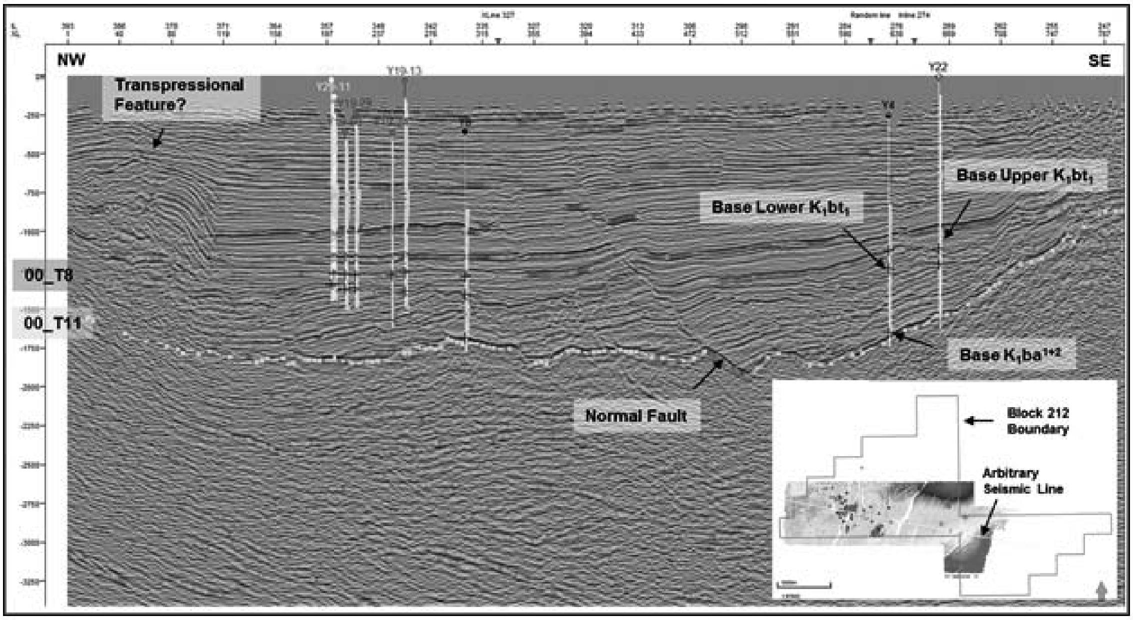
4.2 Geophysical Review

A 3D seismic dataset that covers a large portion of Block 212 including all of the producing areas and an area to the east which has been penetrated by six exploration wells was provided for review. Overall, the data quality is considered good to very good with the exception of a few places along the boundaries of the basin where the structure appears to become quite complicated due to the more recent transpressional forces.

Three key horizons have been interpreted over the entire dataset, 00_T11 (near base of the Lower Cretaceous), 00_T8 and 00_T81 (near Base K1ba^{1+2} reservoir interval). The 00_T8 and 00_T81 horizons are identical over much of the dataset. GCA reviewed the well to seismic ties for all of the exploration wells and for several of the development wells. Overall, these survey-wide surfaces appear to have been consistently interpreted across the block and provide a good overview of the basin architecture and a suitable basis for reservoir mapping. The 00_T81 (near Base Lower K_1bt^1) horizon was interpolated over the survey area and converted to depth and compared with the depth structure grid for the Base Lower K_1bt^1 provided by Hongbo to confirm the overall depth mapping and structural framework of the block.

Figure 9 shows an arbitrary seismic line which transects the basin from NW to SE. Wells located within 50 meters of the arbitrary line are plotted in time. Well picks for the Base Upper K_1bt^1, Base Lower K_1bt^1 and Base K_1ba^{1+2} are indicated on the well tracks. Numerous faults have been interpreted over the block. Some of these faults are clearly defined in the seismic, starting from the base of the Cretaceous and many appear to have been active until recent times. In other cases, the faults could be more accurately described as local accommodation structures with limited vertical extent.

Figure 9: Sample Seismic Line



Source: GCA Interpretation

Additional interpreted horizons were provided over the producing areas which attempt to map events within the Arshan (K_1ba) Formation. The reservoir quality sands in this formation vary significantly from well to well and are generally too thin to be mapped individually. Observed seismic events are the tuned response of multiple reflections which vary with the lithology. Within a given fault compartment, coherent events are likely to identify an area of consistent deposition. Breaks in the horizons may indicate minor faulting or simply changes in the lithology sequence. This is consistent with the interpreted depositional environment of the area.

Away from well control, it is difficult to verify the reliability of these horizons to identify a constant geologic timeline but they do help to provide an understanding of the internal architecture of the Arshan Formation.

4.3 Faults and Structures

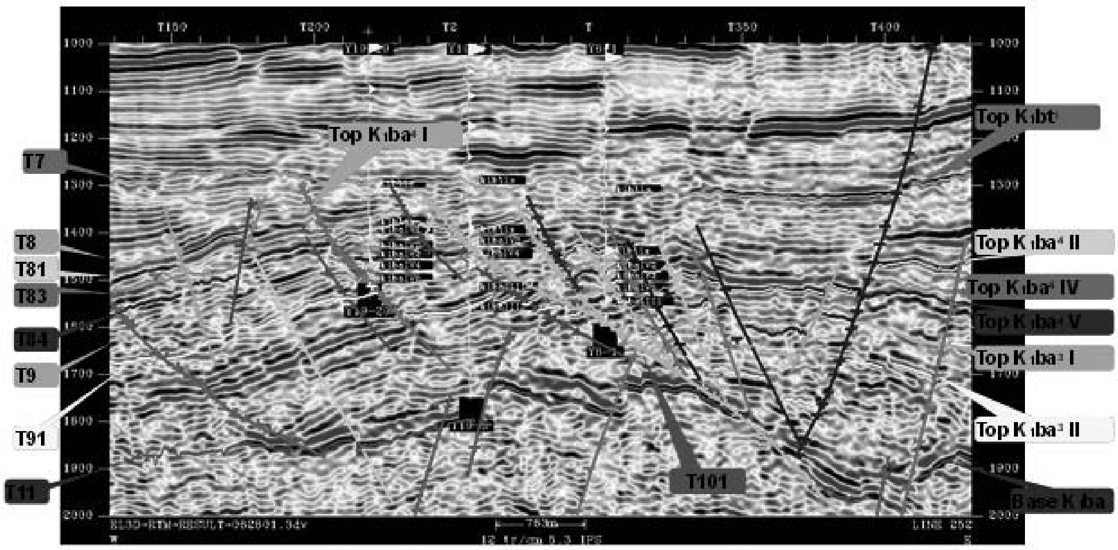
Block 212 has a complex faulted structural configuration. However, the good quality seismic data and extensive well data provides high confidence in the interpretation of faults and formation structure maps particularly in the Unit 2 and Unit 19 producing areas where well penetrations are numerous.

Studies show that the NE and NNE fault compartments and faulted nose structures were formed and controlled by the regional sinistral shear stress field. The faulted trap areas are relatively small, and range in size from 1.0–3.0 km^2.

The Y29–Y19 fault compartment area between the South and North Sags is a faulted NW-dip nose structure with stratigraphic dips of 8–10°; while the Y2 area was a SE uplift structural slope with dip of around 12°.

A sample W-E seismic profile through the major producing fault compartments is shown in **Figure 10**.

Figure 10: Seismic Line 252

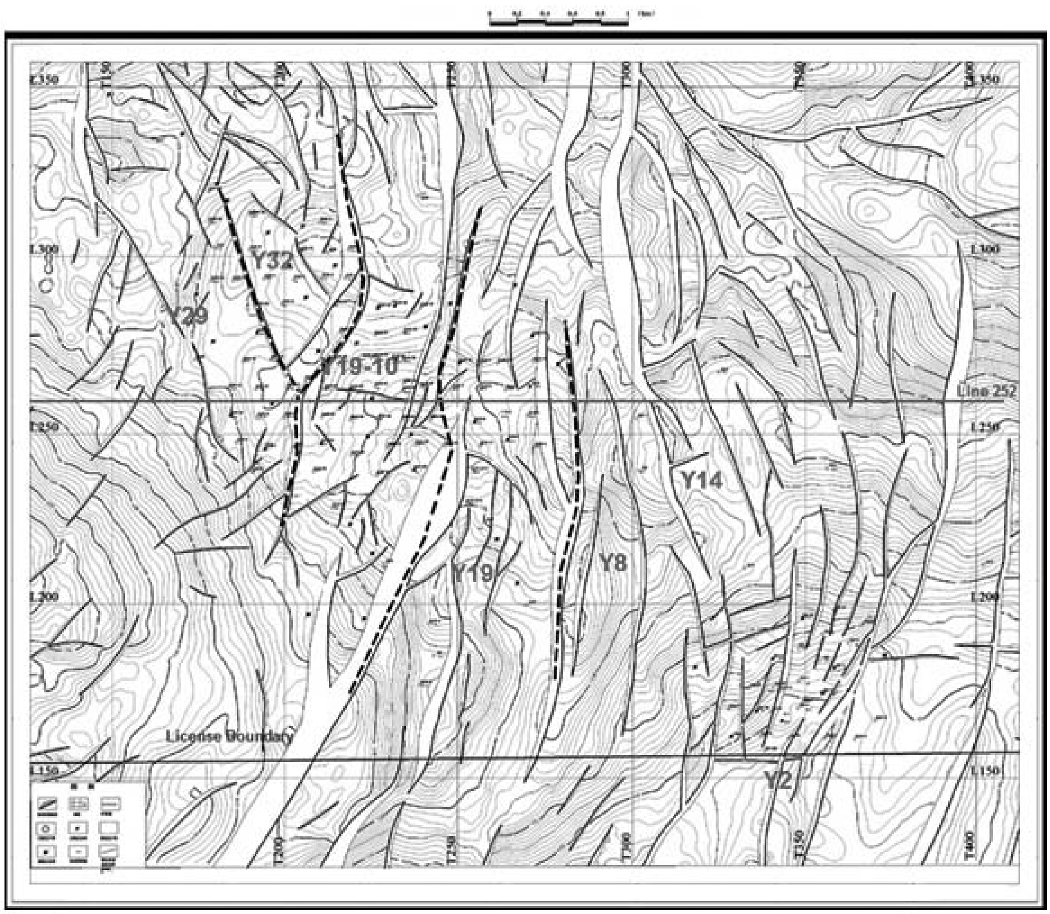


(Seismic line location is shown on Figure 11)

In total, top reservoir depth structure maps were provided for nine reservoir zones: K_1bt^1 Lower; K_1ba^4 I, II, III, IV, V; K_1ba^3 I, II and K_1ba^{1+2}.

An example depth structure map for the top K_1ba^4 II interpreted by Hongbo is shown in **Figure 11**. The main fault compartments and boundaries are also highlighted.

Figure 11: Top Structure Map of K_1ba^4 II



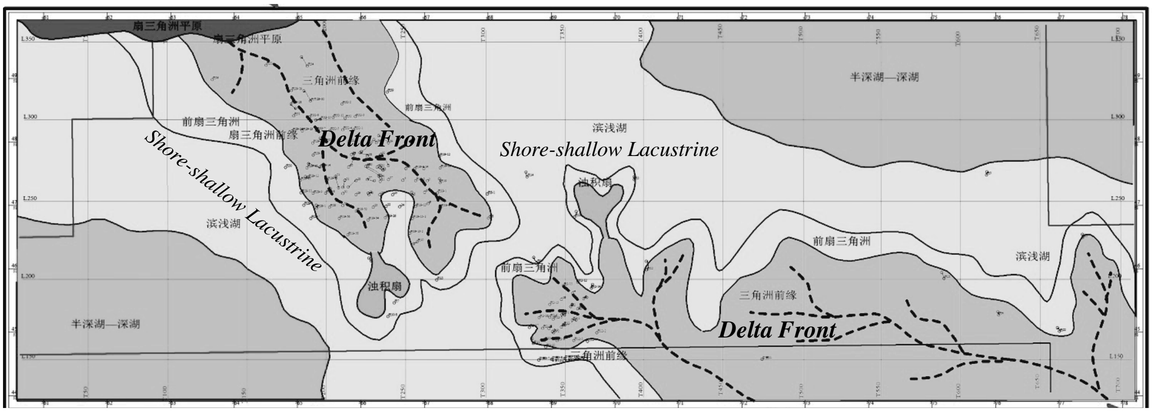
(Source: Hongbo)

4.4 Sedimentary Phases

It is believed that the reservoirs of Lower Cretaceous Arshan Formation were deposited in a braided river to lacustrine delta front environment, with sediments primarily deposited over relatively short distances from the northwest down a steeply dipping slope and from the southeast along a more gradual slope. Core photographs show the lithology is dominated by poorly sorted coarse-sand and conglomerates.

Figure 12 shows a schematic diagram of the interpreted depositional environment and associated distribution of sedimentary facies for the main K_1ba^4II reservoir.

Figure 12: Depositional Environment and Sedimentary Facies of K_1ba^4 II Reservoir

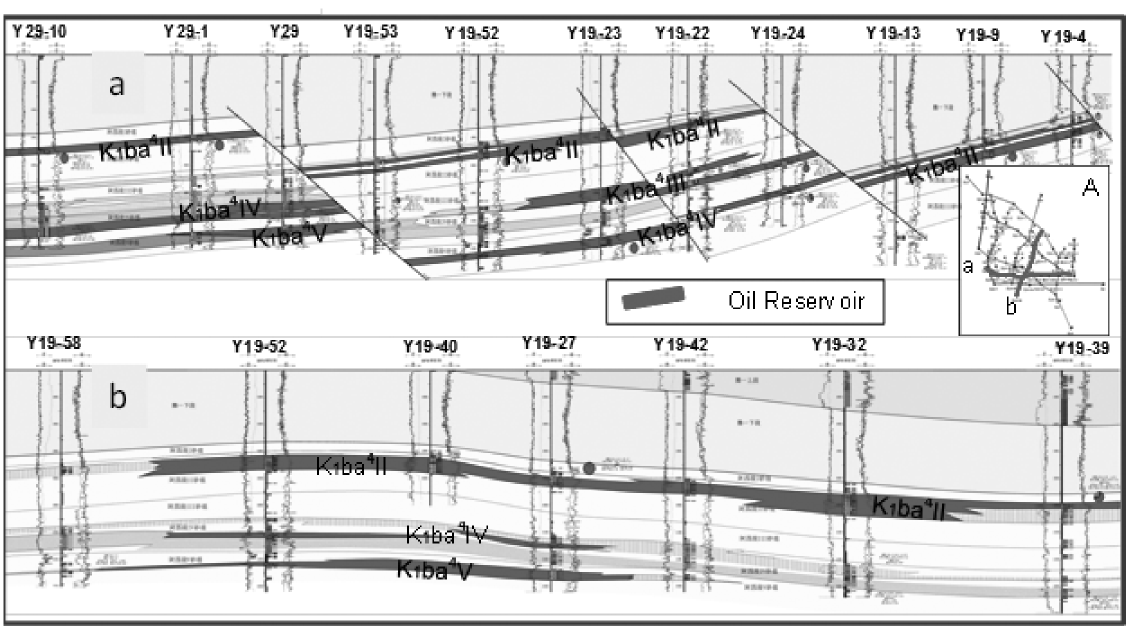


(Source: Hongbo's presentation)

4.5 Reservoir Type and Distributions

Hongbo has conducted a detailed well correlation study to assess the reservoir type and sand distribution in the block. Multiple correlation profiles across the Y29/Y32/Y19–10/Y19/Y8 fault compartments (eg. **Figure 13)** and over the Y2 block were provided for GCA to review. Studies show that the oil accumulations are primarily controlled by normal faults **(Figure 13 panel a)**, whilst lateral lithological and porosity changes are also key factors in the distribution of effective reservoir intervals **(Figure 13 panel b)**.

Figure 13: Reservoir Correlation Profiles



(Source: Hongbo's presentation)

4.6 Petrophysical Characteristics

Some 18 wells in the field were cored and the cores submitted for routine and special core analyses. Cores from the Y19–50 and Y19–52 wells were recovered and preserved at reservoir conditions for experimental analysis of petrophysical and electrical properties.

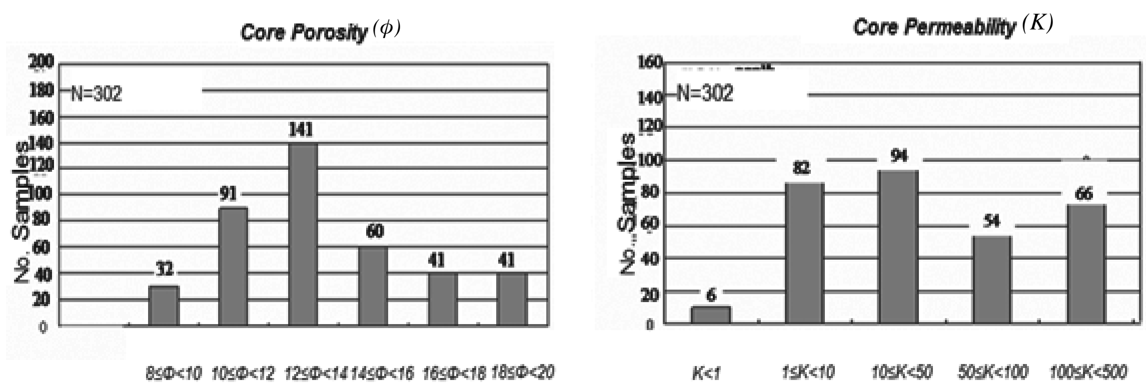
Coring data show that the reservoir rocks of the Arshan Formation are primarily feldspar lithic sandstones with low compositional maturity, high content of lithic fragments and prominently argillaceous cementation due to short distance sedimentary environment.

The Hongbo Proved Reserves report submitted to the Petroleum Reserves Office of the MOLR summarised the porosity and permeability of reservoir sands by averaging of core analyses and calibrated log interpretations. The average reservoir parameters reported therein are shown in **Table 8.** Sample histograms for the K_1ba^4 I+II reservoir porosity and permeability data are shown in **Figure 14**.

Table 8: Porosity and Permeability of Arshan Reservoirs

Reservoir	Porosity (%) Range	Porosity (%) Average	Permeability (mD) Range	Permeability (mD) Average
K_1ba^4 I+II	9.1–19.2	14.3	0.16–524	38.5
K_1ba^4 III+IV	9.8–18.9	14.1	1.03–52.3	32.5
K_1ba^4 V	12.2–16.8	14.2	1.03–30.2	15.5
K_1ba^3 II	14.6–16.0	15.0	0.14–1765	83.7

Figure 14: Histograms of K_1ba^4 I+II Porosity and Permeability



Source: Hongbo's presentation

Oil saturations were estimated by applying the Archie equation with m=1.73, n=1.52, a=1, b=0.96 based on results of core analysis laboratory experiments. Hongbo's net pay analyses that were used to determine net pay sand thicknesses from log interpretations were based on the application of the following cut-offs: Φ<8.0% and K<0.4mD.

GCA reviewed Hongbo's petrophysical results and core analysis reports and studies and generally accepts the results of those studies and the range of reservoir parameters applied in the log interpretations of net pay, porosity and oil saturation and subsequently applied in volumetric calculations.

5 Hydrocarbon In-Place Volumes

STOIIP volumes were estimated for all the reservoir intervals from which hydrocarbons have been tested. The structure maps provided by Hongbo and reservoir property distributions based on the audited petrophysical interpretations performed by Hongbo were used as a basis for these estimates.

5.1 Reservoirs to be assessed

Table 9 identifies each of the oil bearing reservoirs by fault compartment for which STOIIP estimates were calculated.

Table 9: Reservoirs and Fault Compartments

	Fault Compartment									
	Unit 2	Unit 19				Minor				
						Others				
Reservoir	**Y2**	**Y19**	**Y19–10**	**Y29**	**Y32**	**Y3**	**Y4**	**Y8**	**Y13**	**Y14**
K_1bt^1 Lower				√			√			
K_1ba^4 I				√						
K_1ba^4 II	√	√	√	√	√			√		√
K_1ba^4 III		√	√	√	√					
K_1ba^4 IV		√	√	√						
K_1ba^4 V			√	√	√	√				
K_1ba^3 I			√							
K_1ba^3 II			√							
K_1ba^{1+2}								√	√	

5.2 Reservoir Boundaries

Low/Best/High Case reservoir boundaries of all 23 reservoir units or compartments were delineated based on evidence from log interpretations, production test results and encountered fluid contacts.

Primarily, the Low Case areas were based on areas around the producing wells plus approximately one offset well location. The Best Case areas included a further step out area from the Low Case to include all the proposed new development well locations defined in the operator's the five-year-plan. The High Case incremental areas include up-dip structural areas in adjacent fault compartments. In all three Cases the areas are within the possible structural spill points.

Figure 15 shows the locations of the planned new development wells in the operator's drilling program for the Unit 19 area overlain on the top K_1ba^4 II depth structure map. The areas within the Unit 19 (Y19/Y19–10/Y29/Y32) fault compartments that were used for the GCA Best Case volumetric estimates and for the minor Y8 fault compartment are highlighted.

Figure 15: Hongbo's Best Case Development Plan for Y8/Y14/Y19/Y19–10/Y29/Y32 Fault compartments

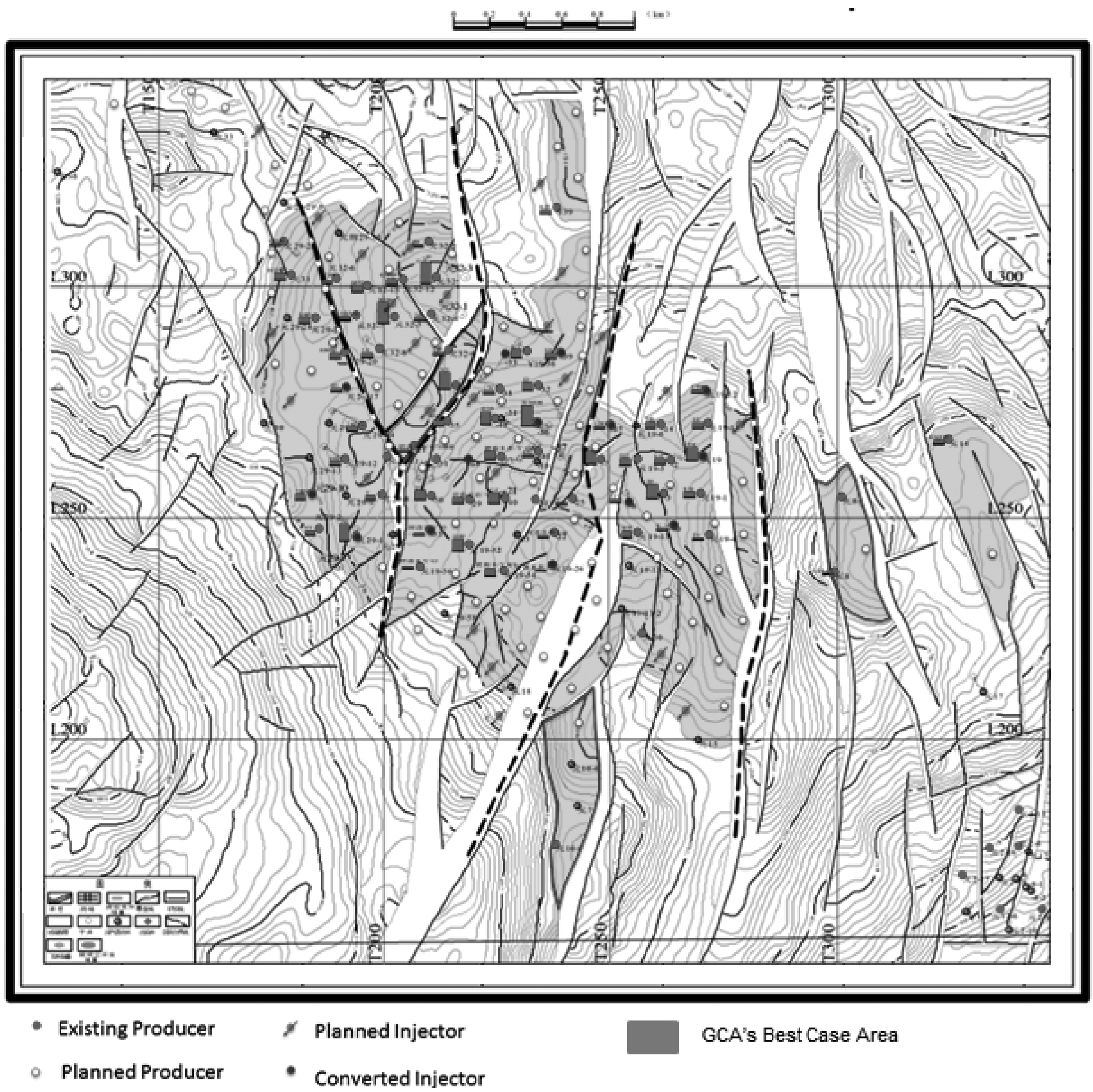
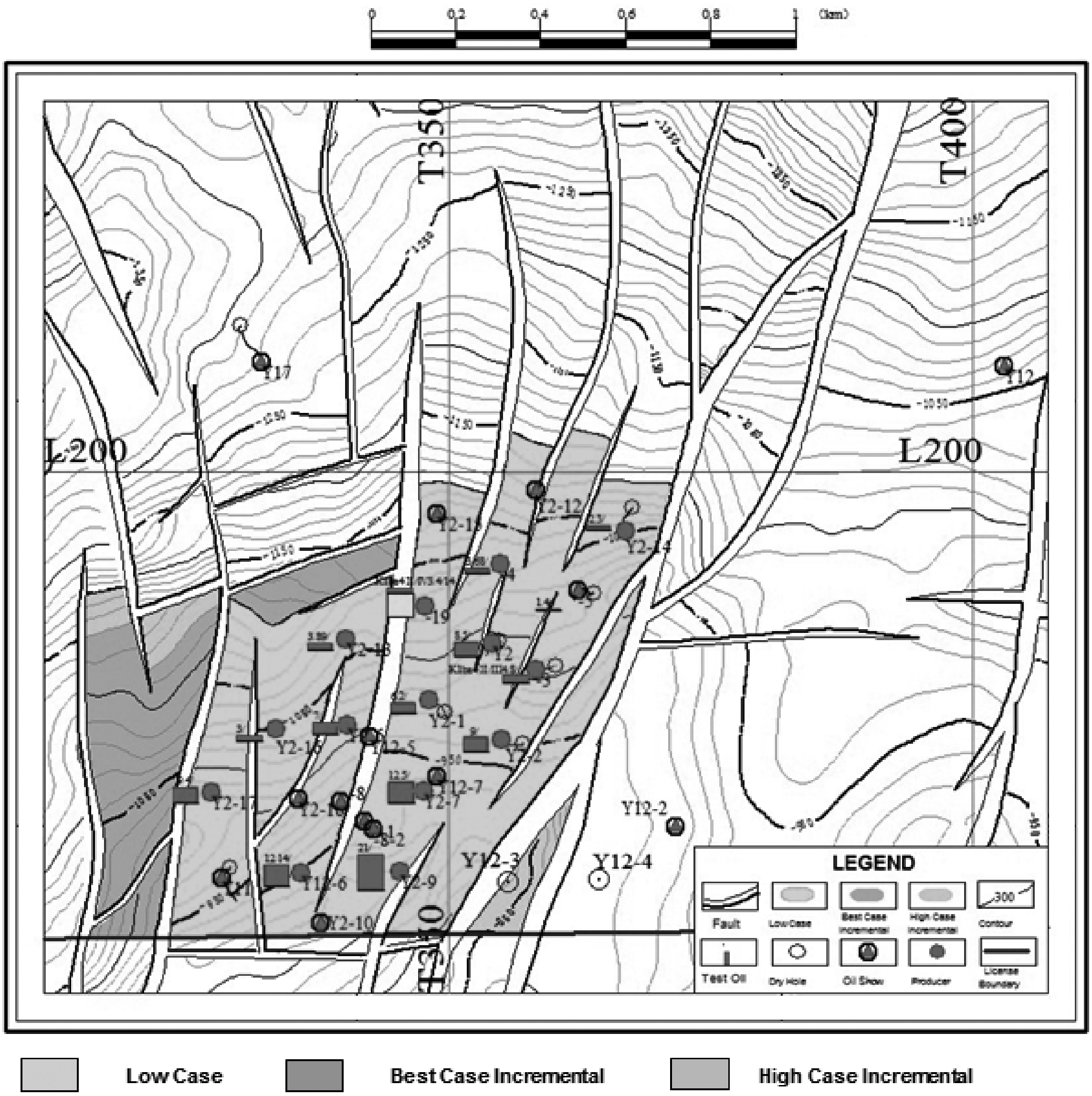


Figure 16 to **Figure 19** illustrate the boundary areas used to estimate STOIIP for the four major reservoirs intervals. **Figure 16** shows the K_1ba^4 II structure map in the Y2 fault compartment area and **Figure 17** the same reservoir interval in the Y8/Y19/Y19–10/Y29/Y32 Blocks.

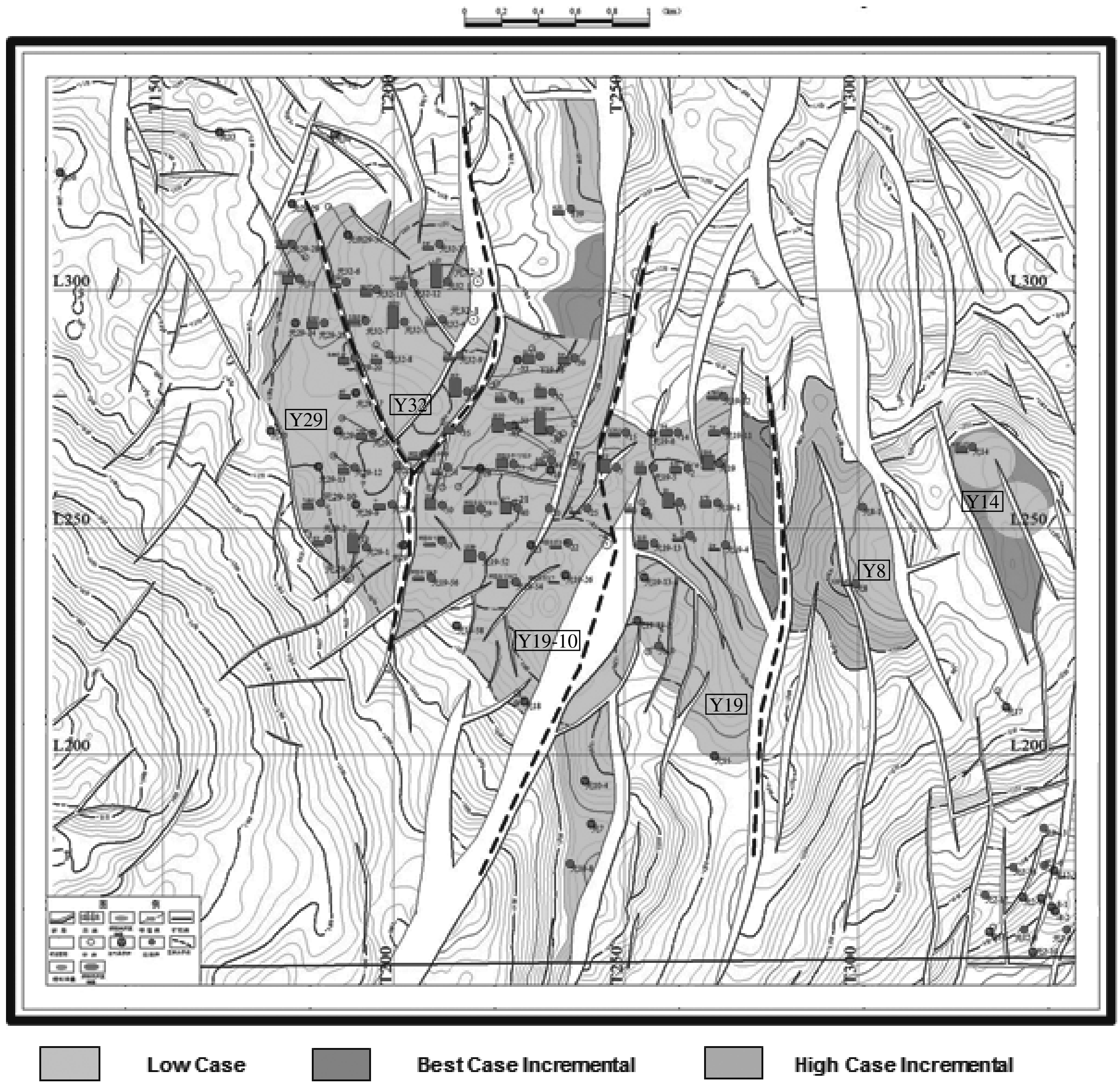
In the K_1ba^4II reservoir in the Y2 block, an oil/water transition zone has been encountered between 1,080 mSS to -1,100 mSS, in four wells: Y2–12, Y2–14 and Y2–15 and Y2–19 in the down-dip NE of the structure **(Figure 16)**.

Figure 16: K_1ba^4 II Reservoir Oil Bearing Boundaries — Y2 Block



For the K_1ba^4II reservoir in the Y29/Y32 fault compartments, a tested Lowest Known Oil (LKO) is placed at 1,224.4 mSS in the Y29–28 well based on test results. Initial production from the well on 11th June, 2013 produced 8.13 m^3 of oil, and 0.04 m^3 water. An earlier test from the Y32–2 well on 1st September, 2012 tested water at low rates recovering 0.66 m^3 water placing a Highest Known Water (HKW) at 1,219.8 mSS. Based on these results, the oil/water contact assumed for STOIIP estimation for these two blocks was chosen at 1,220 mSS being the mid-point depth between these two limits. The resulting areas used for estimating STOIIP are shown in **Figure 17**.

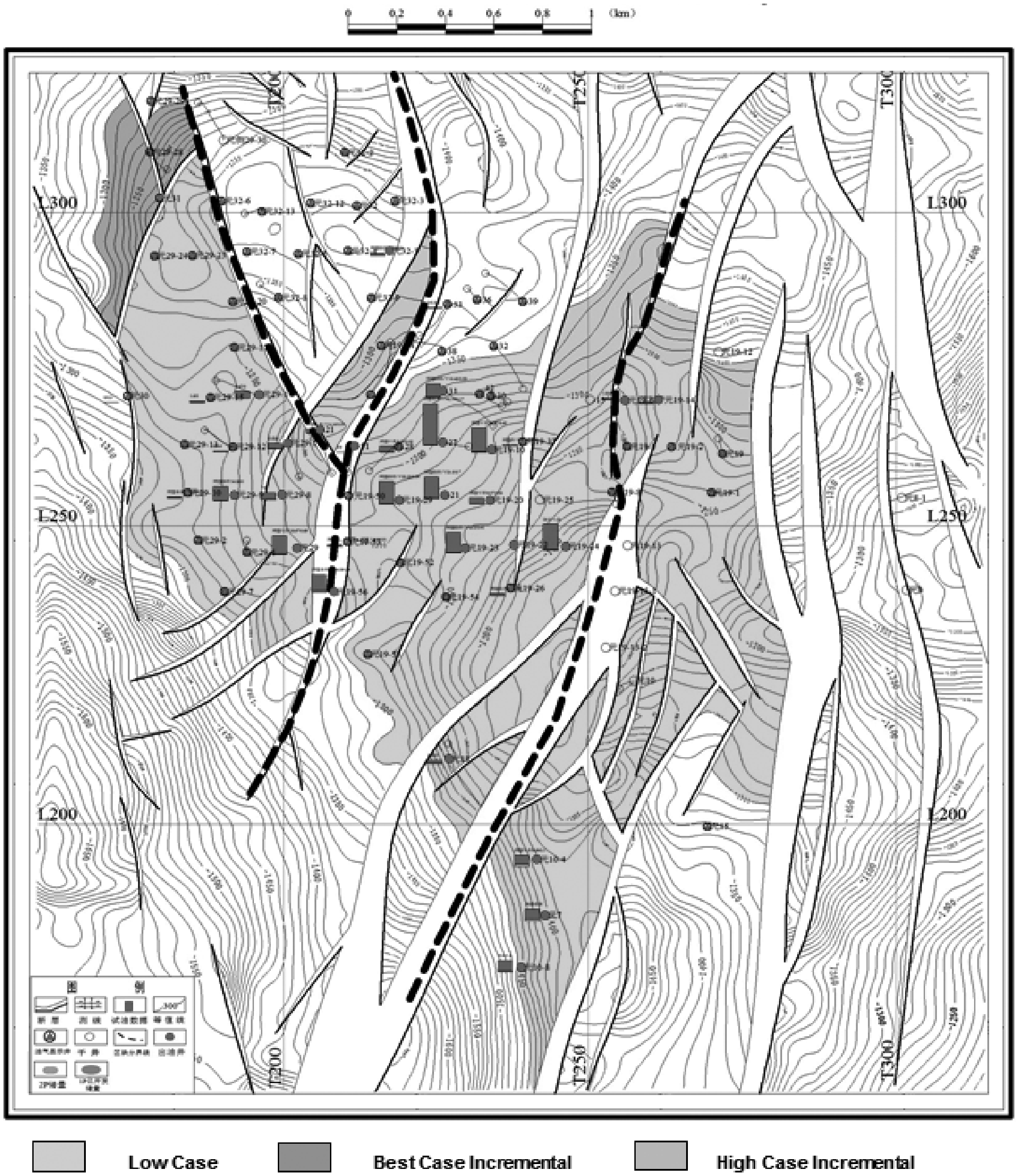
Figure 17: K_1ba^4 II Reservoir Oil Bearing Boundaries Y8/Y14/Y19/Y19–10/Y29/Y32 Blocks



No consistent fluid contacts could be interpreted for the K_1ba^4II reservoir in the Y19–10 and Y19 blocks. In these blocks, the Lowest Known Oil based on log data from the structurally lowest wells to the north and south of the block was used to define the limits of oil bearing areas **(Figure 17)**.

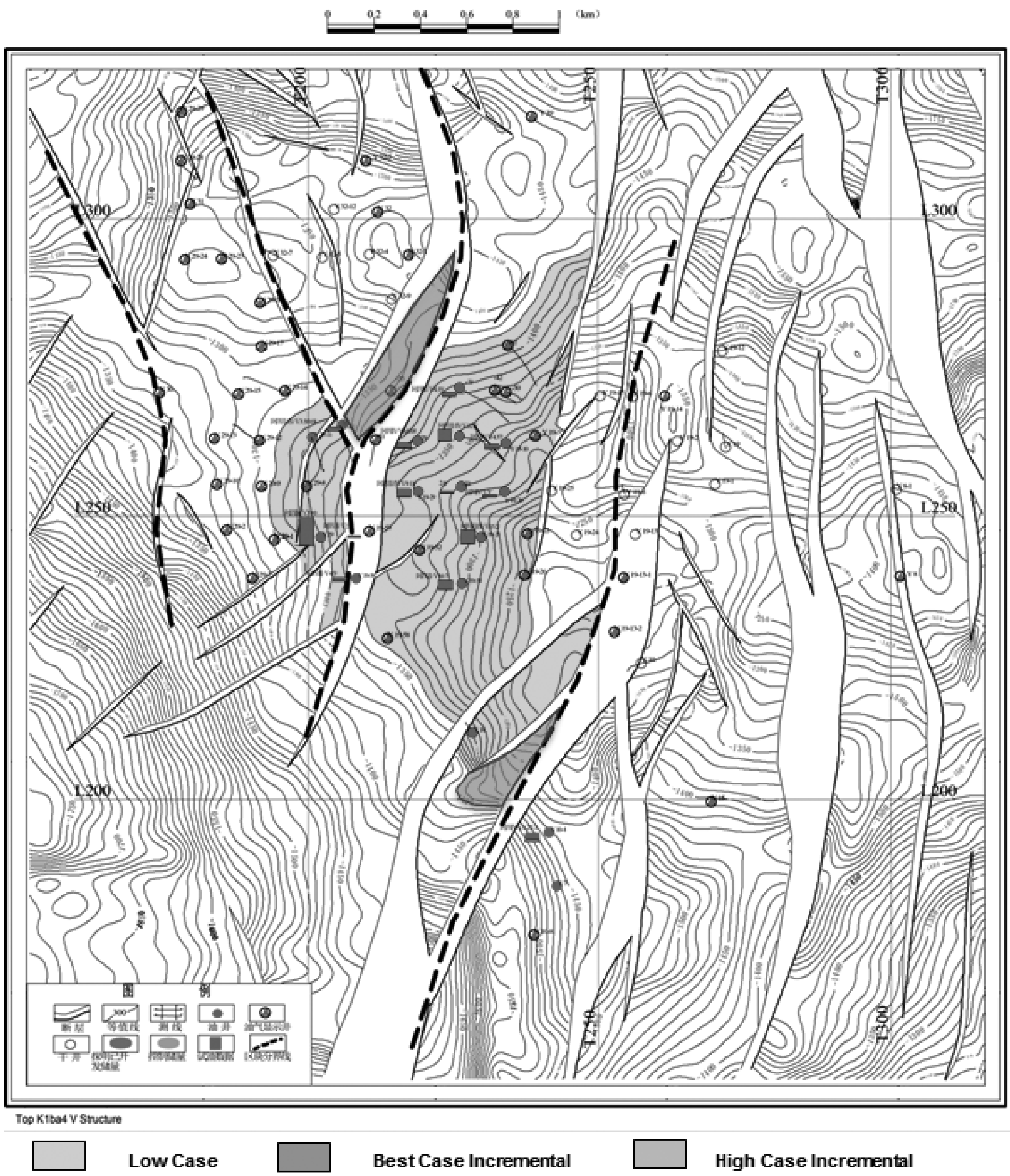
In the K_1ba^4IV reservoir, LKOs from wells Y19, Y19–14, Y19–31, Y29–2 and Y29–7 have been based on test results and range from 1,269 mSS to 1,367 mSS. An oil/water contact was encountered in well Y18 at 1,329 m. Based on a review of all the supporting data, a most likely oil/water contact level for this reservoir was estimated at 1,300 mSS and was selected as the oil boundary for the definition of the Best Case areas for STOIIP estimation **(Figure 18)**.

Figure 18: K_1ba^4 IV Reservoir Oil Bearing Boundaries



In the Y29 block, the LKO in the K_1ba^4V reservoir from two wells, Y29 and Y29–11, based on test results is placed at 1,307 mSS. However, wells Y29–1, Y29–12 and Y29–14 were also tested over intervals around 1,300 mSS and only recovered water. Based on a review of log and test data, a depth of 1,290 mSS was selected as the oil bearing boundary in these blocks for this reservoir **(Figure 19)**. No consistent fluid contacts were encountered in the same reservoir from the Y19–10 block and the limits of the oil bearing reservoir in this block were based on LKO from logs. No oil has been proven in this reservoir in the Y19 fault compartment.

Figure 19: K_1ba^4 V Reservoir Oil Bearing Boundaries



5.3 STOIIP Estimates

Table 10 and **Table 11** summarise GCA's STOIIP estimates by reservoir and by fault compartment, respectively. Detailed reservoir parameters applied for the calculation of STOIIP for each reservoir/compartment are provided in **Appendix III**.

Table 10: Block 212 STOIIP by Reservoir

Reservoir		Case Low	Best	High
K_1bt^1	Lower	0.57	1.75	3.60
K_1ba^4	I	0.35	0.46	0.68
	II	29.32	44.67	61.66
	III	2.81	4.20	7.27
	IV	11.09	16.18	20.73
	V	4.66	7.57	10.74
K_1ba^3	I	0.35	0.54	0.79
	II	1.56	2.37	3.47
K_1ba^{1+2}		3.00	4.65	6.95
Total STOIIP (MMstb)		**53.70**	**82.40**	**115.89**

Table 11: Block 212 STOIIP by Fault compartment

Area	Fault Compartment	Case Low	Best	High
Unit 2	Y29	6.10	10.87	15.35
Unit 19	Y19	9.40	14.07	19.14
	Y19–10	21.60	32.80	43.64
	Y29	9.69	14.64	20.66
	Y32	5.27	7.06	11.58
Minor	Y3	0.31	0.75	1.42
	Y4	0.26	0.40	0.58
	Y8	0.37	0.66	2.25
	Y13	0.27	0.36	0.50
	Y14	0.43	0.78	0.78
Total STOIIP (MMstb)		**53.70**	**82.40**	**115.89**

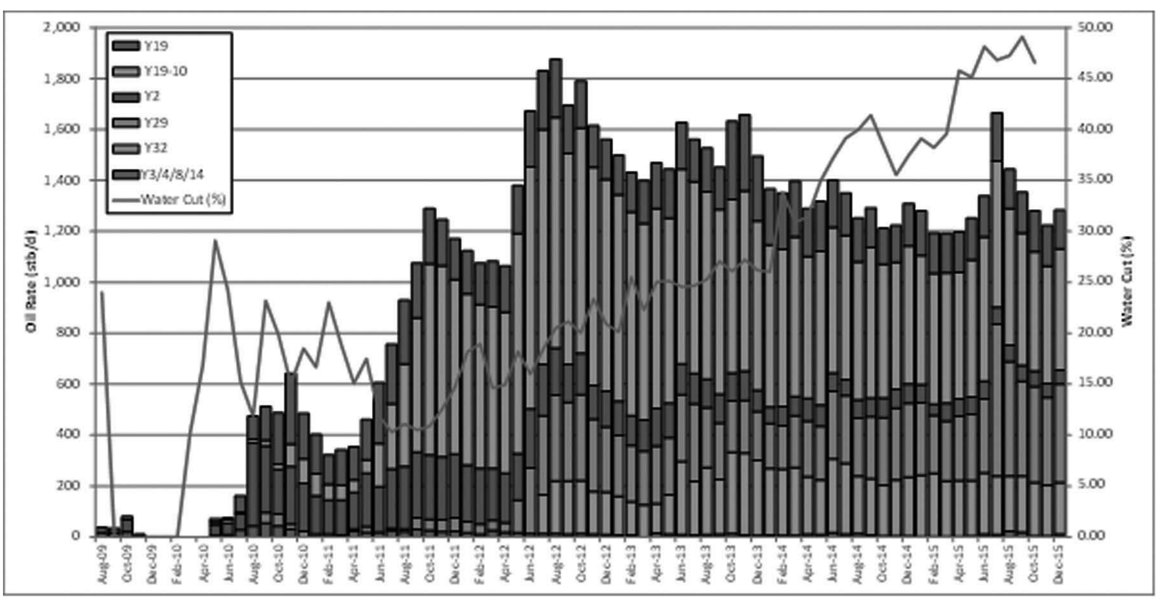
6 Production History & Reservoir Engineering

6.1 Production History

Oil production from Block 212 commenced in August, 2009 but continued for only 3 months as development drilling was progressed. Oil production resumed in May, 2010 and water injection started in June, 2011. The main production comes from the reservoirs in sub-compartments Y19, Y19–10, Y2, Y29, Y32 and Y8. Water injection is limited to sub-blocks Y19, Y19–10, Y2 and Y29. To date a total of 135 wells have been drilled including 23 water injectors.

Figure 20 shows the field historical oil production stacked by fault compartment, and the field water cut performance. Oil rate peaked at 1,600 stb/d in 2012 and thereafter has shown an overall declining trend. Water has been produced since the field was put on production and water cut has shown a steadily increasing trend. As of 31st December, 2015, 81 oil producers and 14 water injectors were active; oil rate was 1,180 stb/d, cumulative oil produced was 2.3 MMstb (0.36 MM m^3) and water cut is about 47%.

Figure 20: Block 212 Historical Oil Production



6.2 Active Well Summary

As of 31st December, 2015, 81 wells were actively producing from five blocks and 14 wells are actively injecting water into four fault compartments. To facilitate the production performance analysis these wells were grouped according to their block. Details of the well groups are shown in **Table 12**.

The main producing compartment is Y19–10 with 23 active oil producers. It is also under water injection with 5 active injectors. Y8 is a relatively minor compartment with only one well, producing at 4 stb/d.

Table 12: Active Well Summary

Block	No. of Active Producers	Producer Name	No. of Active Water Injectors	Water Injector Name
Y19–10	23	Y18, Y19–10, Y19–20, Y19–21, Y19–22, Y19–23, Y19–24, Y19–27, Y19–29, Y19–31, Y19–32, Y19–34, Y19–35, Y19–38, Y19–39, Y19–40, Y19–41, Y19–43, Y19–50, Y19–51, Y19–52, Y19–54, Y19–56	5	Y19–26, Y19–28, Y19–33, Y19–42, Y19–53
Y19	14	Y7, Y10–4, Y10–8, Y19–1, Y19–11, Y19–13, Y19–13–1, Y19–13–2, Y19–14, Y19–2, Y19–4, Y19–5, Y19–7, Y19–24	3	Y19, Y19–8, Y19–9
Y29	17	Y2–9, Y29, Y29–2, Y29–8, Y29–9, Y29–11, Y29–12, Y29–13, Y29–14, Y29–15, Y29–20, Y29–23, Y29–24, Y29–28, Y29–29, Y29–30, Y39	3	Y29–1, Y29–10, Y29–17
Y2	12	Y2, Y2–1, Y2–14, Y2–16, Y2–19, Y2–2, Y2–4, Y2–6, Y2–7, Y2–8–1, Y12–5, Y12–6	3	Y2–8–2, Y2–12, Y2–15
Y32	14	Y31, Y32, Y32–1, Y32–12, Y32–13, Y32–2, Y32–21, Y32–3, Y32–4, Y32–5, Y32–6, Y32–7, Y32–8, Y32–9	0	
Y8	1	Y8–1	0	
Total	**81**		**14**	

6.3 Decline Curve Analysis

In accordance with generally accepted practices, GCA has applied decline curve analysis techniques as well as other recovery estimates to provide the production forecasts and EUR.

GCA reviewed the aggregate of oil production by block and found that consistent decline trends are exhibited in the performance plots. The production history summed by block indicates that a range of interpretations of decline trends is possible within the uncertainty of reservoir description and performance. It is GCA's view that the quality of available production data is reasonable and amenable to DCA.

Figure 21 to **Figure 26** show the DCA results by block while **Figure 27** shows the DCA results performed for the whole of Block 212 production.

Figure 21: Y19 Decline Curve Analysis

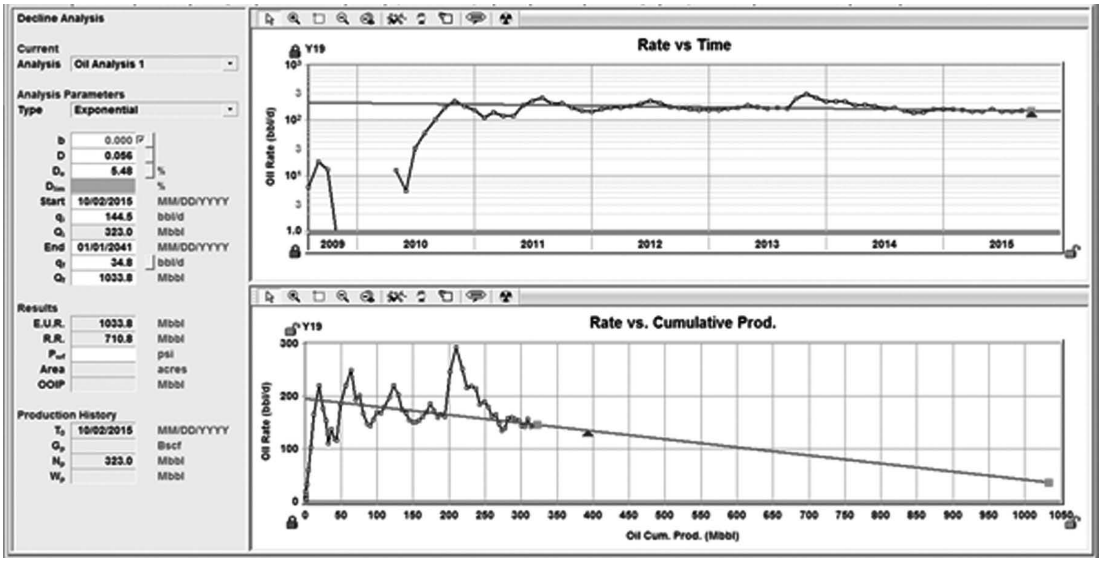


Figure 22: Y19–10 Decline Curve Analysis

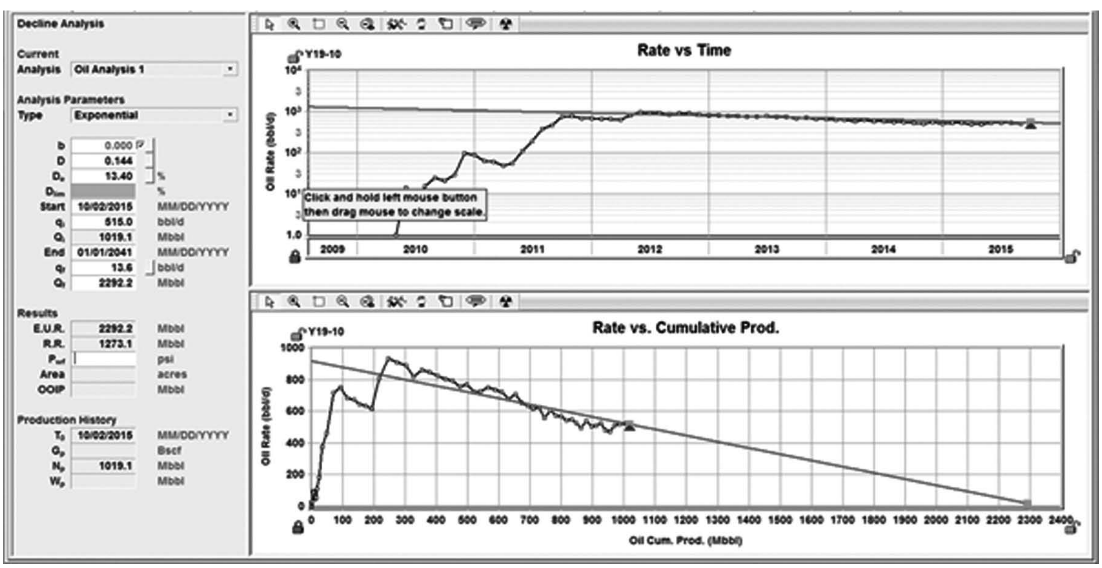


Figure 23: Y2 Decline Curve Analysis

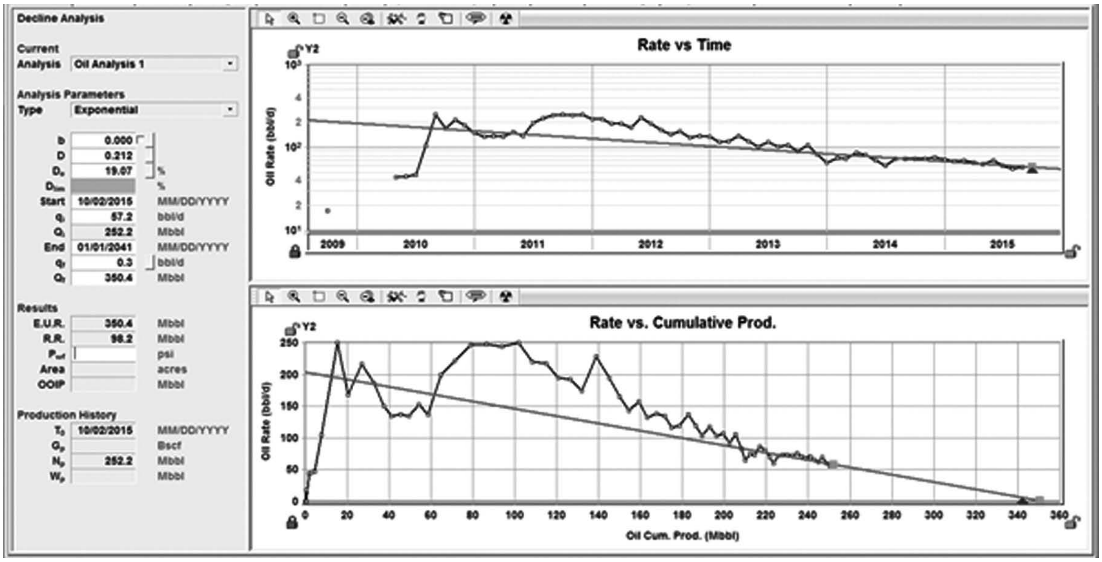


Figure 24: Y29 Decline Curve Analysis

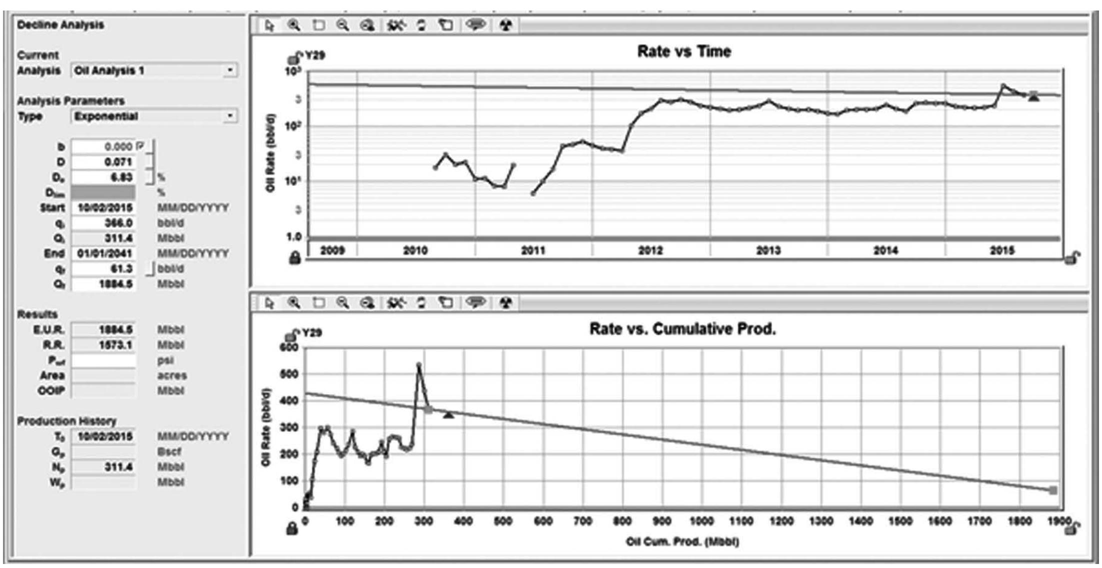


Figure 25: Y32 Decline Curve Analysis

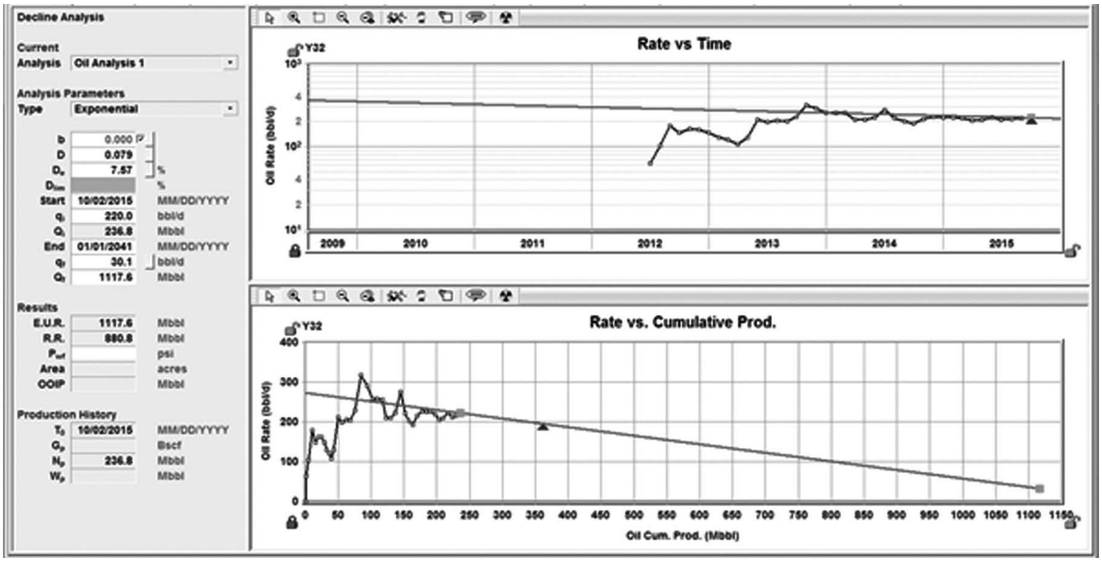


Figure 26: Y8 Decline Curve Analysis

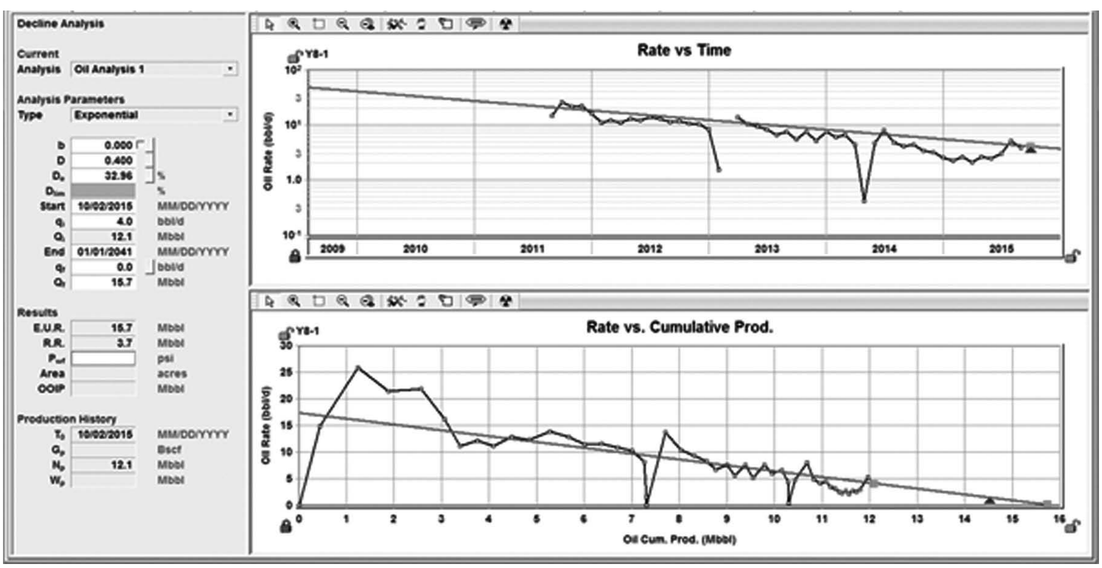
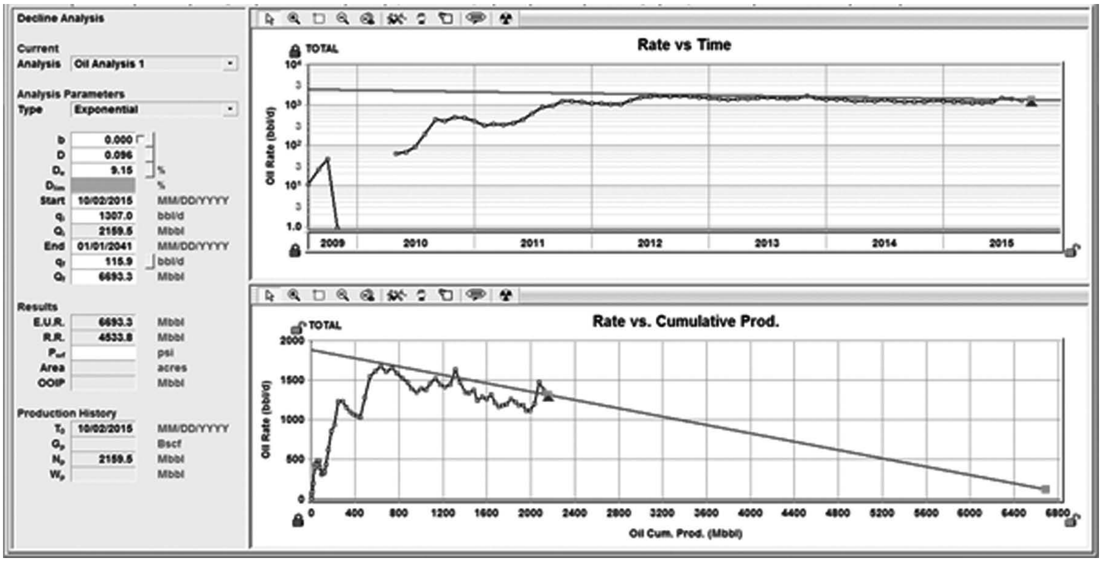


Figure 27: Block 212 Decline Curve Analysis



GCA applied exponential decline trend to analyze the "best fit" curves and to characterise the production decline under the reservoir recovery mechanism. Detailed DCA was performed using two sets of curves to model the rate decline, namely the plots of log-rate versus time and rate versus cumulative production. Generally, these plots should both result in reasonable trend lines from which the decline rate can be estimated and the EUR extrapolated. Applying the log-rate vs. time in combination with the rate versus cumulative production plots has provided a consistent quality of assessment and acceptable results of the DCA.

Based on the production performance analysis, DCA results show that annual average decline rate varies from block to block, ranging between 4% in Y29 to 45% in Y8. In the main producing block Y19–10, it is estimated at about 11.9%. GCA assessed the annual average decline rate for Block 212 as a whole to be about 12.7%.

6.4 Development Plans

Though Block 212 has 6 years of pilot oil production history and 5 years of water injection history, GCA recognises its ultimate potential has not been fully exploited due to the relatively low recovery to date. Judging by a Best Case development 5 year drilling plan provided by Hongbo (**Figure 15**), GCA understands the company will embark on an active development schedule with drilling and workover activities to increase oil production.

Hongbo's development plan involves the use of vertical wells to develop the oil resources. The planned well counts are primarily infill wells within the proved area and step-out off-sets within the producing areas and off-set locations on structurally higher adjacent fault compartments. New wells will also include water injectors. Workovers are primarily hydraulic fracture jobs on existing wells.

GCA has reviewed this development plan and made modifications based on the results of GCA's geological and petrophysical interpretations and after discussion with Hongbo. At this stage of the development, it should be recognised that there are varying degrees of inherent technical and commercial uncertainties. GCA's modifications to the well count and drilling schedule resulted in the generation of three five year drilling and workover programs which reflect these uncertainties. These Low, Best and High case development scenarios are considered adequate to bracket the wide range of potential outcomes. It is expected that, over time, this range will narrow considerably as more data are collected and the technical and logistical issues are addressed.

New well drilling was assumed to commence in 2016 and proceeds almost continuously until the end of the drilling period in 2019. Production from the new wells is assumed to commence from June, 2016.

There is a historical basis for a development of this nature in Block 212. Based on an analysis of the past drilling and workover performance, GCA has estimated and applied a Chance of Well Success in the production forecast. For the Low Case, the Chance of Well Success is assumed to be 95%, and for the Best and High Cases, 90% and 85%, respectively.

6.4.1 High Case

This case assumes that the operator's drilling and workover programs are achievable and that the reservoir quality is sufficiently pervasive across the blocks to support the full drilling program of 124 oil producers and 35 water injectors drilled over a four-year period. The workover program assumes 92 fracture jobs will be performed on existing wells.

GCA considers this case to be optimistic at this stage given the technical and logistical uncertainties associated with it.

Table 13 shows the detailed well count breakdown of new oil producers (OP), water injectors (WI), and workover jobs (WO) by year and block for the High Case.

Table 13: High Case Development Well Schedule

	Total			**2016**			**2017**			**2018**			**2019**		
Block	**WO**	**OP**	**WI**	**WO**	**OP**	**WI**	**WO**	**OP**	**WI**	**WO**	**OP**	**WI**	**WO**	**OP**	**WI**
Y29	17	22	6	2	7	2	5	5	2	5	5	1	5	5	1
Y32	6	13	6	2	4	5	1	3	1	2	3		1	3	
Y19–10	25	42	15	6	10	6	7	12	3	4	10	3	8	10	3
Y19	20	30	5	5	7	2	3	7	1	7	7	1	5	9	1
Y2	24	17	3	5	4	1	5			7	5	1	7	8	1
Total	**92**	**124**	**35**	**20**	**32**	**16**	**21**	**27**	**7**	**25**	**30**	**6**	**26**	**35**	**6**

6.4.2 Best Case

The Best Case considers fewer wells drilled than in the High Case (79% of the High Case) over the same drilling period which is more aligned with Hongbo's Best Case development plan outlook. The assumption of a fewer number of wells than in the High Case is to reflect the technical uncertainties surrounding the extent of reasonable reservoir quality rock in the various blocks. The case supports the full drilling program of 99 oil producers and 29 water injectors drilled over a four-year period. The workover program assumes 92 fracture jobs will be performed on existing wells.

GCA considers this case to be realistic at this stage given the technical and logistical uncertainties associated with it.

Table 14 shows the detailed well count breakdown of new oil producers, water injectors, and workover jobs by year and block for the Best Case.

Table 14: Best Case Development Well Schedule

	Total			2016			2017			2018			2019		
Block	**WO**	**OP**	**WI**	**WO**	**OP**	**WI**	**WO**	**OP**	**WI**	**WO**	**OP**	**WI**	**WO**	**OP**	**WI**
Y29	17	17	6	2	6	2	5	4	2	5	4	1	5	3	1
Y32	6	8	6	2	4	5	1	3	1	2	1		1		
Y19–10	25	37	10	6	8	3	7	10	2	4	9	2	8	10	3
Y19	20	20	4	5	5	1	3	5	1	7	5	1	5	5	1
Y2	24	17	3	5	4	1	5			7	5	1	7	8	1
Total	**92**	**99**	**29**	**20**	**27**	**12**	**21**	**22**	**6**	**25**	**24**	**5**	**26**	**26**	**6**

6.4.3 Low Case

The Low case considers fewer wells drilled than the Best Case (85% of the Best Case) over the same drilling period. GCA considers that having such a Low Case is justifiable given the current state of knowledge and uncertainty regarding well productivity and reservoir quality and extent. The case supports the full drilling program of 69 oil producers and 26 water injectors drilled over a four-year period. The workover program assumes 63 fracture jobs will be performed on existing wells.

Table 15 shows the detailed well count breakdown of new oil producers, water injectors, and workover jobs by year and block for the Low Case.

Table 15: Low Case Development Well Schedule

	Total			2016			2017			2018			2019		
Block	**WO**	**OP**	**WI**	**WO**	**OP**	**WI**	**WO**	**OP**	**WI**	**WO**	**OP**	**WI**	**WO**	**OP**	**WI**
Y29	16	15	6	2	5	2	5	3	2	5	3	1	4	4	1
Y32	6	8	6	2	4	5	1	3	1	2	1		1		
Y19–10	22	29	10	5	6	3	6	8	2	4	7	2	7	8	3
Y19	19	17	4	5	5	1	3	5	1	6	4	1	5	3	1
Total	**63**	**69**	**26**	**14**	**20**	**11**	**15**	**19**	**6**	**17**	**15**	**4**	**17**	**15**	**5**

6.5 Production Forecasts

Low, Best and High cases production forecasts were generated based on the development well schedules discussed above. The forecasts establish those volumes of remaining recoverable oil in each fault compartment that could potentially qualify for classification as Reserves.

A three-tiered approach to the oil production forecasting was adopted comprising estimation of developed production, developed non-producing production from workover fracture jobs and undeveloped production from both infill producers and water injectors for each existing compartment under production and development.

Low, Best and High Case production profiles were generated for each component by compartment, which were then summed to provide for the gross production profiles for Block 212. The Y8 fault compartment was excluded from the analysis as there is only minor production from one well in the block and the area was not included in the approved “Proved Reserves” report. The primary methodology used to derive the profiles was based on the DCA discussed in previous section for existing wells. A type-well approach was used for planned new wells and workovers.

6.5.1 Forecasting Methodology

The forecast of remaining recoverable oil from each existing producing fault compartment was based on extrapolating the decline trends from historical production data. The decline rate derived by DCA by compartment was applied to the forecasting algorithm. An uncertainty range attributable to reservoir performance was applied to the forecasts by varying the decline exponent factor of the assumed hyperbolic decline. A value of 0 (which is equivalent to exponential decline) was assumed for the Low case profile and 0.9 for the High case profile, as discussed in the next section. GCA considers that this range adequately captures the recovery uncertainties associated with a typical water injection depletion scheme.

As future development wells are planned to be primarily infill wells located in the proved area and step-out off-sets within the producing areas and off-set locations on structurally higher adjacent fault compartments, one of the key uncertainties associated with Block 212 development is the expected individual well deliverability. As there is a historical basis for the development of this nature in the area; GCA considers that using an average initial per well oil rate for each forecast case is a reasonable mechanism to cater for the likelihood that there will be variable results across the block.

Reliable production and test data for the vertical wells drilled within Block 212 are available and have been analysed by the operator. In addition, reasonable performance data for fracture stimulated wells have also been analysed. GCA reviewed these analyses and developed type-well production profiles taking into account the performance data variability.

Figure 28 and **Figure 29** show the type-well curves for infill producers and fracture workovers, used in the production forecasts. Key assumptions for all were as follows:

- For infill and new wells, it was assumed that a well will produce at an initial rate of 22–28–34 stb/d per well for the Low-Best-High Cases respectively. The well subsequently declines at a rate of 2% for two years, 13% in the next two years, and 11% thereafter. Per well EURs ranged from 70 to 121 Mstb.

- For water injectors, it was assumed that oil production will be initiated for one year duration before conversion to water injection. Oil is assumed to produce at an initial rate of 15–20–25 stb/d per well for the Low-Best-High Cases. Per well EURs ranged from 5.4 to 9.0 Mstb.

- For fracture workovers, it was assumed that a workover well will produce at an initial rate of 15–20–25 stb/d per well for the Low-Best-High Cases. The well subsequently declines at a rate of 50% for one year, 15% in the next year, and 10% thereafter. Per well EURs ranged from 11 to 24 Mstb.

Figure 28: Type-well Production Profiles for Infill and New Wells

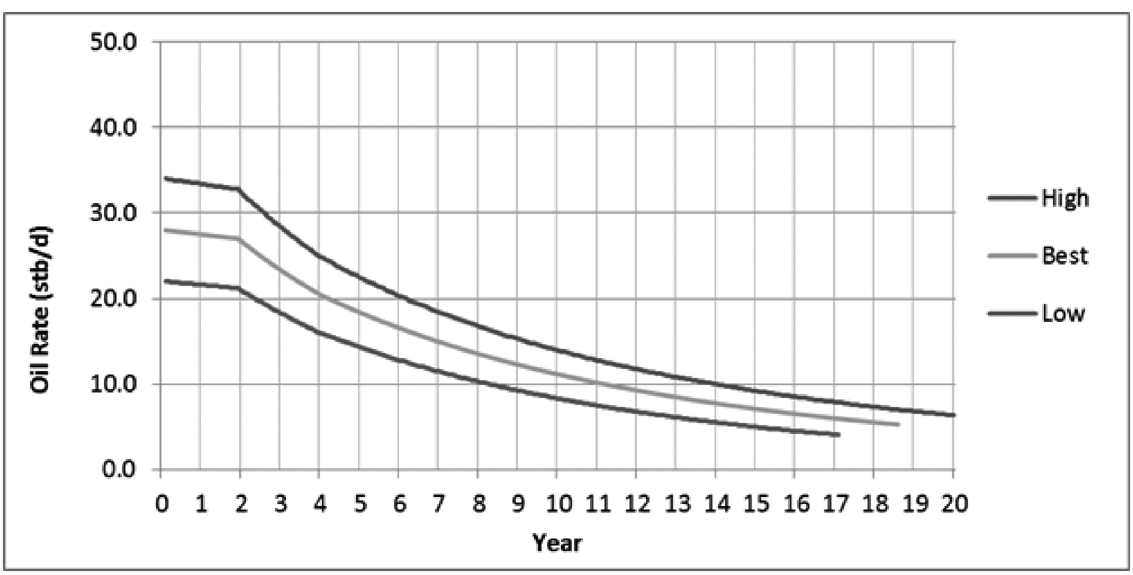
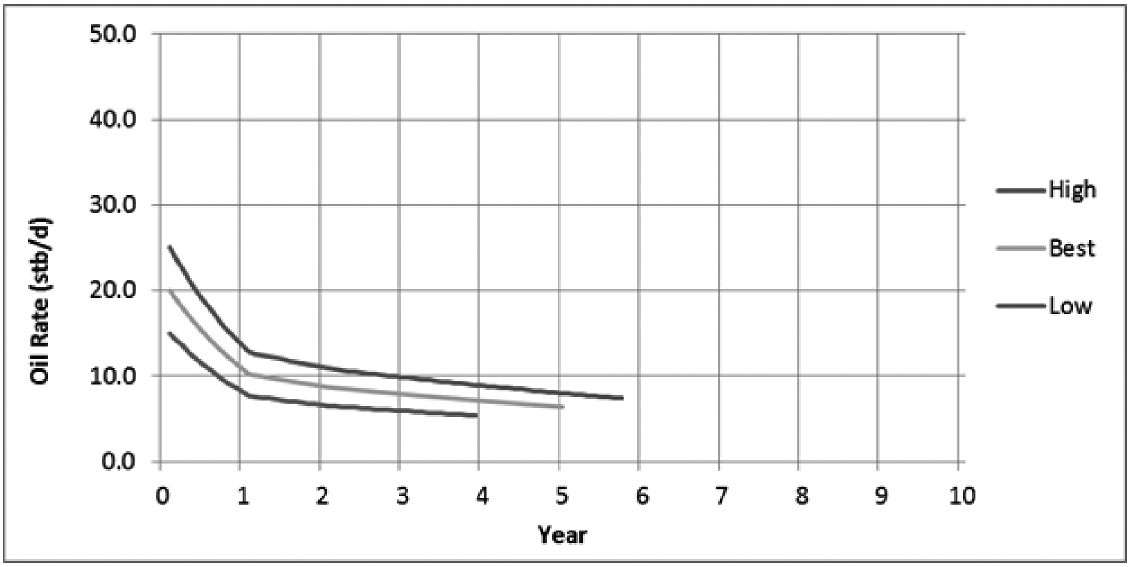


Figure 29: Type-well Production Profiles for Fracture Workover



6.5.2 Block 212 Production Forecast

Figure 30, and **Figure 31** and **Figure 32** plot the Block 212 oil production forecast for the Low, Best and High Cases, respectively, which are the aggregate of the individual fault compartment profiles. **Table 16, Table 17,** and **Table 18** show the corresponding yearly production volumes by block, after adjustment for field losses of 1%, which provides the input for the economic analyses.

Figure 30: Block 212 Low Case Production Forecast

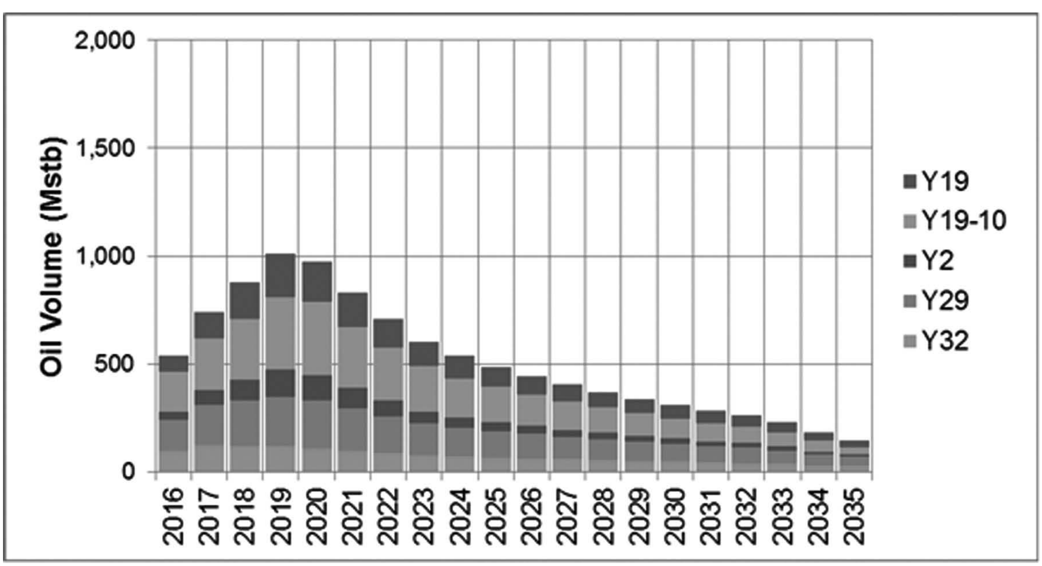


Figure 31: Block 212 Best Case Production Forecast

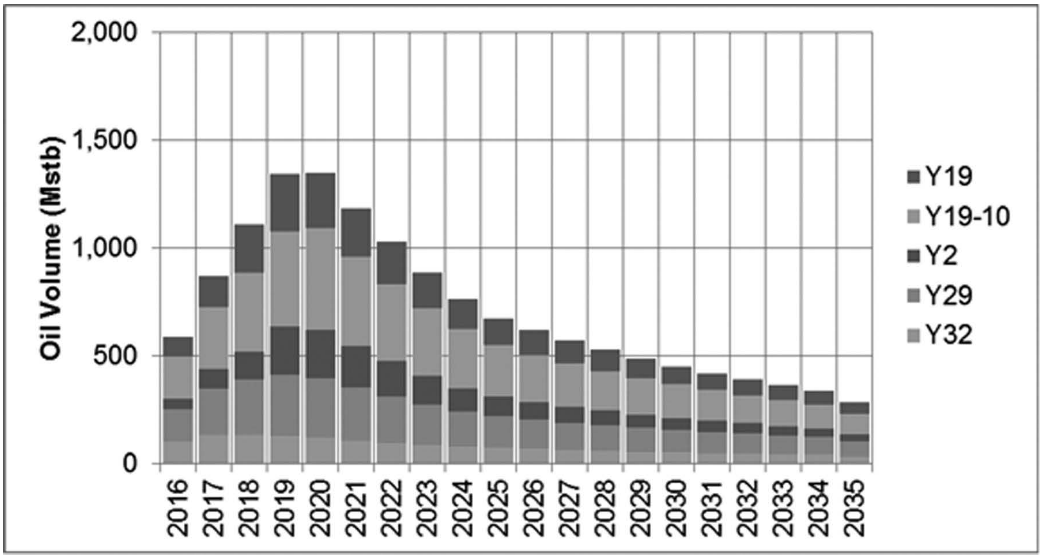


Figure 32: Block 212 High Case Production Forecast

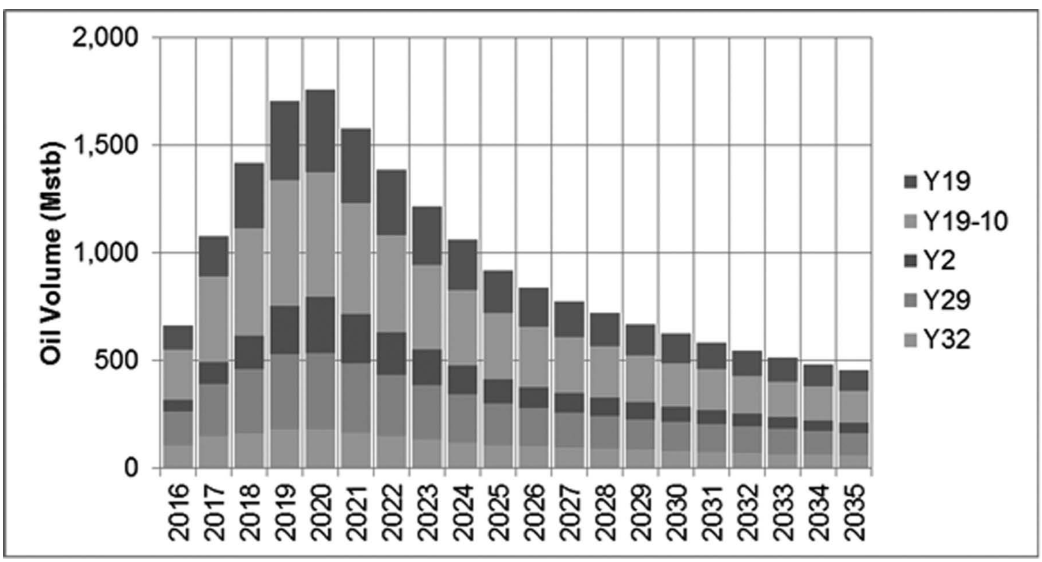


Table 16: Low Case Production Forecast (Mstb)

Year	Y2	Y19	Y19–10	Y29	Y32	Dev. Prod.	Total
2016	38	79	185	144	94	385	540
2017	73	123	235	185	122	353	738
2018	95	170	283	210	120	326	879
2019	128	202	334	230	117	301	1,011
2020	120	186	336	223	107	279	971
2021	95	160	285	195	96	258	832
2022	75	135	246	169	85	239	710
2023	56	113	209	147	77	221	602
2024	47	102	182	133	71	206	536
2025	42	94	162	122	66	191	486
2026	38	86	145	113	61	178	443
2027	34	79	130	104	57	166	404
2028	30	73	117	96	53	155	370
2029	27	67	105	89	49	144	337
2030	25	62	94	82	46	135	309
2031	22	57	85	76	43	126	283
2032	20	53	76	71	40	118	261
2033	17	47	66	63	36	110	229
2034	11	37	52	53	29	103	181
2035	8	28	36	45	25	97	143
Total	**1,001**	**1,956**	**3,364**	**2,549**	**1,394**	**4,091**	**10,264**

Table 17: Best Case Production Forecast (Mstb)

Year	Y2	Y19	Y19–10	Y29	Y32	Dev. Prod.	Total
2016	44	87	199	150	103	402	583
2017	88	145	287	213	136	370	869
2018	133	224	364	253	133	343	1,108
2019	221	264	442	283	130	319	1,339
2020	224	255	475	273	122	299	1,348
2021	192	221	416	242	109	279	1,180
2022	160	193	361	214	98	262	1,025
2023	132	164	315	186	87	246	883
2024	105	138	275	162	79	233	759
2025	89	124	241	145	73	220	672
2026	81	114	220	135	68	208	617
2027	73	105	200	125	64	197	568
2028	67	98	184	117	60	188	526
2029	61	90	168	109	56	178	485
2030	56	84	154	102	53	169	449
2031	51	78	142	96	50	162	417
2032	47	73	132	90	47	155	389
2033	43	68	121	84	45	147	362
2034	40	64	112	80	42	141	338
2035	32	53	95	67	34	135	282
Total	**1,939**	**2,644**	**4,903**	**3,127**	**1,588**	**4,654**	**14,201**

Table 18: High Case Production Forecast (Mstb)

Year	Y2	Y19	Y19–10	Y29	Y32	Dev. Prod.	Total
2016	50	112	236	155	109	405	662
2017	101	190	398	240	148	376	1,077
2018	153	306	499	299	160	352	1,417
2019	220	368	586	347	182	331	1,704
2020	260	385	578	349	183	313	1,756
2021	233	347	512	314	168	296	1,575
2022	199	303	449	282	149	281	1,383
2023	167	268	393	249	134	267	1,211
2024	137	231	351	219	120	256	1,058
2025	109	199	308	191	109	244	916
2026	97	183	278	176	102	234	836
2027	89	169	257	164	95	225	773
2028	82	156	239	154	89	217	719
2029	75	145	221	143	83	208	667
2030	69	135	206	135	78	201	622
2031	64	125	192	127	74	194	581
2032	59	117	180	120	70	188	546
2033	55	110	168	113	66	182	511
2034	51	103	157	107	63	176	481
2035	47	97	148	102	59	171	453
Total	**2,317**	**4,048**	**6,356**	**3,985**	**2,241**	**5,116**	**18,948**

6.6 Production Profiles

For each block, Low, Best and High Cases production profiles comprising of developed, developed non-producing and undeveloped forecasts were generated in accordance to the well count development schedule assumptions. The forecasts were combined to provide the overall production profiles for Block 212 as a whole. **Figure 33** shows the historical production and the production forecast profiles for Block 212. **Figure 34** through **Figure 38** show the plots by fault compartment.

Figure 33: Block 212 Historical Production and Forecast

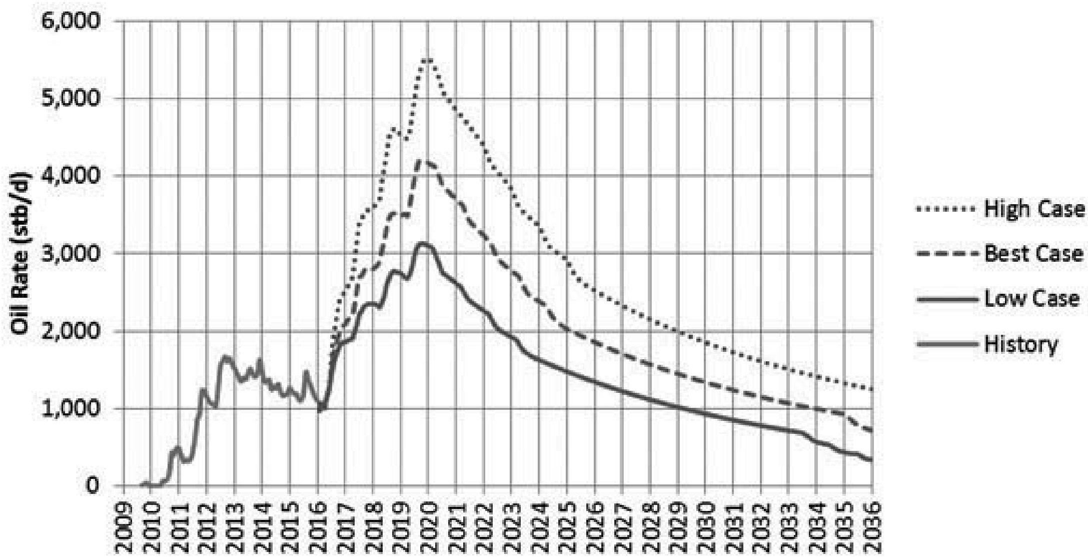


Figure 34: Y19 Historical Production and Forecast

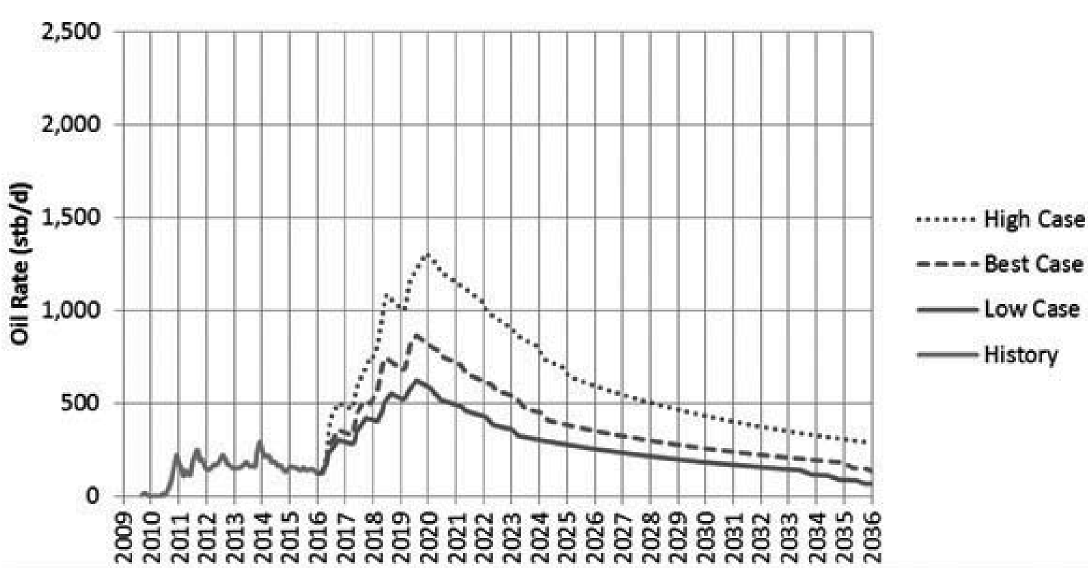


Figure 35: Y19–10 Historical Production and Forecast

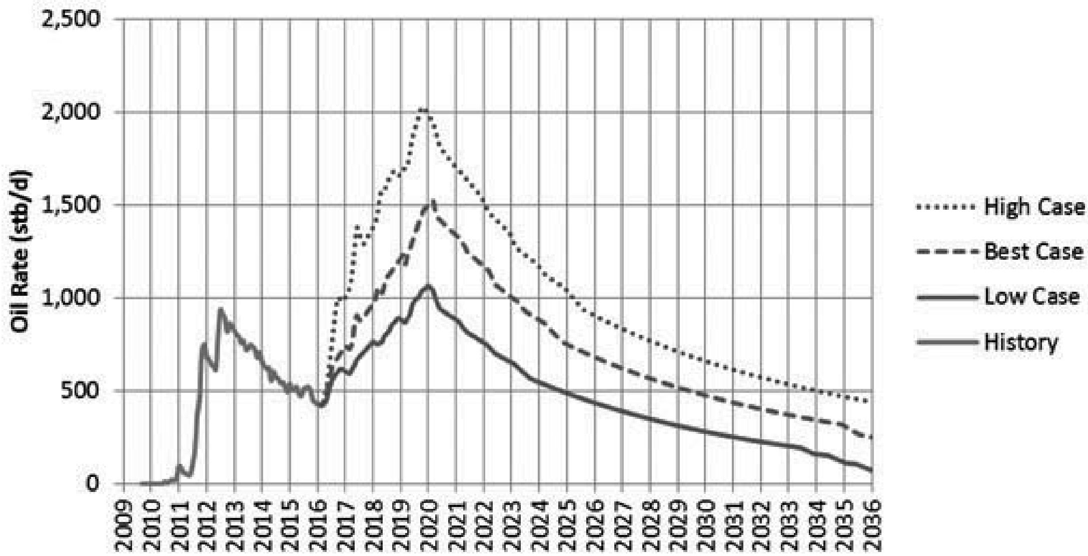


Figure 36: Y2 Historical Production and Forecast

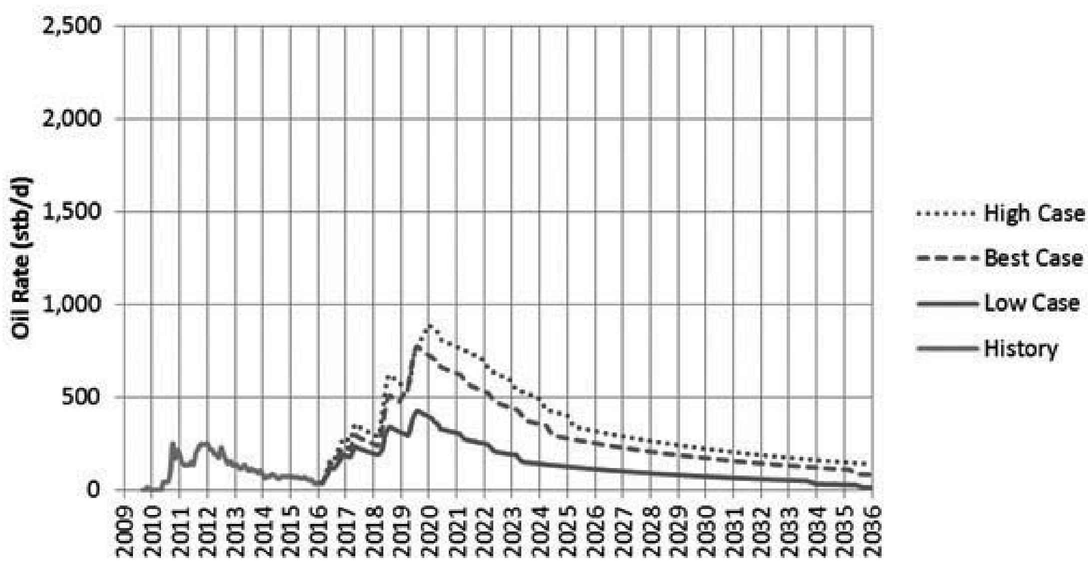


Figure 37: Y29 Historical Production and Forecast

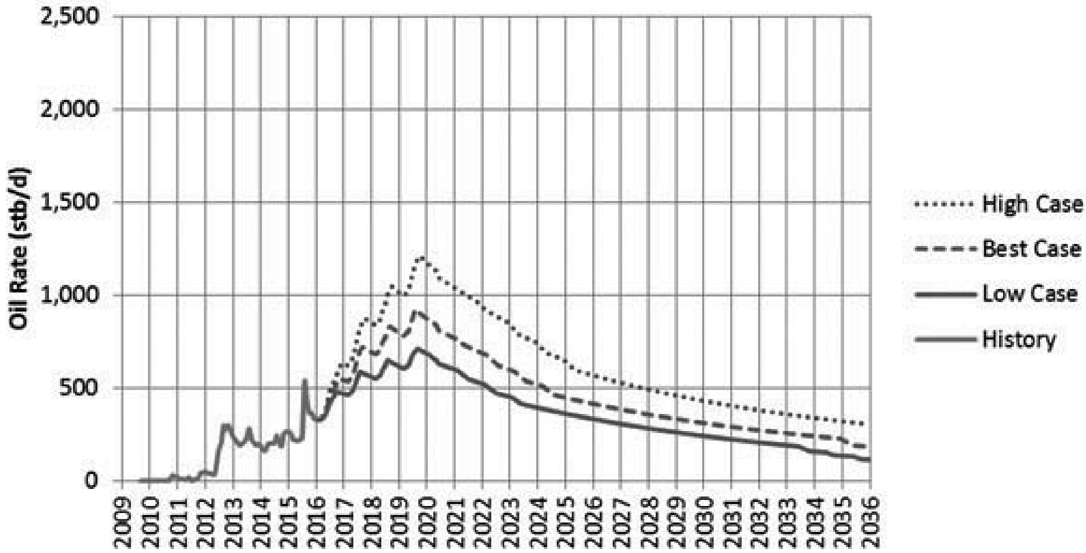
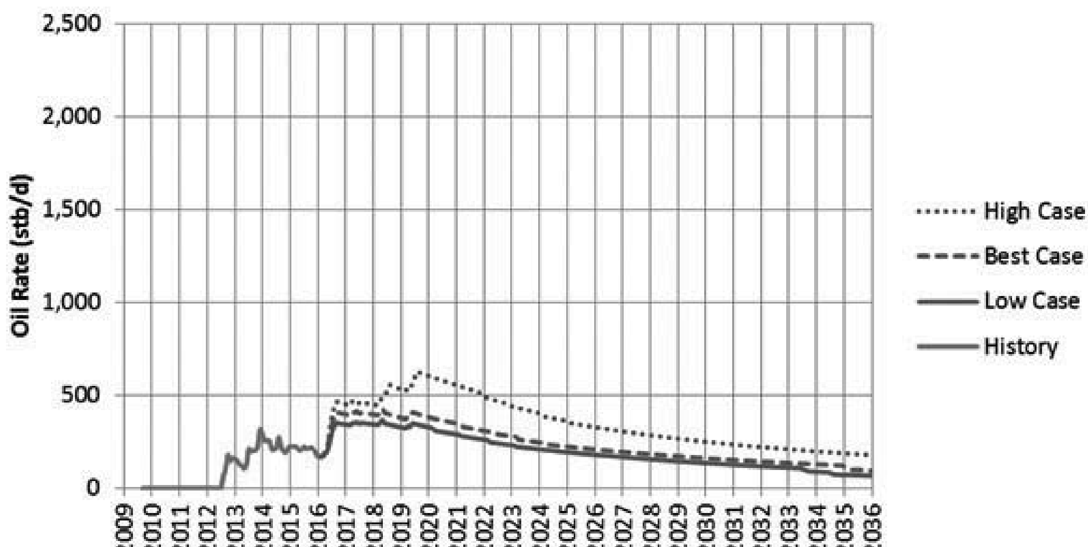


Figure 38: Y32 Historical Production and Forecast



7 Facilities and Costing

7.1 Block 212 Site Visit

Mr. Charles Goedhals, being a principal advisor of GCA, visited the site of operations for Block 212 on 7th September, 2015, with the intent of verifying the state of the assets and the nature of the operation. In line with the scope of work requested, GCA did not carry out a full audit of the operation, or of the assets. A detailed overview report has been provided to Shun Cheong under separate cover.

The field is situated in a remote location; however, the nearest main roadway is only some 2 km away from the centre of operations. The road is understood to be passable all year round. Access to and from the facilities is via a dirt road which is rutted by the heavy truck traffic used to export the crude. However, during the GCA visit to the site, a concrete road was under construction to solve this issue and was expected to be in operation by early October 2015.

In summary, GCA found the wells and facilities to be appropriately specified and suitable for the type of operation. The equipment was found to be in generally good condition, with some minor outstanding maintenance items noted. The equipment was also found to be suitable for the scale of operation and, as far as could be judged from the time allowed for the visit, apparently well functioning. Certain items have considerable spare capacity that may be usable for future expansion.

The process scheme being employed is conventional for the type of oil and the scale of operation. The operating procedures are relatively simple, as dictated by the nature of the facilities and equipment. Staffing levels advised appear appropriate for the size and nature of operations.

Overall, no major areas of concern were noted.

GCA's scope of work did not include evaluating compliance with any applicable regulations in terms of standards, rating, health, safety, and environment.

7.2 Capital Expenditure

The existing facilities have handled maximum production rates of 1,700 barrels per day (oil) in 2012, 900 barrels per day (water) in 2015, and 2,233 barrels per day (total fluids) in 2013. For the purposes of this review, GCA has assumed that the existing facilities can handle a maximum of 2,000 barrels per day oil throughput. In cases where the production forecast is expected to exceed this, additional capacity is proposed, in multiples of the existing capacity. In all three cases, one additional train of 2,000 bopd capacity is assumed to be required and installed in 2016. In the "High" Case, a second additional facility upgrade is assumed in 2018.

GCA accepted Hongbo's projected reductions (due to current market adjustment effects) in annual General & Administration (G&A) costs, oil field services costs and drilling costs. Other costs were held consistent with historical cost trends.

Capital expenditure (CAPEX) and drilling expenditure (DRILLEX) have been estimated based on the unit costs shown in **Table 19**. All costs are shown in Real 2016, US Dollars. Drilling costs have been benchmarked against historical actual costs provided by Hongbo. In the economic analysis, CAPEX was assumed to escalate at 2% p.a. from 1st January, 2016 onwards. The un-escalated CAPEX profiles are tabulated below in **Table 20**.

Table 19: CAPEX and DRILLEX Unit Costs

Item	Unit Cost (US$ M)
Exploration well (dry hole)	440
New well — producer	500
New well — injector	500
Single well fracking cost	73
Facilities 2,000 bopd train	600

Table 20: Block 212 CAPEX Profiles

Year	PDP (US$ MM)	1P (US$ MM)	2P (US$ MM)	3P (US$ MM)
2016	0.0	16.6	21.6	26.2
2017	0.0	14.2	15.6	18.6
2018	0.0	10.8	16.4	20.5
2019	0.0	11.3	18.0	22.5
TOTAL	**0.0**	**52.9**	**71.6**	**87.7**

Notes:

1. Costs are in 2016 Real US dollars.

2. The exchange rate was based on the average exchange rate of CNY to US Dollar in year 2015 which was 6.29 CNY for 1 US Dollar.

Although Abandonment Expenditure (ABEX) liability is not addressed specifically in the Cooperation Agreement it is considered likely Hongbo will be liable for any ABEX and so, for the purpose of this evaluation, ABEX has been included as a lump sum cost at the end of field life. The ABEX estimates provided by Hongbo consider a fixed cost of approximately US$ 0.3 MM for removal of facilities and a per well cost of approximately US$ 76,500. This equates to US$ 9.8 MM, US$ 16.8 MM, US$ 18.8 MM, and US$ 20.5 MM, for PDP, 1P, 2P and 3P cases respectively.

7.3 Operating Expenditure

Field Operating costs (OPEX) can be built up as the sum of an annual fixed cost (covering G&A and facilities maintenance), plus an annual maintenance cost per active well (covering well servicing work), plus a variable cost per barrel of oil produced. These costs are shown in **Table 21**. Estimated future costs are shown in unescalated, 2016, US Dollars. This operating cost model is based upon the 2012 to 2015 historical actual costs provided.

Table 21: OPEX Cost Model and Historical Cost Summary

Item	Units	2012	2013	2014	2015	2016
Fixed cost (per year)	US$MM	2.37	3.57	3.69	2.46	2.50
Well Maintenance (per well per year)	US$M	35.06	26.56	19.32	19.36	19.40
Variable cost (per barrel produced)	US$/bbl	13.77	13.02	13.20	8.84	9.00

An estimate of the cash operating expenses by cost classification based on an analysis of the historical cost breakdown provided by Hongbo for years 2013 and is provided for years 2016 to 2019 on an unescalated basis in **Table 22**. The "Fuel, electricity, water & other services" cost class does not include fracking and water-injection costs, which are included in the well capital cost estimates.

In the economic analysis, OPEX was assumed to escalate at 2% p.a. from 1st January, 2017 onwards. The total un-escalated OPEX profiles for each case are presented in **Table 23**.

Table 22: OPEX Cost Breakdown by Class (2016–2019)

Year	Cost Class	PDP (US$MM)	1P (US$MM)	2P (US$MM)	3P (US$MM)
2016	Workforce Employment	2.4	2.9	3.1	3.3
	Consumables	0.5	0.6	0.6	0.6
	Fuel, electricity, water & other services	2.7	3.3	3.5	3.8
	On & off site Administration	1.3	1.6	1.6	1.8
	Environmental Protection & monitoring	0.6	0.8	0.7	0.8
	Product marketing & transport	0.1	0.1	0.1	0.1
	Non-income taxes, royalties and other governmental charges	1.2	1.6	1.8	2.0
	TOTAL	**8.8**	**10.9**	**11.5**	**12.4**
2017	Workforce Employment	2.3	3.6	4.0	4.7
	Consumables	0.5	0.6	0.8	0.9
	Fuel, electricity, water & other services	2.7	4.1	4.6	5.3
	On & off site Administration	1.2	1.9	2.1	2.5
	Environmental Protection & monitoring	0.5	0.9	1.0	1.2
	Product marketing & transport	0.1	0.1	0.2	0.2
	Non-income taxes, royalties and other governmental charges	1.3	2.6	3.0	3.8
	TOTAL	**8.6**	**14.0**	**15.7**	**18.6**
2018	Workforce Employment	2.2	4.1	4.9	5.8
	Consumables	0.4	0.8	0.9	1.1
	Fuel, electricity, water & other services	2.5	4.7	5.6	6.7
	On & off site Administration	1.2	2.2	2.6	3.1
	Environmental Protection & monitoring	0.6	1.0	1.2	1.5
	Product marketing & transport	0.1	0.2	0.2	0.3
	Non-income taxes, royalties and other governmental charges	1.5	3.9	4.9	6.3
	TOTAL	**8.4**	**16.9**	**20.4**	**24.8**

Year	Cost Class	PDP (US$MM)	1P (US$MM)	2P (US$MM)	3P (US$MM)
2019	Workforce Employment	2.2	4.5	5.7	6.9
	Consumables	0.4	0.9	1.1	1.3
	Fuel, electricity, water & other services	2.5	5.2	6.5	7.9
	On & off site Administration	1.1	2.5	3.0	3.7
	Environmental Protection & monitoring	0.6	1.2	1.5	1.7
	Product marketing & transport	0.1	0.2	0.3	0.4
	Non-income taxes, royalties and other governmental charges	1.6	5.1	6.7	8.6
	TOTAL	**8.4**	**19.5**	**24.8**	**30.5**

Notes:

1. Costs are shown in 2016 Real US dollars.

2. The profiles are before considering economic cut-off year.

3. The exchange rate was based on the average exchange rate of CNY to US Dollar of 6.5 CNY for 1 US Dollar.

Table 23: Block 212 OPEX Profiles

Year	PDP (US$ MM)	1P (US$ MM)	2P (US$ MM)	3P (US$ MM)
2016	7.6	9.2	9.7	10.5
2017	7.3	11.4	12.7	14.8
2018	7.0	12.9	15.4	18.5
2019	6.8	14.4	18.0	21.8
2020	6.6	14.1	18.1	22.3
2021	6.4	12.8	16.5	20.6
2022	6.3	11.7	15.1	18.9
2023	6.1	10.7	13.8	17.3
2024	6.0	10.1	12.7	15.9
2025	5.9	9.7	11.9	14.6
2026	5.8	9.3	11.4	13.9
2027	5.7	8.9	11.0	13.3
2028	5.6	8.6	10.6	12.8
2029	5.5	8.3	10.2	12.4
2030	5.4	8.0	9.9	12.0
2031	5.4	7.8	9.6	11.6
2032	5.3	7.6	9.4	11.3
2033	5.2	7.3	9.1	10.9
2034	5.2	6.9	8.9	10.7
2035	5.1	6.5	8.4	10.4
TOTAL	**128.1**	**204.1**	**250.5**	**302.5**

Notes:

1. Costs are in 2016 Real US dollars.
2. The profiles are before considering economic cut-off year.
3. The exchange rate was based on the average exchange rate of CNY to US Dollar of 6.5 CNY for 1 US Dollar.

7.4 Hongbo Cost Reduction Plans

Hongbo has provided GCA with an assessment of potential reductions in CAPEX and OPEX that Hongbo considers could be achieved for the Block 212 operations in response to the current market environment low oil prices. The basis for these reductions is summarised in the following sections.

GCA has reviewed these assumptions and considers that the cost reduction measures are a reasonable basis under an aggressive cost reduction program. On this basis, GCA has considered the effect of these cost reductions in both CAPEX and OPEX for the purpose of the cashflow analyses detailed in Section 8. In the analysis, the reduction applied to costs in 2016 have been assumed to gradually return to 90% of previous levels as the oil price returns to

US$90/bbl. In the lower oil price sensitivity cases requested by Shun Cheong and based on 2016 Brent crude prices of US$32/bbl and US$26/bbl, GCA has considered it reasonable that a 10% further cost reduction in both CAPEX and OPEX could be achieved.

7.4.1 CAPEX Reduction Basis

Hongbo's CAPEX is primarily related to drilling Oil Producers and Water Injectors, and performing Fracture Stimulation Workovers. Recent quotations from Hongbo's drilling contractors and fracture stimulation providers have indicated reductions ranging from 10% to 33%. This level of reduction in CAPEX is further supported by similar levels of cost reduction reported by several major industry players including Chevron, BP and Shell.

7.4.2 OPEX Reduction Basis

Hongbo's OPEX includes "Workforce Employment", "Consumables", "Fuel, electricity, water & other services", "On & off site Administration", "Environmental Protection & monitoring", and "Product marketing & transport" costs. Hongbo considers that in the current low oil price environment it could achieve an overall reduction (including a further 10% noted above) in OPEX from previous levels by making reductions in each of these categories as summarised below:

- "Workforce Employment", 50% through laying off approximately 40% of staff and salary reductions of 15–20%.
- "Consumables", 20%.
- "Fuel, electricity, water & other services", 20%.
- "On & off site Administration", 40% through staff reduction/re-allocation and reduction in office rental.

8 Economic Analysis

8.1 Fiscal Terms

An Economic analysis has been carried out to satisfy the commerciality requirements under the SPE PRMS reserves definitions and has been run based on the production and cost profiles for the Unit 2 and Unit 19 reservoirs presented in the previous sections, together with the applicable fiscal terms. In all cases production was truncated in the year when field cashflows become negative.

The economic analysis has been based on the following assumptions as set out in the Cooperation Agreement between Yanchang and Hongbo:

- Maximum total contract term 20 years.

A 20 year production life has been assumed based on the expected term for a typical Production Permit for a resource of this size.

- Resource tax 6%

  Based on information provided by Hongbo, Resource tax payable to government is paid only in cash.

- Local taxes 1.36%

- Oil Revenue Share (after deduction of Resource tax and local taxes)

  — Yanchang 20%

  — Hongbo 80%

  The Cooperation Agreement between Yanchang and Hongbo states that the parties shall share the sales revenue, in cash, in accordance with the ratio in the agreement shown above.

- Depreciation method for tax calculation purposes Unit of production

- A Special Oil Gain Levy ("**Oil Levy**") applicable to all oil production in China was enacted in 2006, and the current threshold price set by the Ministry of Finance (MoF) is US$65/Bbl. If the oil price is below the threshold price, there is no Oil Levy. If the oil price is above the threshold price, the Oil Levy for Block 212 is about CNY 50/tonne (US$1.1/Bbl) based on information provided by Hongbo. The unit oil levy is escalated at 2% p.a.

- Income Tax 25%

  Income Tax is applied on the remainder of Hongbo's share of oil revenue after the deduction of the Oil Levy, OPEX and depreciation expense.

- No abandonment obligation.

  Whilst there are no obligations in the Cooperation Agreement requiring the operator to make any field abandonment provisions, Shun Cheong has requested GCA to include provision for estimated Abandonment costs in the economic analysis. In absence of any specific regulation or governing obligations, these have been included as a lump sum cost at the end of field life.

8.2 Economic Environment

Economic analysis was undertaken based on GCA's understanding of the contract as summarised above. The economic evaluation incorporated oil sales pricing levels based on GCA's standard oil price scenario for Reserves evaluations as of 1Q 2016.

Hongbo provided GCA with monthly crude oil sales prices from the Block 212 over the period from January, 2012 to December, 2015. The historical relationship between Block 212 crude price and Brent crude price is shown on **Figure 39** and summarised on **Table 24**.

Figure 39: Historical Brent and Block 212 Crude Prices

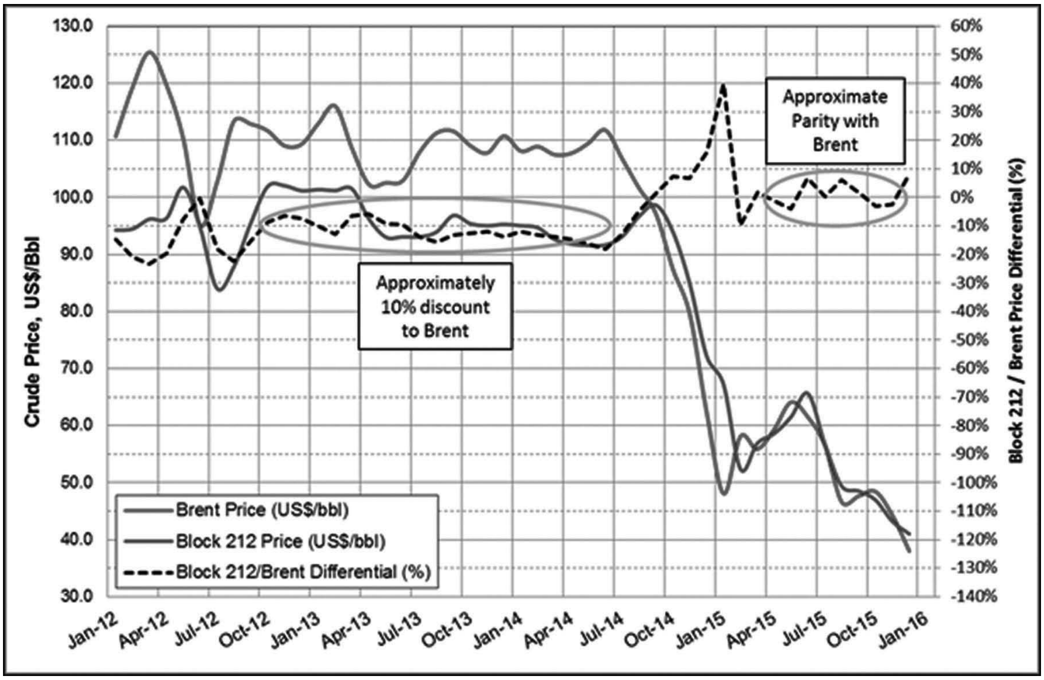


Table 24: Historical Brent and Block 212 Crude Prices

Period	Average Brent Crude Price (US$/Bbl)	Average Block 212 Crude Price (US$/Bbl)	Block 212/ Brent
2013	108.64	96.33	89%
2014	99.03	91.41	92%
2015	52.37	54.00	103%
2014 – 2015	75.70	72.70	96%
2013 – 2015	86.68	80.58	93%
2012 – 2015	92.92	84.40	91%

Historically, Block 212 crude oil has traded at about a 10% discount to Brent. However, since the Brent crude price dropped to below US$100/Bbl in late 2014, Block 212 crude price has been traded (with a small lag) at approximate parity to Brent. Based on the short relationship between Brent and Block 212 crude oil prices over the last 6 months, the economic limit tests for Block 212 have been performed assuming parity with Brent at or below US$60/Bbl, while the discount to Brent is steadily restored to 10% when Brent price reaches US$100/Bbl. The crude price scenario for the ELT analysis is summarised on **Table 25**.

The GCA 1Q 2016 Brent Price Scenario is based on:

- 2 years based on Future Strip price.
- 2 years transition from Future Strip to an underlying assumption of US$60/Bbl in 2018 and US$70/Bbl in 2019.
- Thereafter escalating at 2% pa.

Table 25: GCA Brent Crude Price 1Q 2016 Scenario

Year	Brent Crude Price (US$/Bbl)	Block 212 Crude Price (US$/Bbl)
2016	40.90	40.90
2017	47.58	47.58
2018	60.00	60.00
2019	70.00	69.37
2020	71.40	70.49
Thereafter	Escalated at 2% p.a.	discount to Brent rising to 10% at US$100/Bbl and above

Although the main oil price considered for determination of Reserves as at 31st December, 2015 is GCA's 4Q 2015 Oil Price Scenario, as shown above, GCA has also considered the impact of different oil price assumptions in its assessment of Reserves and and project NPVs. The various sensitivities considered are discussed further in Section 8.6.

8.3 Reserves

Table 26 summarises GCA's assessment of the Gross Reserves for Block 212 as of 31st December, 2015, as determined under the economic and fiscal assumptions summarised above.

Gross Reserves represent 100% commercially recoverable volumes attributable to Block 212 by the particular development plans adopted for the PDP, Low, Best and High Case development scenarios and after economic cutoffs have been applied.

Under the Cooperation Agreement governing Block 212, Hongbo sells (and is required to sell) all production from the block to an agreed refinery. From this, Hongbo receives 80% of gross revenue from the sale and pays the remaining 20% to Yanchang in cash. Resource tax payable to the state government is also paid only in cash.

As a result of this arrangement, Net Reserves attributable to Hongbo are equivalent to 80% of the Gross Reserves of Block 212.

Table 26: Block 212 — Gross and Hongbo's Net Reserves As of 31st December, 2015

Block 212 — Units 2 & 19	PDP (MMstb)	1P (MMstb)	2P (MMstb)
Gross Reserves (100%)	4.7	10.1	14.2
80% Net Reserves attributable to Hongbo	3.7	8.1	11.4

As the Listing Rules do not allow Possible Reserves to be combined with information on any other category of Reserves, Possible Reserves for Block 212 as at 31st December, 2015 estimated on the same basis as 1P and 2P Reserves are shown separately in **Table 27**. Possible Reserves for Block 212 have been calculated as the difference between estimated Proved + Probable + Possible (3P) Reserves and the 2P Reserves volumes tabulated above.

Table 27: Block 212 — Gross (100%) Reserves and Hongbo Net Possible Reserves As of 31st December, 2015

Block 212 Units 2 & 19	Possible Reserves (MMstb)
Gross 100% Reserves	4.7
80% Net Reserves attributable to Hongbo	3.8

8.4 Unit Operating Costs

A summary of average unit Capital and Operating costs in US$/Bbl for Block 212 Units 2 & 19 over field life, on an un-discounted basis and at various discount rates, utilising the oil price and cost assumptions specified above, are summarised in **Table 28**. Key operational cost analysis parameters are provided in **Table 29**.

Table 28: Hongbo Block 212 — Average Unit Capital and Operating Costs at Various Discount Rates

	Unit Capital Costs			Unit Operating Costs		
Discount Rate	PDP (US$/bbl)	1P (US$/bbl)	2P (US$/bbl)	PDP (US$/bbl)	1P (US$/bbl)	2P (US$/bbl)
0%	n/a	5.4	5.2	31.0	22.1	20.3
2%	n/a	5.2	5.0	25.6	18.6	16.9
5%	n/a	4.9	4.7	19.8	14.7	13.2
8%	n/a	4.7	4.5	15.8	11.9	10.6
10%	n/a	4.5	4.3	13.9	10.5	9.3
12%	n/a	4.4	4.2	12.3	9.4	8.3
15%	n/a	4.2	4.0	10.4	8.0	7.0

Table 29: Hongbo Block 212 — Key Operational Cost Analysis Parameters

Parameter	Unit	PDP	1P	2P
Capex per BOE per day (peak year):	US$/bbl/day	—	19,604	19,934
Opex per BOE per day (peak year):	US$/bbl/day	130,873	80,648	78,094
Capex as % of Gross Revenue:	%	—	7.73	7.34
Total Cost as % of Gross Revenue:	%	49.0	43.0	38.9
Opex (peak year)/Total Capex:	%	—	28.2	26.6
Peak Production year as % Total Resources:	%	8.6	9.9	9.5

8.5 Net Present Value (NPV) Ranges

The results of discounted post-tax cash flow calculations attributable to Hongbo's PDP, 1P and 2P Reserves as of 31st December, 2015, utilising the oil price and cost assumptions specified above, are summarised in **Table 30**. NPVs are attributable to Hongbo's cashflow under the Cooperation Agreement terms for Block 212 and are after the deduction of Commodity Factor, Resource tax, Local taxes, Yanchang Oil Revenue Share, Oil Levy, Income tax, and other applicable taxes. The NPVs reported do not reflect any contribution from Possible Reserves, Contingent Resources or Prospective Resources.

Table 30: Hongbo Post-Tax NPV Estimates at Various Discount Rates As of 31st December, 2015

Discount Rate	PDP (US$ MM)	1P (US$ MM)	2P (US$ MM)
5.0%	43	106	166
8.0%	38	87	133
10.0%	35	76	115
12.0%	32	67	100
15.0%	28	55	82

Notes:

1. The NPVs are calculated from discounted cash flows incorporating the fiscal terms governing the assets.

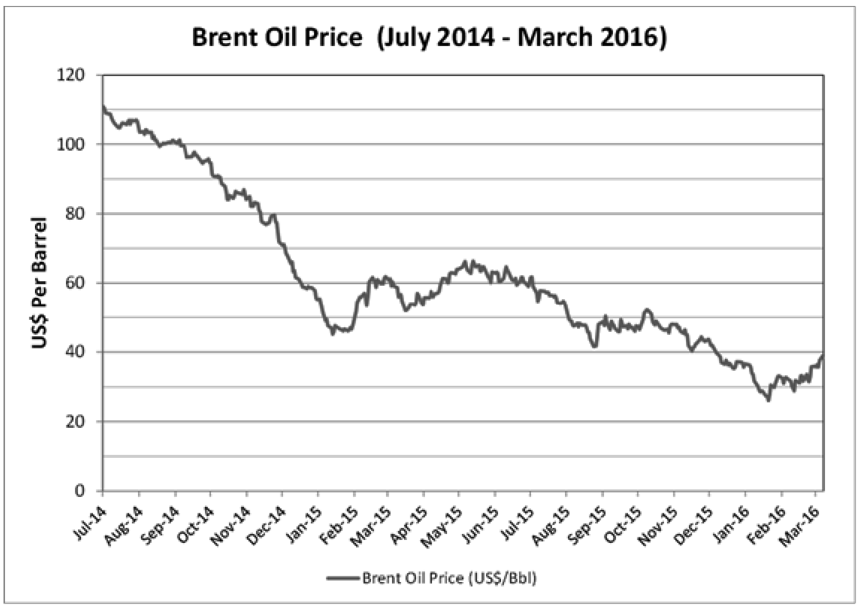
2. The NPVs reported here do not represent an opinion as to the market value of a property or any interest therein.

3. The NPVs reported here do not reflect any contribution from Possible Reserves, Contingent Resources or Prospective Resources.

8.6 Sensitivity Analysis

Oil prices have been extremely volatile since mid 2014 when oil prices were above US$100 per barrel. Since that time the Brent oil price has fallen to below US$50 per barrel, risen again to above US$65 per barrel, and fallen back again to below US$30 per barrel in January, 2016 before rising again to above US$40 per barrel (**Figure 40**).

Figure 40: Recent Brent Oil Price History



More recent sentiment in the market has been that prices may remain depressed and volatile for longer than sentiment was when they first fell sharply in late 2014–early 2015. However, there is considerable variability among analysts and commentators on the timing and evolution of any eventual price recovery.

In view of the continued volatility in oil prices, Shun Cheong has requested GCA to also include a sensitivity analysis based on an assumed realised 2016 oil price of US$32/Bbl, being the lowest selling price of Hongbo crude since 1st January 2012 to the most recent practicable date. In addition, Shun Cheong has also requested GCA to include a sensitivity analysis based on the prevailing lowest selling price of Brent crude since 1st January 2016, which fell to US$26.01/Bbl for a few days in January.

In order to address the first of these requests, a sensitivity analysis was conducted to test the economic viability of Reserves volumes using a scenario of the Brent crude oil price of US$32/Bbl for 2016 then being based on the forward strip prices from 2017 to 2020 and assuming a 2% inflation rate thereafter. Capital and Operating costs (in US$) were reduced by a further 10% based on Hongbo's assessment of potential cost reductions under an aggressive cost reduction programme. Costs were escalated at 2% from 1st January, 2020. No adjustments were made to the assumed development plan, although, in practice, under such a scenario this could also occur.

In order to address the second request from Shun Cheong, a sensitivity analysis was conducted to test the economic viability of Reserves volumes using a scenario of a constant Brent crude oil price of US$26/Bbl, which assumes that the average Brent oil price for 2016 will fall to and remain at US$26/Bbl thereafter. In this analysis, Capital and Operating costs were also reduced by a further 10% from the base case, but no price escalation or cost inflation was applied.

The oil price sensitivities considered are compared with the GCA 1Q2016 Block 212 oil price in the following table.

	Oil Price Scenarios		
Year	**1Q2016**	**US$32/bbl case**	**US$26/bbl case**
2016	40.90	32.00	26.0
2017	47.58	47.58	26.0
2018	60.00	51.90	26.0
2019	68.25	54.75	26.0
2020	69.37	56.54	26.0
2021	+2%	+2%	+0%

8.6.1 Unit Cost for US$32/bbl "Lowest price Scenario"

Shun Cheong has requested that an equivalent table of average unit costs be provided for Hongbo's lowest selling price (which are both US$32/bbl case) oil price scenario. The unit cost analysis for this case which incorporates a 10% reduction in both CAPEX and OPEX costs is provided in **Table 31** and **Table 32**.

Table 31: Hongbo Block 212 — Average Unit Capital and Operating Costs at Various Discount Rates (US$32/bbl case with 10% Cost Reduction)

	Unit Capital Costs			Unit Operating Costs		
Discount Rate	**PDP (US$/bbl)**	**1P (US$/bbl)**	**2P (US$/bbl)**	**PDP (US$/bbl)**	**1P (US$/bbl)**	**2P (US$/bbl)**
0%	n/a	4.8	4.7	28.0	20.0	18.5
2%	n/a	4.7	4.5	23.1	16.8	15.4
5%	n/a	4.4	4.2	17.9	13.3	12.0
8%	n/a	4.2	4.0	14.3	10.8	9.6
10%	n/a	4.1	3.9	12.5	9.5	8.4
12%	n/a	4.0	3.8	11.1	8.5	7.5
15%	n/a	3.8	3.6	9.4	7.3	6.4

Table 32: Hongbo Block 212 — Key Operational Cost Analysis Parameters (US$32/bbl Case with 10% Cost Reduction)

Parameter	Unit	PDP	1P	2P
Capex per BOE per day (peak year):	US$/bbl/day	—	17,644	17,941
Opex per BOE per day (peak year):	US$/bbl/day	118,413	73,070	71,006
Capex as % of Gross Revenue:	%	—	8.36	7.94
Total Cost as % of Gross Revenue:	%	53.7	47.2	42.7
Opex (peak year)/Total Capex:	%	—	28.2	26.6
Peak Production year as % Total Resources:	%	8.6	9.9	9.5

8.6.2 Reserves Sensitivity Summary

Under the US$32/Bbl assumed realised 2016 oil price sensitivity scenario, there would be no change in the recoverable volumes at any Reserves confidence level. Under the US$26/Bbl oil price sensitivity scenario, recoverable volumes at all confidence levels would economically unviable.

8.6.3 Cashflow Sensitivity Results

The results of discounted post-tax cash flow calculations attributable to Hongbo's Reserves as of 31st December, 2015, utilizing the US$32/Bbl oil price scenario and cost assumptions which incorporate a 10% reduction in both CAPEX and OPEX, are summarised in **Table 33**.

Table 33: Hongbo Post-Tax NPV Estimates at Various Discount Rates US$32/Bbl Escalated Price and Costs Scenario (10% Cost Reduction Case) As of 31st December, 2015

Discount Rate	PDP (US$ MM)	1P (US$ MM)	2P (US$ MM)
5.0%	32	80	127
8.0%	29	66	102
10.0%	27	58	89
12.0%	25	51	77
15.0%	23	42	63

Notes:

1. The NPVs are calculated from discounted cash flows incorporating the fiscal terms governing the assets.

2. The NPVs reported here do not represent an opinion as to the market value of a property or any interest therein.

3. The NPVs reported here do not reflect any contribution from Possible Reserves, Contingent Resources or Prospective Resources.

The results of discounted post-tax cash flow calculations attributable to Hongbo's Reserves as of 31st December, 2015, utilizing the US$26/Bbl oil price scenario and cost assumptions which incorporate a 10% reduction in both CAPEX and OPEX, are summarised in **Table 34**.

Table 34: Hongbo Post-Tax NPV Estimates at Various Discount Rates US$26/Bbl Unescalated Price and Costs Scenario (10% Cost Reduction Case) As of 31st December, 2015

Discount Rate	PDP (US$ MM)	1P (US$ MM)	2P (US$ MM)
5.0%	–7	–26	–23
8.0%	–6	–24	–22
10.0%	–5	–23	–22
12.0%	–5	–22	–22
15.0%	–4	–21	–22

Notes:

1. The NPVs are calculated from discounted cash flows incorporating the fiscal terms governing the assets.

2. The NPVs reported here do not represent an opinion as to the market value of a property or any interest therein.

3. The NPVs reported here do not reflect any contribution from Possible Reserves, Contingent Resources or Prospective Resources.

In both the above sensitivities it has been assumed that the development program associated with each category of Reserves has been carried out exactly the same as if oil was at the price level prevailing when the transaction was announced. GCA has requested Hongbo's management to comment upon its plans in a much lower oil price environment. In response to this enquiry Hongbo's management has indicated that at present it intends to continue with its original plans, but if oil prices below approximately US$40 per barrel persist for several more months then they may adjust or defer the development plan. If such adjustments or deferrals were to occur this may have a negative impact on the NPVs shown in this report.

8.6.4 Project payback and IRR

Shun Cheong has requested that payback periods and Internal Rates of Return (IRR)s for the project be provided in this report. GCA has calculated IRRs assuming a consideration payment of RMB558.88 million (US$ 86.0 million). Payback periods have been calculated with and without the consideration payment. Results for each of the oil price scenarios considered above for 1P and 2P Reserves cases are tabulated below.

Oil Price Scenario	**1Q 2016**		**US$32/Bbl**	
	1P	**2P**	**1P**	**2P**
IRR	7.6%	13.3%	3.6%	9.8%
Payback (Years) With consideration payment	7.5	6.2	9.2	7.0
Payback (Years) without consideration payment	3.3	3.5	3.5	3.7

8.7 Contingent Resources

Recoverable volumes estimated for the "Minor" fault compartment areas (Y3, Y4, Y8, Y13, Y14), were not included in the Proved Reserves report submitted to the MOLR and have thus been classified as Contingent Resources under the "Development Pending" sub-class. As appraisal/development of these areas proceeds and an appropriate Reserves report is submitted to MOLR and any subsequent application for a Production Permit granted, it is expected that some of these volumes could be re-classified as Reserves. However, based on data provided, GCA considers that there is a high chance that these resources will be further appraised and, subject to successful appraisal, subsequently developed. The operator expects to submit a reserves report and plan of development for these areas in or before 2019.

The key risks associated with these resources are thus: that there are delays in the successful appraisal drilling and the associated submission of a "Proved Reserves" report to MOLR; that the future appraisal wells fail to prove sufficient resource volumes for economic development; or that the MOLR may not approve or delays the approval of the "Proved Reserves" report and/or plans submitted for their future development.

Additional Contingent Resources have been estimated for the K_1ba^3 I reservoir in fault compartment Y19–10. These additional volumes have been encountered in five wells (Y19–13, Y19–13–1, Y19–13–2, Y19–24 and Y19–6). However, as the STOIIP volumes are low (0.35, 0.54 and 0.79 MMstb for the Low, Best and High Case estimates respectively) and associated recoverable volumes are considered sub-economic. As a result, the reservoir was not included in the reserves report submitted to MOLR.

Other risk factors relating to the $K1ba^3$ I reservoir are that it is deeper than the main reservoir intervals in this fault block and the sands are less continuous and of poorer quality with the result that well productivity is likely to be poorer and ultimate recovery lower. Overall, GCA considers that the chance of development for these resources is low unless further appraisal can confirm better productivity and significant additional volumes.

A summary of the Gross and Hongbo's Net Contingent Resources for the minor fault compartments and for the Y19–10 block K_1ba^3 I reservoir are shown in **Table 35.**

Table 35: Block 212 Gross and Hongbo's Net Contingent Resources As of 31st December, 2015

	Gross (100%)			80% Net to Hongbo		
Fault Compartments	**1C (MMstb)**	**2C (MMstb)**	**3C (MMstb)**	**1C (MMstb)**	**2C (MMstb)**	**3C (MMstb)**
Y3, Y4, Y8, Y13, Y14	0.44	0.60	1.41	0.35	0.48	1.13
Y19–10 (K_1ba^3 I)	0.05	0.11	0.26	0.04	0.09	0.21

Notes:

1. Gross Field Contingent Resources are 100% of the volumes estimated to be recoverable from the "Minor" fault compartments in the event that they are developed.

2. Net volumes represent the 80% Net Revenue Interest attributable to Hongbo under the Cooperation Agreement with Yanchang

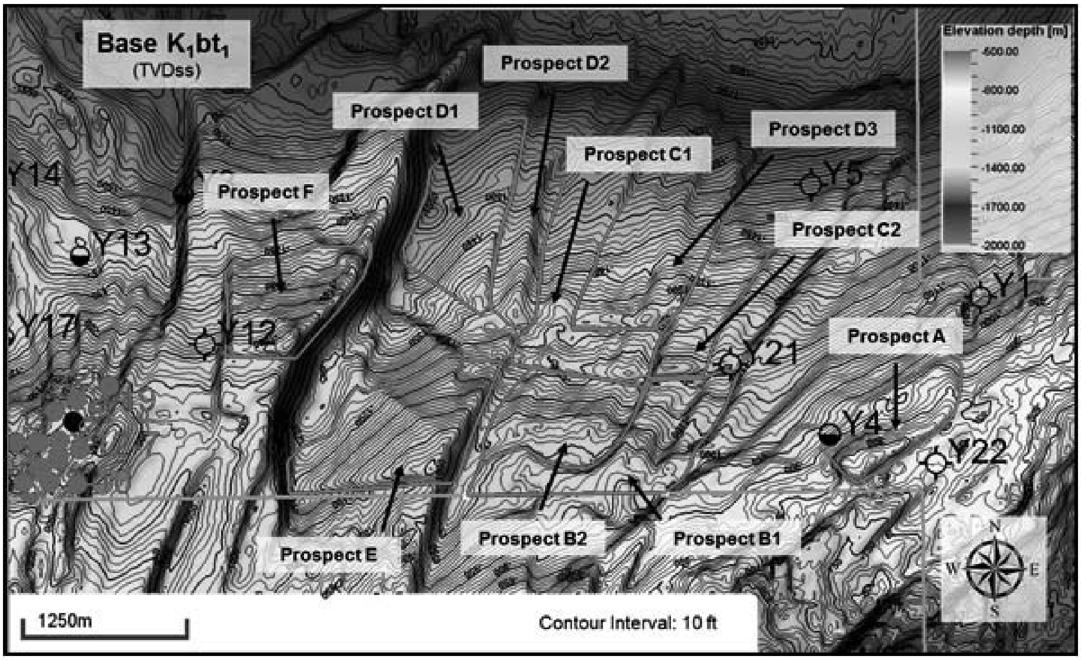
3. The volumes reported here are "unrisked" in the sense that no adjustment has been made for the risk that the blocks may not be developed in the form envisaged or may not go ahead at all (i.e. no "Chance of Development" factor has been applied).

4. Contingent Resources should not be aggregated with Reserves because of the different levels of risk involved.

9 Prospective Resources

GCA estimated Prospective Resources and Geological Chance of Success (GCoS) for ten areas identified by Hongbo in the region covered by the eastern half of the 3D seismic survey. **Figure 41** shows the depth structure map created for the base of the K_1bt^1 zone which roughly corresponds to the top of the main reservoir zone in the producing fields to the west. The polygons outline the areas associated with the maximum predicted hydrocarbon column for each of the prospects. These polygons roughly coincide with areas identified by Hongbo as being some combination of structural and/or stratigraphic traps. No prospect names were provided for the areas so GCA has chosen arbitrary names based on the geologic setting.

Figure 41: Prospective Resources Polygons



(Source: GCA Petrel Project)

The areas used for the Prospective Resources estimates are bounded by the polygons and a lower bound corresponding to the P90, P50 and P10 column height estimates. An exception was made for Prospect A where the maximum column height has been truncated to the top of the main reservoir zone in the Y4 well which had no hydrocarbons. Prospect B1 has been truncated to the block boundary in the south.

The prospects each have different characteristics to the main producing fields to the west with regards to structural style and seismic character. In addition, there have been five exploration wells drilled in settings similar to those of the prospects with only one well, Y4, producing minor oil volumes. As a result, the geological chance of success is considered low for all of the prospects. The main risks to the prospects are with the reservoir presence/quality, trap definition and seal effectiveness. Source and migration are not considered to be significant risks due to the presence of oil to the west and in the Y4 well.

The prospects can be summarised as follows:

- **Prospect A:** This prospect is a faulted closure up-dip from the Y4 exploration well which is currently producing small amounts of oil from the K_1bt^1 zone. The main risk for this prospect is considered to be reservoir seal. The primary reservoir zone was found in the Y4 well but was wet.

- **Prospects B 1/2:** These prospects are the most similar in geologic setting and appearance to the existing fields but do not appear to be as well defined structurally. The main risks are related to structural definition.

- **Prospects C 1/2:** These prospects are deeper in the basin and rely on a cross-dip fault to define the closure. Well Y21 was drilled in a similar structural setting and was unsuccessful. The main risks are related to structural definition, reservoir presence and seal.

- **Prospects D 1/2/3:** These prospects are similar to the "C" prospects but are even deeper in the basin and the cross-dip fault is not as well defined. The main risks are around reservoir presence and seal.

- **Prospect E:** This prospect is a fault bound closure with faults that are more clearly defined than for the fields to the west. The main risks to this prospect are the effectiveness of the fault seal and the presence of reservoir since the closest well, Y12, did not find the main reservoir zone.

- **Prospect F 1:** This prospect is in the footwall of the largest normal fault found on the entire survey. This is a very high risk prospect since it is immediately adjacent to the Y12 dry hole which did not find the primary reservoir zone and it relies on a three way fault seal. There is also some migration risk to this prospect as it is situated in a very different structural position compared to the other prospects.

Parameters for the volumetric calculations were estimated from the data provided for the K_1ba^4 II Formation which is the main reservoir zone in the producing wells to the west. This data was provided in the form of a spreadsheet which identified the top and base of each reservoir quality sub-unit within the zone and the associated porosity and hydrocarbon saturation.

Table 36 provides a summary of the estimated reservoir parameters used for the prospective resources calculations.

Table 36: Prospective Resources Reservoir Parameter Estimates

	Prospective Resources Reservoir Parameters		
Parameter	**Low Case**	**Best Case**	**High Case**
Column Height	80	150	250
Thickness	16	29	43
Net to Gross	0.42	0.58	0.75
Porosity	0.13	0.14	0.16
Hydrocarbon Saturation	0.54	0.57	0.59
Formation Volume Factor	1.14	1.04	1.00
Oil Recovery Factor	0.15	0.20	0.25

Overall, GCA considers that drilling the prospects identified without further work to be high risk, based on the current state of the interpretation. Since the data quality is generally good, a more detailed structural interpretation would allow better exploration planning and likely increase the overall chance of success. The Geological Chance of Success (GCoS) (or Chance of Discovery) for each of these prospects were generated by considering the risk factors discussed above. Exploration well costs, have been estimated to be approximately US$0.44 million based on a review of previous cost information provided by Hongbo. The resulting GCoS for each prospect is shown in **Table 37**.

Low, Best and High estimates of the Prospective Resources were calculated deterministically based on the values from the table above. **Table 37** provides a summary of the Gross (100%) and Net to Hongbo's 80% Interest Prospective Resources as at 31st December, 2015 and the associated Geological Chance of Success (GCoS).

Table 37: Block 212 Gross and Hongbo's Net Prospective Resources and GCoS
As of 31st December, 2015

	Prospective Resources Summary									
	STOIIP (MMbbls)			Gross 100% EUR (MMbbls)			Hongbo Net 80% EUR (MMbbls)			
Prospect	**Low**	**Best**	**High**	**Low**	**Best**	**High**	**Low**	**Best**	**High**	**GCoS**
Prospect A	0.7	5.4	12.8	0.1	1.1	3.2	0.08	0.88	2.56	22%
Prospect B 1	1.1	7.2	20.3	0.2	1.4	5.1	0.16	1.12	4.08	21%
Prospect B 2	1.3	6.7	15.5	0.2	1.3	3.9	0.16	1.04	3.12	21%
Prospect C 1	1.0	5.4	15.1	0.1	1.1	3.8	0.08	0.88	3.04	15%
Prospect C 2	0.5	2.9	10.2	0.1	0.6	2.5	0.08	0.48	2.00	15%
Prospect D 1	0.4	3.5	19.4	0.1	0.7	4.9	0.08	0.56	3.92	14%
Prospect D 2	0.4	2.6	10.7	0.1	0.5	2.7	0.08	0.40	2.16	14%
Prospect D 3	0.8	5.3	20.5	0.1	1.1	5.1	0.08	0.88	4.08	14%
Prospect E	0.7	5.7	24.4	0.1	1.1	6.1	0.08	0.88	4.88	17%
Prospect F	0.6	4.0	16.4	0.1	0.8	4.1	0.08	0.64	3.28	12%

Notes:

1. Gross Prospective Resources are 100% of the volumes estimated to be recoverable from the Prospect in the event that a discovery is made and subsequently developed.

2. Net volumes represent the 80% Net Revenue Interest attributable to Hongbo under the Cooperation Agreement with Yanchang in the event that a discovery is made and subsequently developed.

3. The GCoS reported here represents an indicative estimate of the probability that drilling the Prospect would result in a discovery. This does not include any assessment of the risk that the discovery, if made, may not be developed.

4. The volumes reported here are "unrisked" in the sense that no adjustment has been made for the risk that no discovery will be made or that any discovery would not be developed.

5. Identification of Prospective Resources associated with a Prospect is not indicative of any certainty that the Prospect will be drilled, or will be drilled in a timely manner.

6. Prospective Resources should not be aggregated with each other, or with Reserves or Contingent Resources, because of the different levels of risk involved and the different basis on which the volumes are determined.

10 Assessment of Risks

In reviewing the asset, GCA has considered various factors that may exist in acquiring an interest in this asset. These include the location, nature and state of the asset, the relative value between the reserves and resources, the status of the Production Permit application, the nature of the development proposed, and the experience of the Operator.

A summary of the key considerations or risks which may impact future value include, but are not limited to, the following:

a. Operator Capability

Within Block 212 Hongbo has shot and processed a 3D seismic survey of 98 km2, drilled 135 wells, including 106 development wells (producers and injectors) and 29 exploration/appraisal wells. Between 2016 and 2019 it is planning to embark on a campaign to drill between 69 and 124 new wells, between 26 and 35 new water injectors and an average of 23 workovers per year.

Given Hongbo's experience in operating and managing drilling activities in Block 212 to date, GCA sees no reason why Hongbo should not be able to carry out the planned drilling and workover campaign in the future, which is similar in scale.

b. Facility and Environmental Liabilities

GCA undertook a site visit to the Block 212 area to examine the facilities and operations, and to assess their condition and state of operability. While the field area is remote, it is road accessible. Operations and equipment are appropriate for the type of operation involved and, with some minor maintenance issues noted, appeared to be well functioning. No major areas of concern were noted. GCA's scope of work did not include evaluating compliance with any applicable regulations in terms of standards, rating, health, safety, and environment.

c. Risk of securing the Production Permit

Block 212 is currently being produced at a development stage which is permitted in the current Exploration Permit under the terms of the cooperation agreement. Production in Block 212 is from 5 major fault blocks (Y2, Y19, Y19–10, Y29, Y32 and Y8) covering areas that are known as Unit 2 and Unit 19. The Block 212 Exploration Permit will expire on 5th March, 2017. The Proved Reserves Report for these areas, a pre-requisite to the Production Permit application, was approved by the Ministry of Land and Resources (MOLR) on 13th August, 2014.

In order for resource volumes (beyond the minor amounts currently being produced under the Exploration Permit) to be classified as Reserves it requires that, inter alia, there is reasonable expectation that the necessary Production Permit(s) covering Unit 2 and Unit 19 will be granted. Preparation for an application for the first Production Permit in Block 212 covering Unit 2 and Unit 19 is in progress. When granted, the full field development of Unit 2 and Unit 19 will be carried out. The timing of the Production Permit award will have an impact on Hongbo's ability to carry out future drilling and workover plans in Unit 2 and Unit 19.

In addition to the current pilot production from Unit 2 and Unit 19, minor oil from other fault blocks (Y13, Y14, Y3 and Y4) in Block 212 is being produced. A Proved Reserves Report on these minor fault block areas is still required for any subsequent application for additional Production Permit(s) for further exploitation in these minor fault block areas in Block 212. The award of the first Production Permit in Block 212 should provide comfort that subsequent Production Permit(s) for these other fault compartments will be granted in the future.

d. Technical Risks

By their nature, upstream oil and gas activities carry a certain level of risk which may never be eliminated, although they may be reduced with better understanding of the subsurface from either more data (e.g. seismic, new wells or further studies) and through the experience of the Operator.

Estimates of Reserves and Resources are based on professional engineering judgment and are subject to future revisions, upward or downward, as a result of future operations or as additional data become available, and should not be considered a guarantee or prediction of results. Technical risk factors comprise two main areas: Geological risks relating to the source and migration of hydrocarbons in the sub-surface and the presence of reservoir rocks and traps in which hydrocarbons can accumulate; and Development and Production risks relating the quality of the hydrocarbon reservoirs, the volumes of hydrocarbons contained within the reservoirs and how much can be recovered (extracted) from them by the development plans implemented to recover them. The Geological and Development and Production risks for the Block 212 development are summarised below:

a. Geological Risks

Hydrocarbons have been discovered in and flowed from over 101 wells within the Block 212 field area thus proving the presence and entrapment of a significant volume of recoverable hydrocarbons in multiple reservoirs.

Good quality 3D seismic data is available over the producing area of Block 212 represented by Unit 2 and Unit 19. Based on the Interpretation of the 3D data in conjunction the well markers from some 135 wells, where well spacing in is approximately 200m, and well log data, the overall structural and stratigraphic configuration of the major reservoir horizons in the producing areas of the field, is considered to be well defined.

Although Block 212 has a complex faulted structural configuration. The good quality seismic data and extensive well data provides high confidence in the interpretation of faults and formation structure maps over the Unit 2 and Unit 19 producing areas.

On the basis of these factors, GCA considers that there is a low Geological risk associated with the presence and accumulation of hydrocarbons in Block 212.

b. Development and Production Risks

The future drilling and workover program in Unit 2 and Unit 19 through 2019 will be focused mainly on those producing blocks; therefore the performance of the incremental production is expected to be analogous to the way historical production has developed.

In addition to that, future drillings are mostly infill wells and/or step out wells from existing producers. Only some (less than 10%) of the future wells will target other adjacent fault blocks across reservoir faults which are considering to be non-sealing and estimated to be 200 – 300 meters from existing wells. Although these other fault blocks have not been flow tested, they appear similar to the producing blocks when compared on geological and petrophysical characteristics. Hence, GCA considers that there should be a relatively low risk with respect to the performance and flowability of those reservoirs.

e. Costs

Cost is not expected to be a major risk item with greater competition amongst service providers for projects such as Hongbo's in Block 212, as other operators onshore China scale back activities that are now uneconomic due to the current low oil price environment. Hongbo has drilled 135 wells to date which provides a good set of historical data points for planning and costing new wells more accurately and provides a learning curve for more efficient drilling operations. The design and completion of the new wells planned are relatively simple with infill or step out wells from existing wells will also help minimize the risk of cost overruns.

Costs provided to GCA are in Renminbi ("RMB") which, as a result of the recent devaluation of the currency, have reduced in U.S. Dollar equivalent terms. There is a risk that elements of cost that ultimate rely on U.S. Dollar inputs may in due course be subject to greater inflationary pressures.

f. Commodity (oil) price

Crude oil is priced based on a number of factors including supply and demand, political events and expectations, the quality of the crude, transportation costs to the market and the nature of the market into which it is sold.

Two major factors have to date affected the sales price of Block 212 crude oil. The first of these is the global price of oil, which more than halved between June 2014 and January 2015, when it was trading below US$50 per barrel. While the global price of Brent oil had risen back to around US$65 per barrel by the middle of 2015, by the end of December 2015 it had fallen back again to under US$40 per barrel.

While the price of oil has a direct impact on value in respect of the revenue that can be expected from selling the oil produced, there is also a secondary effect. The significant fall in the price of oil has caused virtually all oil and gas companies to cut back on previously planned capital expenditures. At present the future price of crude oil is seen as being extremely uncertain, limiting the willingness of companies to commit to funding significant new investments, particularly where they involve commitments that can last several years. This will have a potentially significant impact on the timing of the eventual monetization of such resources, and the willingness of any prospective purchaser to pay up front for value that is dependent upon development activity that may be at risk of being delayed or curtailed. Hongbo's management has indicated that while it intends to continue with the planned development program for the time being, if current low prices were to persist for several more months it may defer or adjust plans.

The second major factor affecting the selling price of Block 212 crude oil is the relationship of this price to world marker prices such as Brent crude. Between July 2012 and June 2014, crude from Block 212 was trading at about a 10% discount to Brent when Brent was around US$100 per barrel. Once Brent had fallen to around US$50 to US$60 per barrel, Block 212 crude traded at parity to Brent, or slightly above. At this stage it is unclear as to whether the sales price of Block 212 crude has established a new, long term relationship to Brent or, after a while, the discount previously observed may resume. This uncertainty also presents a risk to the price received for Block 212 crude oil.

A third factor affecting oil price is that Block 212 crude oil is sold in RMB. In assessing value for the 80% RI, GCA has assumed that the Block 212 crude oil price will track the U.S. Dollar price of oil. However, there is a risk that at some point in future there could be a temporary or long term disconnect between the local sales price and the internationally traded price of crude oil.

g. Timing Adjustments

The assessment has been based on the assumption that all cash flows from oil production, tax payments and payment of invoices for expenditures occur in the middle of the year in which the benefit is realised or cost is incurred. In actual operations, there will be a difference in timing of such cash flows due to the timing of actual crude sales, tax payments and invoice payment terms.

h. Litigation

According to the PRC legal counsel to Shun Cheong, there is the possibility that early exploration and development work in Block 212 could be considered to give rise to legal issues, although counsel considers neither of them pose a material risk. Neither these risks, nor any other legal risk that may be faced by Shun Cheong, has been taken into account in the assessment of Reserves.

Each of these factors has been assigned a risk factor from minor to major and an assessment of likelihood from Unlikely to Likely. The degree or consequence of each risk and its likelihood are combined into an overall risk assessment as presented in **Table 38**.

Table 38: Risk Assessment Matrix

Hazard/Risk	**Likelihood**	**Consequence Rating**	**Risk**
Operator Capability	Unlikely	Moderate	Low
Facility and Environmental Liabilities	Unlikely	Moderate	Low
Production Permit	Unlikely	Major	Medium
Geological Risk Factors	Possible	Minor	Low
Development & Production Risks	Possible	Moderate	Medium
Cost Increases	Possible	Moderate	Low
Continued Low Oil Price	Possible	Major	Medium
Timing Adjustments	Likely	Minor	Low
Litigation	Unlikely	Minor	Low

11 Technical Qualifications

GCA is an independent international energy advisory group of 50 years' standing, whose expertise includes petroleum reservoir evaluation and economic analysis.

The report is based on information compiled by professional staff members who are full time employees or contractors of GCA. Staff who participated in the compilation of this report include Mr. Doug Peacock, Mr. Stephen M. Lane, Mr. Jim Curry, Mr. Hu Yundong, Mr. Haihong Chew, Mr. David Timko, Mr. Andrew B. Duncan, Ms. Dewi Sri Redjeki and Ms. Tianjiao Yan. All hold degrees in geoscience, petroleum engineering or related discipline.

The report was reviewed by Mr. Douglas Peacock and Mr. Stephen Lane, and approved at corporate level by Mr. Robert George, Vice President of GCA.

Mr. Peacock holds a BSc in Geological Sciences and an MSc in Petroleum Geology, and is a member of the Society of Petroleum Engineers, Petroleum Exploration Society of Great Britain, South East Asia Petroleum Exploration Society and American Association of Petroleum Geologists. He is also a serving member of SPE Oil and Gas Reserves Committee. He has over 30 years' experience in geology and petrophysics with a particular emphasis on 3D reservoir modelling and has worked extensively on reserves estimating, unconventional reservoirs, acquisitions and divestments as well as technical projects.

Mr. Lane holds a BSc in Geology, and is a member of the Society of Petroleum Engineers. He has over 40 years' industry experience in geology, petrophysics and economic modelling and has worked extensively on reserves estimating and valuations, acquisitions and divestments as well as technical projects.

Mr. George holds an MBA from the Open University and a BSc (Hons) in Earth Sciences, and is a member of the Society of Petroleum Engineers, the American Association of Petroleum Geologists, and Association of International Petroleum Negotiators. He has over 40 years industry experience.

Yours sincerely,
Gaffney, Cline & Associates

Stephen Lane
Technical Director
80 Anson Road, 31-01C Fuji Xerox Towers, Singapore 079907
Society of Petroleum Engineers (Membership no. 3416400)

Bob George
Vice President
5555 San Felipe St., Suite 550, Houston, TX 77056, USA
Association of International Petroleum Negotiators (Membership no. 1171), American Association of Petroleum Geologists (Membership no. 137671), Society of Petroleum Engineers (Membership no. 0528182)

Appendix I
Abbreviated SPE PRMS Definitions and Guidelines

Society of Petroleum Engineers, World Petroleum Council, American Association of Petroleum Geologists and Society of Petroleum Evaluation Engineers Petroleum Resources Management System

Definitions and Guidelines [(1)]

March 2007

Preamble

Petroleum resources are the estimated quantities of hydrocarbons naturally occurring on or within the Earth's crust. Resource assessments estimate total quantities in known and yet-to-be-discovered accumulations; resources evaluations are focused on those quantities that can potentially be recovered and marketed by commercial projects. A petroleum resources management system provides a consistent approach to estimating petroleum quantities, evaluating development projects, and presenting results within a comprehensive classification framework.

International efforts to standardise the definition of petroleum resources and how they are estimated began in the 1930s. Early guidance focused on Proved Reserves. Building on work initiated by the Society of Petroleum Evaluation Engineers (SPEE), SPE published definitions for all Reserves categories in 1987. In the same year, the World Petroleum Council (WPC, then known as the World Petroleum Congress), working independently, published Reserves definitions that were strikingly similar. In 1997, the two organisations jointly released a single set of definitions for Reserves that could be used worldwide. In 2000, the American Association of Petroleum Geologists (AAPG), SPE and WPC jointly developed a classification system for all petroleum resources. This was followed by additional supporting documents: supplemental application evaluation guidelines (2001) and a glossary of terms utilised in Resources definitions (2005). SPE also published standards for estimating and auditing reserves information (revised 2007).

These definitions and the related classification system are now in common use internationally within the petroleum industry. They provide a measure of comparability and reduce the subjective nature of resources estimation. However, the technologies employed in petroleum exploration, development, production and processing continue to evolve and improve. The SPE Oil and Gas Reserves Committee works closely with other organisations to maintain the definitions and issues periodic revisions to keep current with evolving technologies and changing commercial opportunities.

The SPE PRMS document consolidates, builds on, and replaces guidance previously contained in the 1997 Petroleum Reserves Definitions, the 2000 Petroleum Resources Classification and Definitions publications, and the 2001 "Guidelines for the Evaluation of Petroleum Reserves and Resources"; the latter document remains a valuable source of more detailed background information.

[1] These Definitions and Guidelines are extracted from the Society of Petroleum Engineers/World Petroleum Council/American Association of Petroleum Geologists/Society of Petroleum Evaluation Engineers (SPE/WPC/AAPG/SPEE) Petroleum Resources Management System document ("**SPE PRMS**"), approved in March 2007.

These definitions and guidelines are designed to provide a common reference for the international petroleum industry, including national reporting and regulatory disclosure agencies, and to support petroleum project and portfolio management requirements. They are intended to improve clarity in global communications regarding petroleum resources. It is expected that SPE PRMS will be supplemented with industry education programs and application guides addressing their implementation in a wide spectrum of technical and/or commercial settings.

It is understood that these definitions and guidelines allow flexibility for users and agencies to tailor application for their particular needs; however, any modifications to the guidance contained herein should be clearly identified. The definitions and guidelines contained in this document must not be construed as modifying the interpretation or application of any existing regulatory reporting requirements.

The full text of the SPE PRMS Definitions and Guidelines can be viewed at:

www.spe.org/specma/binary/files/6859916Petroleum_Resources_Management_System_2007.pdf

RESERVES

Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions.

Reserves must satisfy four criteria: they must be discovered, recoverable, commercial, and remaining based on the development project(s) applied. Reserves are further subdivided in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterised by their development and production status. To be included in the Reserves class, a project must be sufficiently defined to establish its commercial viability. There must be a reasonable expectation that all required internal and external approvals will be forthcoming, and there is evidence of firm intention to proceed with development within a reasonable time frame. A reasonable time frame for the initiation of development depends on the specific circumstances and varies according to the scope of the project. While 5 years is recommended as a benchmark, a longer time frame could be applied where, for example, development of economic projects are deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives. In all cases, the justification for classification as Reserves should be clearly documented. To be included in the Reserves class, there must be a high confidence in the commercial producibility of the reservoir as supported by actual production or formation tests. In certain cases, Reserves may be assigned on the basis of well logs and/or core analysis that indicate that the subject reservoir is hydrocarbon-bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests.

On Production

The development project is currently producing and selling petroleum to market.

The key criterion is that the project is receiving income from sales, rather than the approved development project necessarily being complete. This is the point at which the project "chance of commerciality" can be said to be 100%. The project "decision gate" is the decision to initiate commercial production from the project.

Approved for Development

All necessary approvals have been obtained, capital funds have been committed, and implementation of the development project is under way.

At this point, it must be certain that the development project is going ahead. The project must not be subject to any contingencies such as outstanding regulatory approvals or sales contracts. Forecast capital expenditures should be included in the reporting entity's current or following year's approved budget. The project "decision gate" is the decision to start investing capital in the construction of production facilities and/or drilling development wells.

Justified for Development

Implementation of the development project is justified on the basis of reasonable forecast commercial conditions at the time of reporting, and there are reasonable expectations that all necessary approvals/contracts will be obtained.

In order to move to this level of project maturity, and hence have reserves associated with it, the development project must be commercially viable at the time of reporting, based on the reporting entity's assumptions of future prices, costs, etc. ("**forecast case**") and the specific circumstances of the project. Evidence of a firm intention to proceed with development within a reasonable time frame will be sufficient to demonstrate commerciality. There should be a development plan in sufficient detail to support the assessment of commerciality and a reasonable expectation that any regulatory approvals or sales contracts required prior to project implementation will be forthcoming. Other than such approvals/contracts, there should be no known contingencies that could preclude the development from proceeding within a reasonable timeframe (see Reserves class). The project "decision gate" is the decision by the reporting entity and its partners, if any, that the project has reached a level of technical and commercial maturity sufficient to justify proceeding with development at that point in time.

Proved Reserves

Proved Reserves are those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations.

If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. The area of the reservoir considered as Proved includes:

(1) the area delineated by drilling and defined by fluid contacts, if any, and

(2) adjacent undrilled portions of the reservoir that can reasonably be judged as continuous with it and commercially productive on the basis of available geoscience and engineering data.

In the absence of data on fluid contacts, Proved quantities in a reservoir are limited by the lowest known hydrocarbon (LKH) as seen in a well penetration unless otherwise indicated by definitive geoscience, engineering, or performance data. Such definitive information may include pressure gradient analysis and seismic indicators. Seismic data alone may not be sufficient to define fluid contacts for Proved reserves (see "2001 Supplemental Guidelines," Chapter 8). Reserves in undeveloped locations may be classified as Proved provided that the locations are in undrilled areas of the reservoir that can be judged with reasonable certainty to be commercially productive. Interpretations of available geoscience and engineering data indicate with reasonable certainty that the objective formation is laterally continuous with drilled Proved locations. For Proved Reserves, the recovery efficiency applied to these reservoirs should be defined based on a range of possibilities supported by analogs and sound engineering judgment considering the characteristics of the Proved area and the applied development program.

Probable Reserves

Probable Reserves are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves.

It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate. Probable Reserves may be assigned to areas of a reservoir adjacent to Proved where data control or interpretations of available data are less certain. The interpreted reservoir continuity may not meet the reasonable certainty criteria. Probable estimates also include incremental recoveries associated with project recovery efficiencies beyond that assumed for Proved.

Possible Reserves

Possible Reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than Probable Reserves.

The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P), which is equivalent to the high estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate. Possible Reserves may be assigned to areas of a reservoir adjacent to Probable where data control and interpretations of available data are progressively less certain. Frequently, this may be in areas where geoscience and engineering data are unable to clearly define the area and vertical reservoir limits of commercial production from the reservoir by a defined project. Possible estimates also include incremental quantities associated with project recovery efficiencies beyond that assumed for Probable.

Probable and Possible Reserves

(See above for separate criteria for Probable Reserves and Possible Reserves.)

The 2P and 3P estimates may be based on reasonable alternative technical and commercial interpretations within the reservoir and/or subject project that are clearly documented, including comparisons to results in successful similar projects. In conventional accumulations, Probable and/or Possible Reserves may be assigned where geoscience and engineering data identify directly adjacent portions of a reservoir within the same accumulation that may be separated from Proved areas by minor faulting or other geological discontinuities and have not been penetrated by a wellbore but are interpreted to be in communication with the known (Proved) reservoir. Probable or Possible Reserves may be assigned to areas that are structurally higher than the Proved area. Possible (and in some cases, Probable) Reserves may be assigned to areas that are structurally lower than the adjacent Proved or 2P area. Caution should be exercised in assigning Reserves to adjacent reservoirs isolated by major, potentially sealing, faults until this reservoir is penetrated and evaluated as commercially productive. Justification for assigning Reserves in such cases should be clearly documented. Reserves should not be assigned to areas that are clearly separated from a known accumulation by non-productive reservoir (i.e., absence of reservoir, structurally low reservoir, or negative test results); such areas may contain Prospective Resources. In conventional accumulations, where drilling has defined a highest known oil (HKO) elevation and there exists the potential for an associated gas cap, Proved oil Reserves should only be assigned in the structurally higher portions of the reservoir if there is reasonable certainty that such portions are initially above bubble point pressure based on documented engineering analyses. Reservoir portions that do not meet this certainty may be assigned as Probable and Possible oil and/or gas based on reservoir fluid properties and pressure gradient interpretations.

Developed Reserves

Developed Reserves are expected quantities to be recovered from existing wells and facilities.

Reserves are considered developed only after the necessary equipment has been installed, or when the costs to do so are relatively minor compared to the cost of a well. Where required facilities become unavailable, it may be necessary to reclassify Developed Reserves as Undeveloped. Developed Reserves may be further sub-classified as Producing or Non-Producing.

Developed Producing Reserves

Developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate.

Improved recovery reserves are considered producing only after the improved recovery project is in operation.

Developed Non-Producing Reserves

Developed Non-Producing Reserves include shut-in and behind-pipe Reserves.

Shut-in Reserves are expected to be recovered from:

(1) completion intervals which are open at the time of the estimate but which have not yet started producing,

(2) wells which were shut-in for market conditions or pipeline connections, or

(3) wells not capable of production for mechanical reasons.

Behind-pipe Reserves are expected to be recovered from zones in existing wells which will require additional completion work or future re-completion prior to start of production. In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.

Undeveloped Reserves

Undeveloped Reserves are quantities expected to be recovered through future investments:

(1) from new wells on undrilled acreage in known accumulations,

(2) from deepening existing wells to a different (but known) reservoir,

(3) from infill wells that will increase recovery, or

(4) where a relatively large expenditure (e.g. when compared to the cost of drilling a new well) is required to

(a) recomplete an existing well or

(b) install production or transportation facilities for primary or improved recovery projects.

CONTINGENT RESOURCES

Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies.

Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorised in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterised by their economic status.

Development Pending

A discovered accumulation where project activities are ongoing to justify commercial development in the foreseeable future.

The project is seen to have reasonable potential for eventual commercial development, to the extent that further data acquisition (e.g. drilling, seismic data) and/or evaluations are currently ongoing with a view to confirming that the project is commercially viable and providing the basis for selection of an appropriate development plan. The critical contingencies have been identified and are reasonably expected to be resolved within a reasonable time frame. Note that disappointing appraisal/evaluation results could lead to a re-classification of the project to "On Hold" or "Not Viable" status. The project "decision gate" is the decision to undertake further data acquisition and/or studies designed to move the project to a level of technical and commercial maturity at which a decision can be made to proceed with development and production.

Development Unclarified or on Hold

A discovered accumulation where project activities are on hold and/or where justification as a commercial development may be subject to significant delay.

The project is seen to have potential for eventual commercial development, but further appraisal/evaluation activities are on hold pending the removal of significant contingencies external to the project, or substantial further appraisal/evaluation activities are required to clarify the potential for eventual commercial development. Development may be subject to a significant time delay. Note that a change in circumstances, such that there is no longer a reasonable expectation that a critical contingency can be removed in the foreseeable future, for example, could lead to a reclassification of the project to "Not Viable" status. The project "decision gate" is the decision to either proceed with additional evaluation designed to clarify the potential for eventual commercial development or to temporarily suspend or delay further activities pending resolution of external contingencies.

Development Not Viable

A discovered accumulation for which there are no current plans to develop or to acquire additional data at the time due to limited production potential.

The project is not seen to have potential for eventual commercial development at the time of reporting, but the theoretically recoverable quantities are recorded so that the potential opportunity will be recognised in the event of a major change in technology or commercial conditions. The project "decision gate" is the decision not to undertake any further data acquisition or studies on the project for the foreseeable future.

PROSPECTIVE RESOURCES

Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.

Potential accumulations are evaluated according to their chance of discovery and, assuming a discovery, the estimated quantities that would be recoverable under defined development projects. It is recognised that the development programs will be of significantly less detail and depend more heavily on analog developments in the earlier phases of exploration.

Prospect

A project associated with a potential accumulation that is sufficiently well defined to represent a viable drilling target.

Project activities are focused on assessing the chance of discovery and, assuming discovery, the range of potential recoverable quantities under a commercial development program.

Lead

A project associated with a potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation in order to be classified as a prospect.

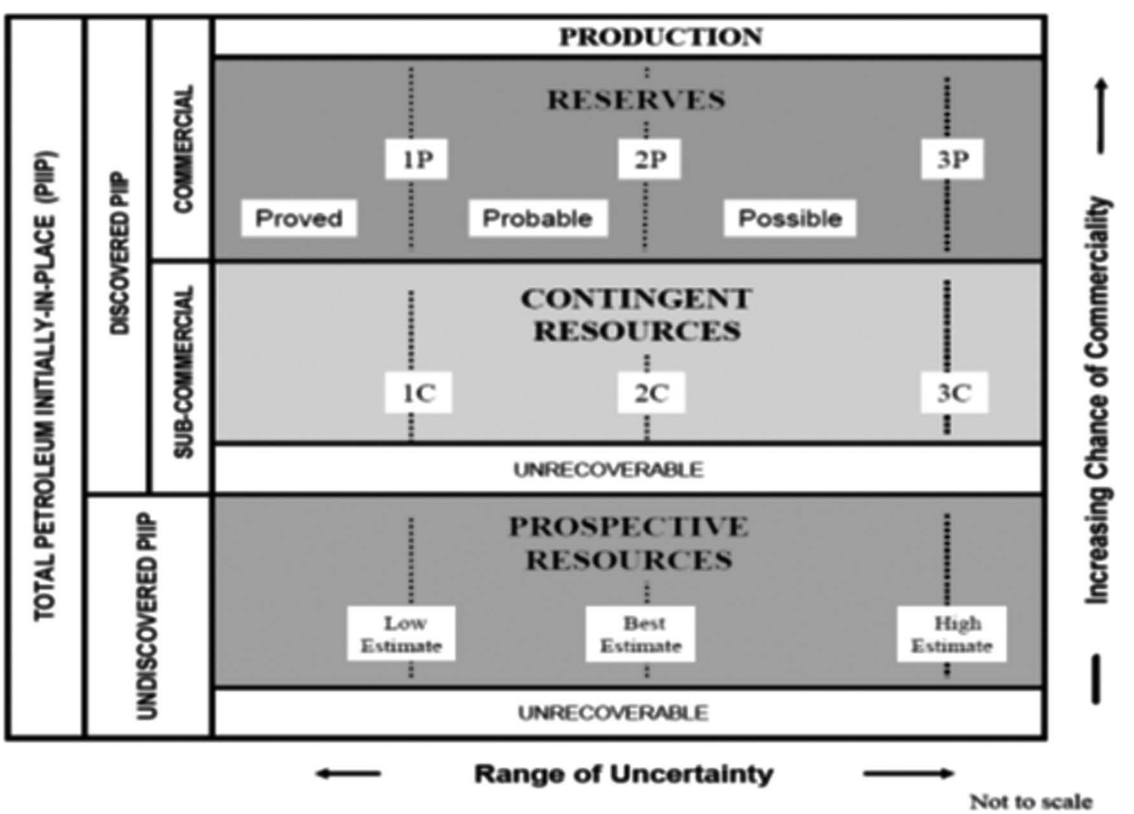
Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to confirm whether or not the lead can be matured into a prospect. Such evaluation includes the assessment of the chance of discovery and, assuming discovery, the range of potential recovery under feasible development scenarios.

Play

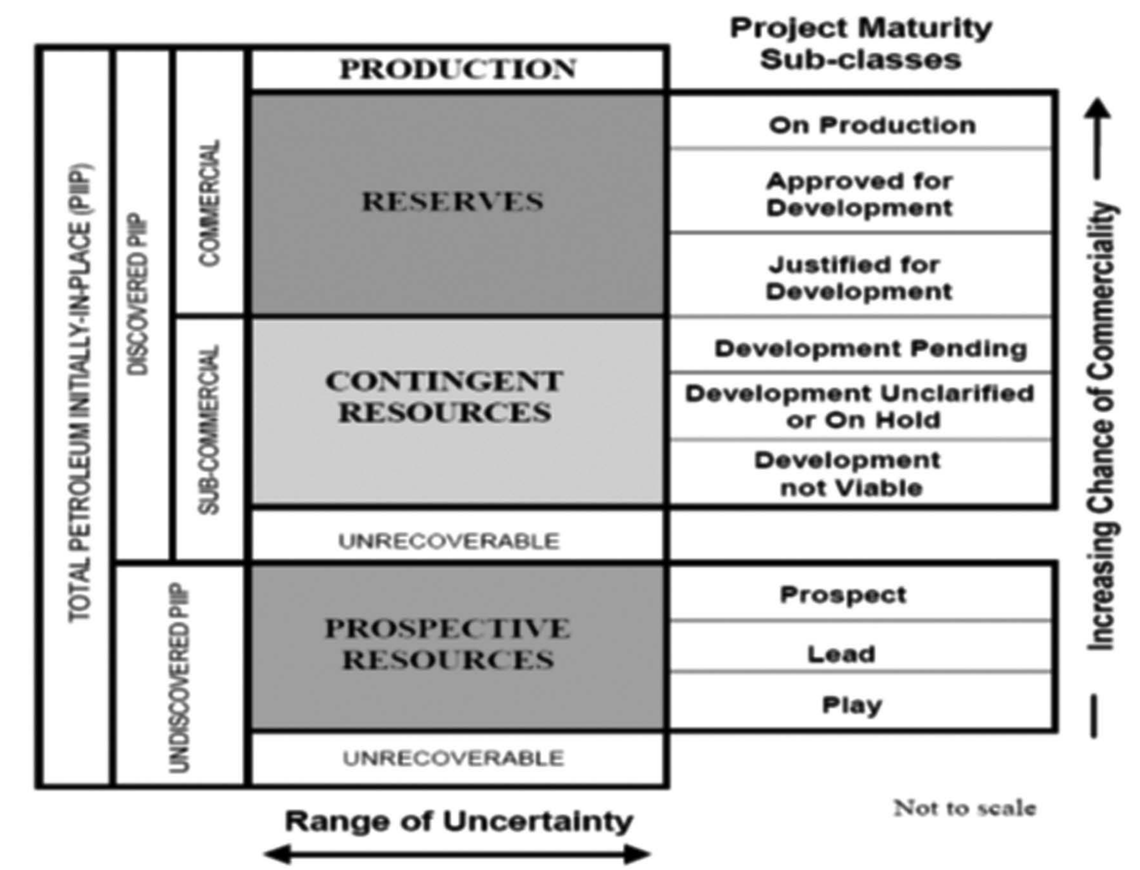
A project associated with a prospective trend of potential prospects, but which requires more data acquisition and/or evaluation in order to define specific leads or prospects.

Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to define specific leads or prospects for more detailed analysis of their chance of discovery and, assuming discovery, the range of potential recovery under hypothetical development scenarios.

Resources Classification



Project Maturity



Appendix II
Glossary

Glossary
List of Standard Oil Industry Terms and Abbreviations

ABEX	Abandonment Expenditure
ACQ	Annual Contract Quantity
°API	Degrees API (American Petroleum Institute)
AAPG	American Association of Petroleum Geologists
AVO	Amplitude versus Offset
A$	Australian Dollars
B	Billion (10^9)
Bbl	Barrels
/Bbl	per barrel
BBbl	Billion Barrels
BHA	Bottom Hole Assembly
BHC	Bottom Hole Compensated
Bscf or Bcf	Billion standard cubic feet
Bscfd or Bcfd	Billion standard cubic feet per day
Bm^3	Billion cubic metres
Bcpd	Barrels of condensate per day
BHP	Bottom Hole Pressure
Blpd	Barrels of liquid per day
Bpd	Barrels per day
Boe	Barrels of oil equivalent @ xxx mcf/Bbl
boepd	Barrels of oil equivalent per day @ xxx mcf/Bbl
BOP	Blow Out Preventer
Bopd	Barrels oil per day
Bwpd	Barrels of water per day
BS&W	Bottom sediment and water
BTU	British Thermal Units
Bwpd	Barrels water per day
CBM	Coal Bed Methane
CO_2	Carbon Dioxide
CAPEX	Capital Expenditure
CCGT	Combined Cycle Gas Turbine
cm	centimetres
CMM	Coal Mine Methane
CNG	Compressed Natural Gas
Cp	Centipoise (a measure of viscosity)
CSG	Coal Seam Gas
CT	Corporation Tax
DCQ	Daily Contract Quantity
Deg C	Degrees Celsius
Deg F	Degrees Fahrenheit
DHI	Direct Hydrocarbon Indicator
DST	Drill Stem Test
DWT	Dead-weight ton
E&A	Exploration & Appraisal
E&P	Exploration and Production
EBIT	Earnings before Interest and Tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
g/cc	grams per cubic centimetre
Gal	gallon
gal/d	gallons per day
G&A	General and Administrative costs
GBP	Pounds Sterling
GDT	Gas Down to
GIIP	Gas initially in place
GJ	Gigajoules (one billion Joules)
GOR	Gas Oil Ratio
GTL	Gas to Liquids
GWC	Gas water contact
HDT	Hydrocarbons Down to
HSE	Health, Safety and Environment
HSFO	High Sulphur Fuel Oil
HUT	Hydrocarbons up to
H_2S	Hydrogen Sulphide
IOR	Improved Oil Recovery
IPP	Independent Power Producer
IRR	Internal Rate of Return
J	Joule (Metric measurement of energy) I kilojoule = 0.9478 BTU)
k	Permeability
KB	Kelly Bushing
KJ	Kilojoules (one Thousand Joules)
kl	Kilolitres
km	Kilometres
km^2	Square kilometres
kPa	Thousands of Pascals (measurement of pressure)
KW	Kilowatt
KWh	Kilowatt hour
LKG	Lowest Known Gas
LKH	Lowest Known Hydrocarbons
LKO	Lowest Known Oil
LNG	Liquefied Natural Gas
LoF	Life of Field
LPG	Liquefied Petroleum Gas
LTI	Lost Time Injury
LWD	Logging while drilling
m	Metres
M	Thousand
m^3	Cubic metres
Mcf or Mscf	Thousand standard cubic feet
MCM	Management Committee Meeting
MMcf or MMscf	Million standard cubic feet
m^3d	Cubic metres per day
mD	Measure of Permeability in millidarcies
MD	Measured Depth
MDT	Modular Dynamic Tester

EI	Entitlement Interest
EIA	Environmental Impact Assessment
EMV	Expected Monetary Value
EOR	Enhanced Oil Recovery
EUR	Estimated Ultimate Recovery
FEED	Front End Engineering and Design
FPSO	Floating Production, Storage and Offloading
FSO	Floating Storage and Offloading
Ft	Foot/feet
Fx	Foreign Exchange Rate
G	gram
Mscfd	Thousand standard cubic feet per day
MMscfd	Million standard cubic feet per day
MW	Megawatt
MWD	Measuring While Drilling
MWh	Megawatt hour
mya	Million years ago
NGL	Natural Gas Liquids
N_2	Nitrogen
NPV	Net Present Value
OBM	Oil Based Mud
OCM	Operating Committee Meeting
ODT	Oil down to
OPEX	Operating Expenditure
OWC	Oil Water Contact
p.a.	Per annum
Pa	Pascals (metric measurement of pressure)
p.a.	Per annum
Pa	Pascals (metric measurement of pressure)
P&A	Plugged and Abandoned
PDP	Proved Developed Producing
PI	Productivity Index
PJ	Petajoules (10^{15} Joules)
PSDM	Post Stack Depth Migration
Psi	Pounds per square inch
Psia	Pounds per square inch absolute
Psig	Pounds per square inch gauge
PUD	Proved Undeveloped
PVT	Pressure volume temperature
P10	10% Probability
P50	50% Probability
P90	90% Probability
Rf	Recovery factor
RFT	Repeat Formation Tester
RT	Rotary Table
R_w	Resistivity of water
SCAL	Special core analysis
cf or scf	Standard Cubic Feet
cfd or scfd	Standard Cubic Feet per day
Mean	Arithmetic average of a set of numbers
Median	Middle value in a set of values
MFT	Multi Formation Tester
mg/l	milligrams per litre
MJ	Megajoules (One Million Joules)
Mm^3	Thousand Cubic metres
Mm^3d	Thousand Cubic metres per day
MM	Million
MMBbl	Millions of barrels
MMBTU	Millions of British Thermal Units
Mode	Value that exists most frequently in a set of values = most likely
scf/ton	Standard cubic foot per ton
SL	Straight line (for depreciation)
S_o	Oil Saturation
SPE	Society of Petroleum Engineers
SPEE	Society of Petroleum Evaluation Engineers
Ss	Subsea
Stb	Stock tank barrel
STOIIP	Stock tank oil initially in place
S_w	Water Saturation
T	Tonnes
TD	Total Depth
Te	Tonnes equivalent
THP	Tubing Head Pressure
TJ	Terajoules (10^{12} Joules)
Tscf or Tcf	Trillion standard cubic feet
TCM	Technical Committee Meeting
TOC	Total Organic Carbon
TOP	Take or Pay
Tpd	Tonnes per day
TVD	True Vertical Depth
TVDss	True Vertical Depth Subsea
USGS	United States Geological Survey
US$	United States Dollar
VSP	Vertical Seismic Profiling
WC	Water Cut
WI	Working Interest
WPC	World Petroleum Council
WTI	West Texas Intermediate
wt%	Weight percent
1H05	First half (6 months) of 2005 (example of date)
2Q06	Second quarter (3 months) of 2006 (example of date)
2D	Two dimensional
3D	Three dimensional
4D	Four dimensional
1P	Proved Reserves
2P	Proved plus Probable Reserves
3P	Proved plus Probable plus Possible Reserves
%	Percentage

Appendix III
Block 212 STOIIP Calculations

Y2 FAULT BLOCK
OIL INITIALLY IN-PLACE (STOIIP)
AS OF 31 DECEMBER 2015
(100% GROSS LICENCE INTEREST VOLUMES)

Low Case

Reservoir	K_1bt^1	K_1ba^4					K_1ba^3		K_1ba^{1+2}
	Lower	**I**	**II**	**III**	**IV**	**V**	**I**	**II**	
Oil Bearing Area (km^2)			0.71						0.42
Net Pay (m) (Mean*90%)			12.2						14.73
Porosity (Mean*90%)			13.3%						13.4%
Hydrocarbon Saturation (Mean*90%)			51.3%						53.2%
Formation Volume Factor			1.053						1.084
STOIIP (10^4 m^3)			56.08						40.85
STOIIP (MMstb)			**3.53**						**2.57**

Best Case

Reservoir	K_1bt^1	K_1ba^4					K_1ba^3		K_1ba^{1+2}
	Lower	**I**	**II**	**III**	**IV**	**V**	**I**	**II**	
Oil Bearing Area (km^2)			1.02						0.47
Net Pay (m) (Mean)			13.59						16.37
Porosity (Mean)			14.7%						14.8%
Hydrocarbon Saturation (Mean)			57.0%						59.1%
Formation Volume Factor			1.053						1.084
STOIIP (10^4 m^3)			110.51						62.26
STOIIP (MMstb)			**6.95**						**3.92**

High Case

Reservoir	K_1bt^1	K_1ba^4					K_1ba^3		K_1ba^{1+2}
	Lower	**I**	**II**	**III**	**IV**	**V**	**I**	**II**	
Oil Bearing Area (km^2)			1.06						0.52
Net Pay (m) (Mean*1.1)			14.95						18.0
Porosity (Mean*1.1)			16.2%						16.3%
Hydrocarbon Saturation (Mean*1.1)			62.7%						65.0%
Formation Volume Factor			1.053						1.084
STOIIP (10^4 m^3)			152.85						91.16
STOIIP (MMstb)			**9.61**						**5.73**

Y19 FAULT BLOCK
OIL INITIALLY IN-PLACE (STOIIP)
AS OF 31 DECEMBER 2015
(100% GROSS LICENCE INTEREST VOLUMES)

Low Case

Reservoir	K_1bt^1	K_1ba^4					K_1ba^3		K_1ba^{1+2}
	Lower	I	II	III	IV	V	I	II	
Oil Bearing Area (km^2)			1.33	0.16	1.31				
Net Pay (m) (Mean*90%)			12.4	9.5	4.1				
Porosity (Mean*90%)			13.6%	13.1%	11.8%				
Hydrocarbon Saturation (Mean*90%)			51.6%	51.5%	48.4%				
Formation Volume Factor			1.048	1.048	1.048				
STOIIP (10^4 m^3)			110.13	9.85	29.54				
STOIIP (MMstb)			**6.93**	**0.62**	**1.86**				

Best Case

Reservoir	K_1bt^1	K_1ba^4					K_1ba^3		K_1ba^{1+2}
	Lower	I	II	III	IV	V	I	II	
Oil Bearing Area (km^2)			1.46	0.18	1.39				
Net Pay (m) (Mean)			13.8	10.8	4.6				
Porosity (Mean)			15.1%	14.6%	13.2%				
Hydrocarbon Saturation (Mean)			57.4%	57.2%	53.8%				
Formation Volume Factor			1.048	1.048	1.048				
STOIIP (10^4 m^3)			165.84	14.87	42.99				
STOIIP (MMstb)			**10.43**	**0.94**	**2.70**				

High Case

Reservoir	K_1bt^1	K_1ba^4					K_1ba^3		K_1ba^{1+2}
	Lower	I	II	III	IV	V	I	II	
Oil Bearing Area (km^2)			1.46	0.19	1.50				
Net Pay (m) (Mean*1.1)			15.1	11.7	5.0				
Porosity (Mean*1.1)			16.6%	16.1%	14.5%				
Hydrocarbon Saturation (Mean*1.1)			63.1%	62.9%	59.2%				
Formation Volume Factor			1.048	1.048	1.048				
STOIIP (10^4 m^3)			220.74	21.77	61.75				
STOIIP (MMstb)			**13.88**	**1.37**	**3.88**				

Y19-10 FAULT BLOCK
OIL INITIALLY IN-PLACE (STOIIP)
AS OF 31 DECEMBER 2015
(100% GROSS LICENCE INTEREST VOLUMES)

Low Case

Reservoir	K_1bt^1	K_1ba^4					K_1ba^3		K_1ba^{1+2}
	Lower	**I**	**II**	**III**	**IV**	**V**	**I**	**II**	
Oil Bearing Area (km^2)			1.73	0.31	1.35	1.08	0.41	0.35	
Net Pay (m) (Mean*90%)			12.4	7.4	10.0	8.8	2.9	13.6	
Porosity (Mean*90%)			13.6%	13.3%	14.5%	13.2%	12.4%	11.7%	
Hydrocarbon Saturation (Mean*90%)			51.6%	54.8%	49.7%	51.0%	40.5%	46.6%	
Formation Volume Factor			1.048	1.048	1.048	1.048	1.048	1.048	
STOIIP (10^4 m^3)			143.26	16.08	93.20	60.55	5.60	24.74	
STOIIP (MMstb)			**9.01**	**1.01**	**5.86**	**3.81**	**0.35**	**1.56**	

Best Case

Reservoir	K_1bt^1	K_1ba^4					K_1ba^3		K_1ba^{1+2}
	Lower	**I**	**II**	**III**	**IV**	**V**	**I**	**II**	
Oil Bearing Area (km^2)			1.9	0.35	1.5	1.21	0.45	0.39	
Net Pay (m) (Mean)			13.8	8.2	11.1	9.7	3.2	15.1	
Porosity (Mean)			15.1%	14.7%	16.1%	14.6%	13.8%	12.9%	
Hydrocarbon Saturation (Mean)			57.4%	60.9%	55.2%	56.7%	45.0%	51.7%	
Formation Volume Factor			1.048	1.048	1.048	1.048	1.048	1.048	
STOIIP (10^4 m^3)			215.82	24.26	142.05	93.05	8.53	37.71	
STOIIP (MMstb)			**13.57**	**1.53**	**8.93**	**5.85**	**0.54**	**2.37**	

High Case

Reservoir	K_1bt^1	K_1ba^4					K_1ba^3		K_1ba^{1+2}
	Lower	**I**	**II**	**III**	**IV**	**V**	**I**	**II**	
Oil Bearing Area (km^2)			2.0	0.38	1.67	1.27	0.65	0.43	
Net Pay (m) (Mean*1.1)			15.1	9.0	11.1	10.7	3.5	16.6	
Porosity (Mean*1.1)			16.6%	16.2%	16.1%	16.1%	15.2%	14.2%	
Hydrocarbon Saturation (Mean*1.1)			63.1%	67.0%	55.2%	62.3%	49.5%	56.9%	
Formation Volume Factor			1.048	1.048	1.048	1.048	1.048	1.048	
STOIIP (10^4 m^3)			302.38	35.51	158.15	130.00	16.40	55.21	
STOIIP (MMstb)			**19.02**	**2.23**	**9.95**	**8.18**	**1.03**	**3.47**	

Y29 FAULT BLOCK
OIL INITIALLY IN-PLACE (STOIIP)
AS OF 31 DECEMBER 2015
(100% GROSS LICENCE INTEREST VOLUMES)

Low Case

Reservoir	**K_1bt^1**	**K_1ba^4**					**K_1ba^3**		**K_1ba^{1+2}**
	Lower	**I**	**II**	**III**	**IV**	**V**	**I**	**II**	
Oil Bearing Area (km^2)	0.13	0.16	0.93	0.28	0.98	0.18			
Net Pay (m) (Mean*90%)	8.0	6.03	12.4	3.9	9.2	7.2			
Porosity (Mean*90%)	12.3%	11.8%	13.6%	12.6%	12.9%	13.8%			
Hydrocarbon Saturation (Mean*90%)	42.2%	51.6%	51.6%	48.4%	46.1%	50.3%			
Formation Volume Factor	1.048	1.048	1.048	1.048	1.048	1.048			
STOIIP (10^4 m^3)	5.00	5.50	77.01	6.44	51.51	8.61			
STOIIP (MMstb)	**0.31**	**0.35**	**4.84**	**0.41**	**3.24**	**0.54**			

Best Case

Reservoir	**K_1bt^1**	**K_1ba^4**					**K_1ba^3**		**K_1ba^{1+2}**
	Lower	**I**	**II**	**III**	**IV**	**V**	**I**	**II**	
Oil Bearing Area (km^2)	0.39	0.19	0.93	0.62	1.31	0.26			
Net Pay (m) (Mean)	8.9	6.7	13.8	3.9	9.2	7.2			
Porosity (Mean)	13.7%	11.8%	15.1%	12.6%	12.9%	15.4%			
Hydrocarbon Saturation (Mean)	46.9%	51.6%	57.4%	48.4%	46.1%	55.9%			
Formation Volume Factor	1.048	1.048	1.048	1.048	1.048	1.048			
STOIIP (10^4 m^3)	21.44	7.34	105.64	14.14	68.86	15.35			
STOIIP (MMstb)	**1.35**	**0.46**	**6.64**	**0.89**	**4.33**	**0.97**			

High Case

Reservoir	**K_1bt^1**	**K_1ba^4**					**K_1ba^3**		**K_1ba^{1+2}**
	Lower	**I**	**II**	**III**	**IV**	**V**	**I**	**II**	
Oil Bearing Area (km^2)	0.66	0.21	0.93	0.68	1.31	0.26			
Net Pay (m) (Mean*1.1)	9.79	7.37	15.1	4.3	10.2	7.9			
Porosity (Mean*1.1)	15.1%	13.0%	16.6%	13.9%	14.2%	15.4%			
Hydrocarbon Saturation (Mean*1.1)	51.6%	56.8%	63.1%	53.2%	50.7%	55.9%			
Formation Volume Factor	1.048	1.048	1.048	1.048	1.048	1.048			
STOIIP (10^4 m^3)	47.93	10.74	140.61	20.70	91.65	16.88			
STOIIP (MMstb)	**3.01**	**0.68**	**8.84**	**1.30**	**5.76**	**1.06**			

Y32 FAULT BLOCK
OIL INITIALLY IN-PLACE (STOIIP)
AS OF 31 DECEMBER 2015
(100% GROSS LICENCE INTEREST VOLUMES)

Low Case

Reservoir	K_1bt^1	K_1ba^4					K_1ba^3		K_1ba^{1+2}
	Lower	**I**	**II**	**III**	**IV**	**V**	**I**	**II**	
Oil Bearing Area (km^2)			0.84	0.25	0.02	0			
Net Pay (m) (Mean*90%)			12.4	10.5	13.9	2.1			
Porosity (Mean*90%)			13.6%	12.2%	14.0%	11.6%			
Hydrocarbon Saturation (Mean*90%)			51.6%	39.6%	54.8%	46.6%			
Formation Volume Factor			1.048	1.048	1.048	1.048			
STOIIP (10^4 m^3)			69.56	12.24	2.03	0.00			
STOIIP (MMstb)			**4.38**	**0.77**	**0.13**	**0.00**			

Best Case

Reservoir	K_1bt^1	K_1ba^4					K_1ba^3		K_1ba^{1+2}
	Lower	**I**	**II**	**III**	**IV**	**V**	**I**	**II**	
Oil Bearing Area (km^2)			0.84	0.28	0.03	0			
Net Pay (m) (Mean)			13.8	10.5	13.9	2.1			
Porosity (Mean)			15.1%	12.2%	15.6%	11.6%			
Hydrocarbon Saturation (Mean)			57.4%	39.6%	54.8%	46.6%			
Formation Volume Factor			1.048	1.048	1.048	1.048			
STOIIP (10^4 m^3)			95.42	13.46	3.39	0.00			
STOIIP (MMstb)			**6.00**	**0.85**	**0.21**	**0.00**			

High Case

Reservoir	K_1bt^1	K_1ba^4					K_1ba^3		K_1ba^{1+2}
	Lower	**I**	**II**	**III**	**IV**	**V**	**I**	**II**	
Oil Bearing Area (km^2)			0.84	0.58	0.12	0.1			
Net Pay (m) (Mean*1.1)			15.1	11.6	15.3	2.3			
Porosity (Mean*1.1)			16.6%	13.5%	17.1%	12.8%			
Hydrocarbon Saturation (Mean*1.1)			63.1%	43.5%	60.2%	51.2%			
Formation Volume Factor			1.048	1.048	1.048	1.048			
STOIIP (10^4 m^3)			127.00	37.59	18.04	1.44			
STOIIP (MMstb)			**7.99**	**2.36**	**1.13**	**0.09**			

OTHER FAULT BLOCKS
OIL INITIALLY IN-PLACE (STOIIP)
AS OF 31 DECEMBER 2015
(100% GROSS LICENCE INTEREST VOLUMES)

Low Case

Fault Block	**Y3**	**Y4**	**Y8**		**Y13**	**Y14**
Reservoir	**K_1ba^4V**	**K_1bt^1 Lower**	**K_1ba^4 II**	**K_1ba^{1+2}**	**K_1ba^{1+2}**	**K_1ba^4 II**
Oil Bearing Area (km^2)	0.25	0.13	0.19	0.23	0.13	0.25
Average Net Pay (m)	4.77	7.3	4.68	2.8	8.3	5.3
Average Porosity	9.3%	13.1%	10.9%	9.5%	10.0%	11.7%
Average Hydrocarbon Saturation	47.9%	37.4%	36.6%	45.0%	45.0%	47.9%
Formation Volume Factor	1.084	1.084	1.084	1.084	1.084	1.084
STOIIP (10^4 m^3)	4.91	4.12	3.26	2.55	4.33	6.87
STOIIP (MMstb)	**0.31**	**0.26**	**0.21**	**0.16**	**0.27**	**0.43**

Best Case

Fault Block	**Y3**	**Y4**	**Y8**		**Y13**	**Y14**
Reservoir	**K_1ba^4V**	**K_1bt^1 Lower**	**K_1ba^4 II**	**K_1ba^{1+2}**	**K_1ba^{1+2}**	**K_1ba^4 II**
Oil Bearing Area (km^2)	0.43	0.14	0.19	0.23	0.13	0.32
Average Net Pay (m)	5.3	8.1	5.2	5.25	9.05	5.9
Average Porosity	10.3%	14.5%	12.1%	10.6%	11.0%	13.0%
Average Hydrocarbon Saturation	53.2%	41.5%	40.7%	50.0%	50.0%	53.2%
Formation Volume Factor	1.048	1.048	1.048	1.084	1.084	1.048
STOIIP (10^4 m^3)	11.93	6.41	4.63	5.90	5.77	12.41
STOIIP (MMstb)	**0.75**	**0.40**	**0.29**	**0.37**	**0.36**	**0.78**

High Case

Fault Block	**Y3**	**Y4**	**Y8**		**Y13**	**Y14**
Reservoir	**K_1ba^4V**	**K_1bt^1 Lower**	**K_1ba^4 II**	**K_1ba^{1+2}**	**K_1ba^{1+2}**	**K_1ba^4 II**
Oil Bearing Area (km^2)	0.61	0.15	0.75	0.54	0.34	0.32
Average Net Pay (m)	5.83	8.91	5.72	7.7	9.8	5.9
Average Porosity	11.3%	16.0%	13.3%	11.0%	11.4%	13.0%
Average Hydrocarbon Saturation	58.5%	45.7%	44.8%	55.7%	55.8%	53.2%
Formation Volume Factor	1.048	1.048	1.048	1.048	1.084	1.048
STOIIP (10^4 m^3)	22.50	9.29	24.33	24.31	19.55	12.41
STOIIP (MMstb)	**1.42**	**0.58**	**1.53**	**1.53**	**1.23**	**0.78**

A. COMPETENT EVALUATOR'S REPORT

Gaffney, Cline & Associates
(Consultants) Pte. Ltd.
80 Anson Road
#31-01C Fuji Xerox Towers
Singapore 079907
Telephone: +65 6225 6951

www.gaffney-cline.com

29 June, 2016

Board of Directors
Shun Cheong Holdings Limited
Suite 2302, Wing On Centre
111 Connaught Road Central
Hong Kong

Dear Sirs,

Valuation Report for Block 212, Uliastai Depression Onshore China

Introduction

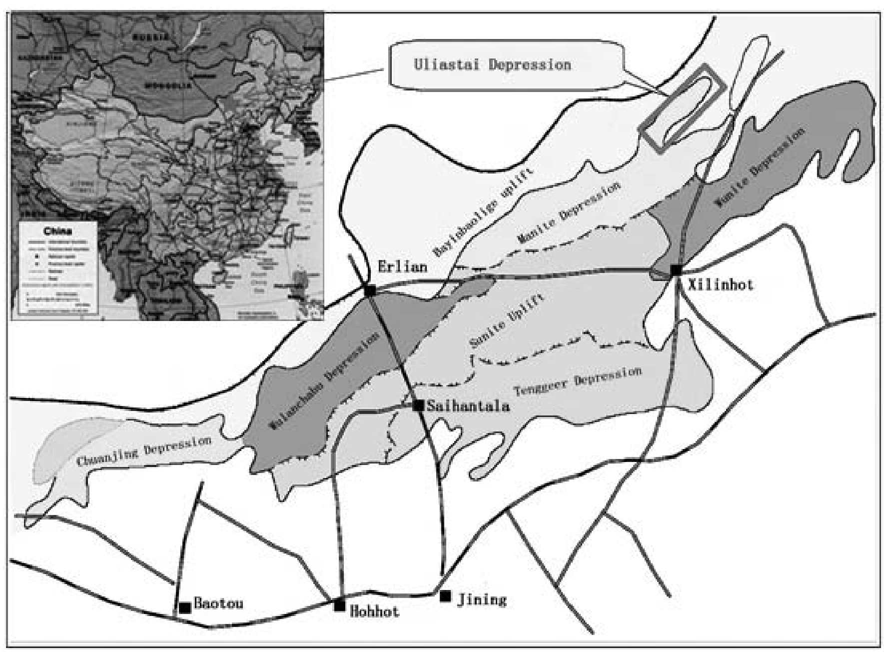
At the request of Shun Cheong Holdings Limited ("**Shun Cheong**" or "**the Client**"), and in accordance with GCA Engagement Letters **YDH/dyn/PS-15-2043.07/L0053**, **YDH/jbi/PS-15–2043.05/L0346** and **YDH/jbi/PS-15–2043.02/L0187**, Gaffney, Cline & Associates ("**GCA**") has prepared a report reviewing the potential value of an 80% Revenue Interest ("**RI**") in the oil Reserves attributable to Xilin Gol League Hongbo Mining Development Co., Ltd. ("**Hongbo**") in Block 212 in the Uliastai Depression of the Erlian Basin, Inner Mongolia ("**Valuation Report**", or "**VR**") as of 31st December 2015.

Block 212, which is about 212.9 km^2 in size, is located in the Uliastai Depression of the Erlian Basin, Inner Mongolia, China (**Figure 1**). Yanchang Petroleum Group ("**Yanchang**"), a State Owned Enterprise of Shaanxi Province secured rights to the block in 2009. Subsequently, Yanchang signed an Oil and Gas Resources Exploration and Exploitation Cooperation Agreement (the "**Cooperation Agreement**") with Hongbo. Under the cooperation agreement, Hongbo became operator of the block with an 80% revenue interest and is responsible for conducting all exploration and exploitation operations. The remaining 20% revenue interest is held by Yanchang.

Shun Cheong, a company listed on the Stock Exchange of Hong Kong Limited ("**HKEx**") (stock code: 00650), entered into an agreement on 22nd June, 2015 to acquire the 100% equity interest in Hongbo ("**Acquisition**"). In connection with the proposed acquisition, Titan Gas Technology Investment Limited ("**Titan Gas**") will invest in Shun Cheong together with some other subscribers and will become the controlling shareholder of Shun Cheong. The proposed acquisition constitutes a Reverse Takeover ("**RTO**") for Shun Cheong under the Rules Governing the Listing of Securities on HKEx (the "**Listing Rules**"). This Valuation Report has been prepared in accordance with the applicable requirements of Chapter 18 of the Listing Rules.

GCA has prepared and issued to Shun Cheong a Competent Person's Report ("**CPR**") for Block 212 with an effective date of 31st December, 2015. This Valuation Report is based on and relates to the Reserves and Resources estimated in that report, although it has based it on oil prices ad future oil price perceptions as of the date of this report.

Figure 1: Block 212 Location Map



(Source: Modified from Hongbo)

This Valuation Report has been prepared for the inclusion in a Circular to Shun Cheong's shareholders once the form and context of its inclusion has been approved by GCA. It may not be distributed or made available, in whole or in part, to any other company or person, or in any other manner or abstraction, without the prior knowledge and written consent of GCA.

Valuation Opinion

It is GCA's opinion that as of 31st December, 2015, and subject to a number of key assumptions or meeting pre-conditions outlined herein, the oil Reserves pertaining to Hongbo's 80% revenue interest in Block 212 are worth between US$120 million and US$130 million.

Notwithstanding the effective date, which governs the date from which Hongbo would be entitled to its share of revenue, the value range has taken into account the actual oil price that would have been received, and market conditions prevailing during the first half of 2016. This time window has exhibited extreme volatility. Having fallen from over US$100 per barrel in the middle of 2014 to under US$50 per barrel in early 2015, oil prices recovered to almost US$70 per barrel by May before sliding dramatically again to under US$30 per barrel in early 2016. Towards the end of the first quarter 2016 they once more improved to hover around the US$45 to US$50 per barrel range for much of May and June. General market sentiment which was very negative for much of the first quarter of 2016 has also improved, although remains cautious and, while there are signs that the number of transactions are increasing, there is no clear and firm trend yet and any valuation still needs to reflect a range of uncertainty in future oil prices. However, this is not considered material in the context of the valuation range given herein.

Section 2 highlights key areas of consideration and risk that are likely to be taken into account in the event of any transaction concerning the Block.

The value is also predicated on securing the exploitation rights under a Production Permit, which are a pre-requisite to fully develop Block 212. The intended development will comprise the workover of 92 wells and the drilling of 99 new producers and 29 water injectors in the next five years as described under the Best Case in the CPR. Such a development does not appear to be particularly technically challenging in its individual component parts, since a total of 135 wells have been drilled in the block to date. However, any delay in securing the exploitation rights may affect the realisation or timing of the workover and drilling plans and directly affect the value of Block 212.

Further, while Hongbo's management has indicated that for the time being it intends to continue with the planned development program, if low oil prices were to return it may defer or adjust plans. GCA has taken the risk of such deferral into account in its valuation.

This opinion should also be read, and is conditioned upon, considerations and assumptions contained or referenced in GCA's CPR for Block 212 dated 29 June, 2016 and which are deemed incorporated in this Valuation Report.

Basis of Opinion

This report has been prepared in accordance with the Reporting Standards for a Petroleum Asset Valuation Report which is listed under Rule 18.34 of Chapter 18 of the Listing Rules. Pursuant to such requirements, the report will conform to the VALMIN Code[1], and will contain GCA's opinion to the Fair Market Value (FMV) of the asset which in this context is taken to be Hongbo's unencumbered 80% revenue interest and operatorship in Block 212.

[1] Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Export Reports (the VALMIN Code), prepared by the VALMIN Committee which is a joint committee of the Australasian Institute of Mining and Metallurgy (AusIMM) and the Australian Institute of Geoscientists. The VALMIN Code was most recently updated in 2005, although it is currently subject to review for further update.

It should also be noted that the potential value of upstream oil and gas assets is subject to and dependent on the professional judgment of the valuer. In assessing the potential value of such assets, it is important to note that there is no single value that can be considered accurate to the exclusion of all others as a multitude of considerations has to been taken into account. The potential value of the asset should not be confused with the value of an investment proposition in relation to the asset, which would need to take account of the specifics of that investment proposition. Further, any such value would also need to further take into account the particular risks and uncertainties highlighted herein, and how they ultimately are being addressed in that investment.

While contributing to the assessment of value, raw Net Present Values (NPVs) contained herein do not represent, in and of themselves, the value of the interests, but require consideration in the context of a number of other factors. In assessing a likely potential value it is also necessary to take into account factors such as reserves risk (i.e. that Proved and/or Probable Reserves may not be realised in their entirety or may be realised in a timeframe or at a cost different to that currently expected for their exploitation); differing perceptions of economic risk including future oil and gas prices and inflation effects on future capital and operating costs; perceptions of sovereign risk; other benefits, encumbrances or charges that may pertain to the interests; and generally the competitive state of the market at the time.

Further, in the preparation of its opinion in respect of the fair market value as at 31st December, 2015, GCA has taken into account certain information, including plans that have come available or have been updated between 31st December, 2015 and 24th March, 2016. This has primarily affected the perception of securing the exploitation term and oil price assumptions.

Sources of Information

In deriving its opinion GCA has relied on the following sources of information:

1. GCA's CPR (and all information supplied by Hongbo pursuant to preparation of that report).

2. Other publicly available data and information.

Discussion

1 Overview of Block 212

A technical and commercial analysis and information on Block 212 can be found in the GCA CPR. However, in summary, the effective 80% revenue interest in Block 212 of Proved plus Probable Reserves will comprise (as at 31st December, 2015) **Table 1** and **Table 2**:

Table 1: Block 212 Proved and Probable Reserves
Net to Hongbo's 80% Revenue Interest
As At 31st December, 2015

	Oil Reserves (MMstb)	
Block 212		**Proved plus**
Units 2 & 19	**Proved (1P)**	**Probable (2P)**
Attributable to an 80% RI	8.1	11.4

Table 2: Block 212 Summary
As At 31st December, 2015

Item	Description
Production	• 1,180 barrels of oil per day or approximately 188 cubic meter per day • Production is still in the Development stage from Unit 2 and Unit 19 fault compartment areas • 81 active oil producers and 14 active water injectors • Cumulative production of 2.3 MMstb
Future Production Plans	Approximately 3,000 to 5,000 barrels or 500 to 800 cubic meter per day of peak oil per day in year 2019, before declining based on GCA's Low to High Case Production Forecasts
Future Capital Investments	• Unit 2 and Unit 19 only Totals of US$70 million to US$100 million in the respective GCA 1P, 2P and 3P CAPEX 4 year Development Plans (2016 to 2019) for drilling new wells, water injector and workovers and its associated additional facilities once the Production Permit is granted by Ministry of Land and Resources (MOLR) based on GCA's estimates • Minor Fault Compartments Future appraisal drilling to firm up the submission of "Proved Reserves Report" to MOLR with amounts to be confirmed.

2 Key Considerations and Risks

In reviewing the asset to determine its potential value, GCA has considered various factors such as the current market for upstream assets, the location, nature and state of the asset, the relative value between the reserves and resources, the status of the Production Permit application, the nature of the development proposed, and the experience of the Operator.

Some key considerations or risks which may impact future value include, but are not limited to, the following:

a. Operator Capability

The potential transaction will only change the ownership of Hongbo, from a private limited company to be a subsidiary of a holding company, Shun Cheong, Titan Gas and and other subscribers will be investing into Shun Cheong and Titan Gas will as a result become the controlling shareholder of Shun Cheong.

Within Block 212 Hongbo has shot and processed a 3D seismic survey of 98 km^2, drilled 135 wells, including 106 development wells (producers and injectors) and 29 exploration/appraisal wells. Between 2016 and 2019 it is planning to embark on a campaign to drill between 69 and 124 new wells, between 26 and 35 new water injectors and an average of 23 workovers per year.

Given Hongbo's experience in operating and managing drilling activities in Block 212 to date, GCA sees no reason why Hongbo should not be able to carry out the planned drilling and workover campaign in the future, which is similar in scale.

Hongbo's parent company will be Shun Cheong, a HKEx listed company which will have greater financial strength. While this may impact the nature and the time frame within which investment decisions are made, Hongbo might have greater access to the funds required for future development.

b. Facility and Environmental Liabilities

GCA undertook a site visit to the Block 212 area to examine the facilities and operations, and to assess their condition and state of operability. While the field area is remote, it is road accessible. Operations and equipment are appropriate for the type of operation involved and, with some minor maintenance issues noted, appeared to be well functioning. No major areas of concern were noted. GCA's scope of work did not include evaluating compliance with any applicable regulations in terms of standards, rating, health, safety, and environment.

c. Risk of securing the Production Permit.

Block 212 is currently being produced at a development stage which is permitted in the current Exploration Permit under the terms of the cooperation agreement. Production in Block 212 is from 5 major fault blocks (Y2, Y19, Y19-10, Y29, Y32 and Y8) covering areas that are known as Unit 2 and Unit 19. The Block 212 Exploration Permit will expire on 5th March, 2017.

Preparation for an application for the first Production Permit in Block 212 covering Unit 2 and Unit 19 is in progress. The Proved Reserves Report, a pre-requisite to the Production Permit application, for these areas was approved by the Ministry of Land and Resources (MOLR) on 13th August, 2014. Once the Production Permit is granted, the full field development of Unit 2 and Unit 19 will be carried out.

In addition to the current pilot production from Unit 2 and Unit 19, minor oil from other fault blocks (Y13, Y14, Y3 and Y4) in Block 212 is being produced. A Proved Reserves Report on these minor fault block areas is still required for any subsequent application for additional Production Permit(s) for further exploitation in these minor fault block areas in Block 212.

Yanchang is now in the process of preparing for an application to MOLR for a Production Permit for the Unit 2 and Unit 19 fault compartment areas. In order for resource volumes (beyond the minor amounts currently being produced under the Exploration Permit) to be classified as Reserves it requires that, inter alia, there is reasonable expectation that the necessary Production Permit(s) covering Unit 2 and Unit 19 will be granted. The PRC legal counsel to Shun Cheong has advised that it is not aware of any case where the holder of an Exploration Permit has failed to obtain a Production Permit for the same block after the holder received approval of the reserve report from MOLR. On the basis of this advice GCA believes that there is a reasonable expectation that the necessary Production Permit(s) will be granted and has therefore classified the recoverable volumes from these areas as Reserves under the sub-class "Justified for Development". Assuming that this will be awarded for a period of up to 20 years (from application) with expiry in 2035, Yanchang has agreed to extend the term of the cooperation agreement with Hongbo to coincide with the expiration date of the Production Permit(s).

The timing of the Production Permit award will have an impact on Hongbo's ability to carry out future drilling and workover plans in Unit 2 and Unit 19. The award of the first Production Permit in Block 212 should provide comfort that subsequent Production Permit(s) for other fault compartments will be granted in the future.

d. Development and Production Risks

By their nature, upstream oil and gas activities carry a certain level of risk which may never be eliminated, although they may be reduced with better understanding of the subsurface from either more data (e.g. seismic, new wells or further studies) and through the experience of the Operator. Estimates of Reserves and Resources are based on professional engineering judgment and are subject to future revisions, upward or downward, as a result of future operations or as additional data become available, and should not be considered a guarantee or prediction of results.

The future drilling and workover program in Unit 2 and Unit 19 through 2019 will be mainly on those producing blocks; therefore the performance of the incremental production is expected to be analogous to the way historical production has developed.

In addition to that, future drillings are mostly infill wells and/or step out wells from existing producers. Only some (less than 10%) of the future wells will target other adjacent fault blocks which are non-sealing and estimated to be 200–300 meters from existing wells. Although these other fault blocks have not been flow tested, they appear similar to the producing blocks when compared on geological and petrophysical characteristics. Hence, GCA considers that there should be a relatively low risk with respect to the performance and flowability of those reservoirs.

e. Costs

Cost is not anticipated to be a major risk item with greater competition amongst service providers for projects such as Hongbo's in Block 212 as other operators onshore China scale back activities that are now uneconomic due to the current low oil price environment. Hongbo has drilled 135 wells to date which provides a good set of historical data points for planning and costing new wells more accurately and provides a learning curve for more efficient drilling operations. The design and completion of the new wells planned are relatively simple with infill or step out wells from existing wells will also help minimise the risk of cost overruns.

Costs provided to GCA are in Renminbi ("**RMB**") which, as a result of the recent devaluation of the currency, have reduced in U.S. Dollar equivalent terms. There is a risk that elements of cost that ultimate rely on U.S. Dollar inputs may in due course be subject to greater inflationary pressures.

f. Commodity (oil) price

Crude oil is priced based on a number of factors including supply and demand, political events and expectations, the quality of the crude, transportation costs to the market and the nature of the market into which it is sold.

Two major factors have to date affected the sales price of Block 212 crude oil. The first of these is the global price of oil, which more than halved between June 2014 and January 2015, when it was trading below US$50 per barrel. While the global price of Brent oil had risen back to around US$65 per barrel by the middle of 2015, by the end of September 2015 it had fallen back again to under US$50 per barrel and, by the middle of Q1 2016 had fallen to under US$30 per barrel. At the date of this valuation report the Brent oil price had risen again to around US$50 per barrel.

While the price of oil has a direct impact on value in respect of the revenue that can be expected from selling the oil produced, there is also a secondary effect. The significant fall in the price of oil has caused virtually all oil and gas companies to cut back on previously planned capital expenditures. At present the future price of crude oil is seen as being extremely uncertain, limiting the willingness of companies to commit to funding significant new investments, particularly where they involve commitments that can last several years. While this does not mean that the oil in the ground has disappeared in any way, it does have a potentially significant impact on the timing of the eventual monetisation of such resources, and the willingness of any prospective purchaser to pay up front for value that is dependent upon development activity that may be at risk of being delayed or curtailed. Hongbo's management has indicated that while it intends to continue with the planned development program for the time being, if current low prices were to persist for several more months it may defer or adjust plans.

The second major factor affecting the selling price of Block 212 crude oil is the relationship of this price to world marker prices such as Brent crude. Between July 2012 and June 2014, crude from Block 212 was trading at about a 10% discount to Brent when Brent was around US$100 per barrel. Once Brent had fallen to around US$50 to US$60 per barrel, Block 212 crude traded at parity to Brent, or slightly above. At this stage it is unclear as to whether the sales price of Block 212 crude has established a new, long term relationship to Brent or, after a while, the discount previously observed may resume. This uncertainty also presents a risk to the price received for Block 212 crude oil.

A third factor affecting oil price is that Block 212 crude oil is sold in RMB. In assessing value for the 80% RI, GCA has assumed that the Block 212 crude oil price will track the U.S. Dollar price of oil. However, there is a risk that at some point in future there could be a temporary or long term disconnect between the local sales price and the internationally traded price of crude oil.

g. Timing Adjustments

The assessment has been based on the assumption that all cash flows from oil production, tax payments and payment of invoices for expenditures occur in the middle of the year in which the benefit is realised or cost is incurred. In actual operations, there will be a difference in timing of such cash flows due to the timing of actual crude sales, tax payments and invoice payment terms.

h. Litigation

According to the PRC legal counsel to Shun Cheong, there is the possibility that early exploration and development work in Block 212 could be considered to give rise to legal issues, although counsel considers neither of them pose a material risk. Neither these risks, nor any other legal risk that may be faced by Shun Cheong, has been taken into account in the valuation.

3 Valuation Methodology

Where appropriate data exists the typical approach to assessing the potential value of assets such as those being assessed is to consider the future earnings potential through risk-adjusted discounted cash flow (DCF) analysis, and compare this to value indications from relevant market-based asset transactions (comparable transactions). The final valuation opinion is a balanced conclusion from all sets of inputs.

Block 212 Reserves

In the DCF analysis, NPVs have been generated from a range of different production and cost profiles associated with the different Reserves categories, under the applicable petroleum contract/fiscal regime, and with a set of market-based assumptions on crude oil price, cost escalations and discount rates.

The base assessment of value of discovered petroleum assets typically centers around the perceived future earnings potential of Proved plus Probable (2P) Reserves (commonly referred to as the "most likely" or "P50" Case, where it is assumed that there is an equal probability that the actual volume produced will higher or lower than the estimate). Dependent upon risks and upside potential, the value range may be extended/narrowed to take such other factors into account.

Ordinarily a check on the reasonableness of the valuation range derived from the discounted cash flow analysis is undertaken by assessing the price the market has appeared to be willing to pay for assets of a similar nature. However, in this case GCA has been unable to identify a suitable analog reflecting the current oil price environment.

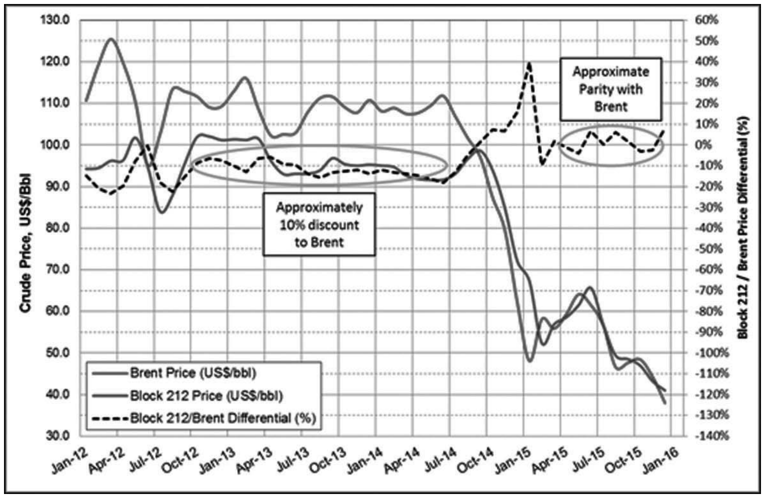
Market and Financial Assumptions

Oil Price

There is no "look up table" of oil price assumptions used by every player in the market, and in valuations oil price assumptions have a degree of subjectivity. Guidance is taken from assessing historical price movements and perceived market sentiments as reflected in published commentary and outlooks of oil companies and analysts, and on the forward price of oil as traded in the futures market, noting that the futures curve is not, in itself, a forecast of future oil prices.

Brent crude price has been used as the marker crude in China and has been used as the benchmark in the analysis. Prior to mid-2014 crude oil from Block 212 had traded at about a 10% discount to Brent. However, after the Brent crude price fell in late 2014, Block 212 crude price has been priced (with a small lag) in a relatively narrow range between approximate parity to a small premium to Brent. While uncertainty remains on the nature of the future relationship, for the purposes of valuation GCA assumed the Block 212 crude oil would trade at parity with Brent crude prices at or below US$60/Bbl, but the discount to Brent would start re-appearing above this price level, reaching (and staying at) 10% once Brent reaches a price of US$100/Bbl. The historical relationship between crude price from Block 212 and Brent crude is shown on **Figure 2**.

Figure 2: Brent vs Block 212 Crude Prices



As the oil price assumption is a key valuation driver, a wide range of oil price sensitivities has been assumed in the valuation analyses, as illustrated in **Figure 3**.

Figure 3: Brent Oil Price Scenarios Evaluated

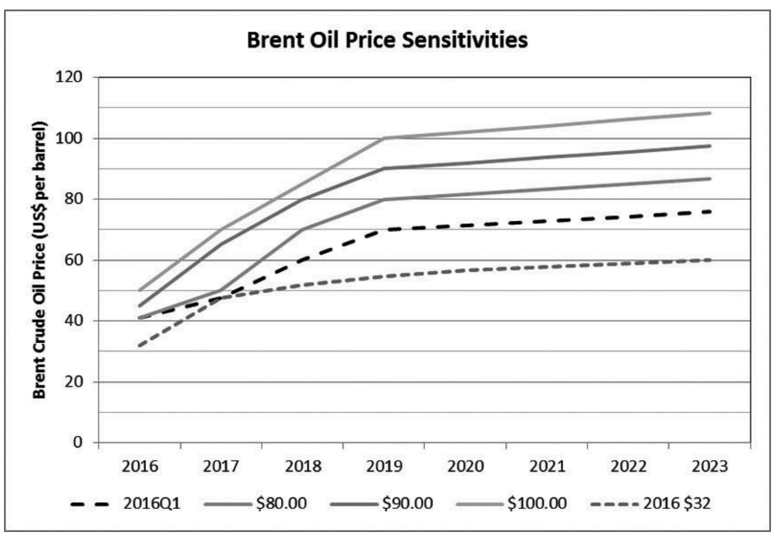


Table 3 shows two of the prices evaluated. The GCA 1Q2016 is the scenario used by GCA for Reserves evaluation in the first Quarter of 2016. The US$90/Bbl scenario assumes Brent oil reaches US$90/Bbl by 2019. Other scenarios include one based on the Brent futures price strip on 22nd March, 2016, and others where Brent reaches US$80/Bbl and US$100/Bbl by 2019.

In addition, at the request of Shun Cheong management, GCA evaluated the impact of two oil price scenarios. The first of these reflects what GCA has been advised as the lowest price that Block 212 crude oil has traded during 2016, US$32/Bbl, assumed thereafter to follow the Brent futures for 2017 through 2020, and escalate at 2% per annum thereafter. US$32/Bbl is advised as the lowest price that Block 212 crude oil has traded during 2016. The second scenario was to reflect the lowest selling price of Brent crude since 1st January 2016, which was recorded as US$26.01/Bbl on 20th January, 2016. This scenario has been evaluated by assuming a constant Brent crude price of US$26/Bbl and no cost escalation for the entire project life.

Table 3: Brent Crude Price Assumptions (US$/BBL)

Year	**GCA 1Q2016**	**US$90/Bbl Case**
2016	40.90	45.00
2017	47.58	65.00
2018	60.00	80.00
2019	70.00	90.00
2020	2% p.a. escalation	2% p.a. escalation

The assumption regarding the future price of oil utilised in the CPR reflects the guidelines pertaining to Reserves estimation, and was set in line with prices likely to be used by companies for planning purposes as of the effective date for the Reserves (in this case, 31st December, 2015). Particularly in times of price volatility it would be normal to expect the market to consider a much broader range of price perceptions when assessing value. The future oil price assumptions used in this Valuation Report are based on GCA's perception of such a range, although in no event does this discount the possibility that actual outcomes may lie outside this range for either short or prolonged periods of time.

Capital and Operating Costs

GCA has utilised cost and escalation assumptions reported in the CPR for the different Reserves categories which considered the cost reductions that Hongbo's management has stated that it believes it can achieve in a low oil price environment. GCA has also examined the impact of continued cost reductions, indicating that a further 10% reduction in costs would improve the NPV by approximately US$2 MM to US$8 MM.

However, while costs have reduced significantly in response to lower prices, they can be expected to increase again as the oil price increases. While an element of the recent cost savings may be preserved as a result of the more efficient structuring of operations, GCA has nevertheless assumed that, overall, costs will respond by returning to a level 10% below where they were prior to the oil price crash once oil price reaches US$90/Bbl.

Discount Rate

In line with discount rates typically used in valuation exercises for oil and gas assets, and the typical Weighted Average Cost of Capital (WACC) of exploration and production companies, discount rates for transactions involving assets of this kind typically range from 8% to 12% for producing and discovered assets, and 12% to 15% (or more) for exploration assets.

Oil and gas companies only very rarely publish the discount rate, or rates, that they apply in oil and gas transactions. The Weighted Average Cost of Capital (WACC) of individual listed companies may be observed from their trading prices on various international stock markets. The WACC incorporates influences of the asset mix, leverage and the management and growth performance of the company. It is not a direct read-out of the different asset classes (producing assets, undeveloped assets, exploration assets) held by the company. As such, for the purposes of this valuation, GCA has selected discount rates in the range that in its experience would be used by oil and gas companies as a whole contemplating transactions of the kind being undertaken here. The range and impact on value from discount rate in this case is substantially less than that derived from the uncertainty over future oil prices.

Exchange Rate

Crude from Block 212 has been sold in the local currency, and the impact of RMB movements in the long term will have an impact on the value of the asset. In this valuation, GCA has assumed a 6.58 RMB/USD exchange rate, constant throughout the life of the cooperation agreement. Overall, GCA's economic analysis indicates that the currency devaluation of the RMB in relation to the USD that has taken place since the transaction was originally agreed (when it was around 6.2 RMB/USD) has had about a 10% positive impact on valuation when no other factors change as result.

Net Cash/Debt and Working Capital Adjustments

GCA's valuation is of an 80% revenue interest in Block 212 Reserves, and has not made any adjustments for any net cash/debt or working capital positions that may be subject to future reconciliation.

4 Comparison and Discussion of Results Based on Different Valuation Approaches

Block 212 Reserves

DCF Analysis

Tables 4 and 5 below represent the NPVs as at 31st December, 2015, at different discount rates, for the Reserves for an 80% revenue interest in Block 212 under two of the oil price scenarios considered for this valuation; the GCA 1Q2016 scenario and the US$90/Bbl scenario.

Table 4: NPV of 80% RI in Block 212 Proved and Probable Reserves as at 31st December, 2015 US$MM — GCA 1Q2016 PRMS Forecast Case

Discount Rates	8%	10%	12%	15%
PDP	40	36	33	29
1P	89	78	69	57
2P	135	117	103	83

Table 5: NPV of 80% RI in Block 212 Proved and Probable Reserves as at 31st December, 2015 US$MM — US$90/Bbl Brent Case

Discount Rates	8%	10%	12%	15%
PDP	58	53	48	42
1P	133	117	104	87
2P	194	169	149	124

GCA also examined a scenario where low oil prices caused a delay in drilling, with drilling scheduled for 2016 and thereafter delayed to 2018 and beyond. The results of this for the GCA 1Q 2016 oil price scenario is shown in **Table 6**, reducing the NPV by US$1 MM to US$10 MM, depending upon the Reserves category and discount rate assumed.

Table 6: NPV of 80% RI in Block 212 Proved and Probable Reserves as at 31st December, 2015 US$MM — GCA 1Q2016 PRMS Forecast Case (Delayed Drilling Case)

Discount Rates	8%	10%	12%	15%
PDP	38	35	32	28
1P	85	73	64	52
2P	126	108	93	74

GCA also carried out several additional sets of sensitivities at the request of Shun Cheong's management.

The first of these considered further cost reductions that Hongbo's management has stated that it can achieve in a low oil price environment. GCA's analysis (**Table 7**) indicates that a 10% reduction in costs from current levels improves the NPV by approximately US$2 MM to US$8 MM.

Table 7: NPV of 80% RI in Block 212 Proved and Probable Reserves as at 31st December, 2015 US$MM — GCA 1Q2016 PRMS Forecast Case (10% Cost Reduction and Delayed Drilling Case)

Discount Rates	8%	10%	12%	15%
PDP	38	35	32	28
1P	97	84	74	61
2P	141	121	105	85

Further sensitivities were undertaken using the US$26/Bbl and US$32/Bbl Brent oil price scenarios requested by Shun Cheong management. GCA has evaluated the economics for the US$32/Bbl case with drilling scheduled for 2016 and thereafter delayed to 2018 and beyond using current costs, but also assuming costs are reduced by a further 10%. No other adjustments were made to the assumed development plan. The US$26/Bbl case was also evaluated assuming costs are reduced by a further 10%, but no cost or price escalation was applied and drilling was not delayed.

The results are shown in **Table 8, 9 and 10** indicating that for the US$32/Bbl case, while there is a significant reduction in NPV, ongoing development is viable. The impact of a further 10% cost reduction is more dramatic at this oil price level than under the GCA 1Q 2016 scenario, increasing NPV by up to US$15 MM, depending upon the Reserves case and discount rate assumed.

However, at US$26/Bbl case the results indicate that the Block 212 project would not be economically viable with the oil price being insufficient to justify ongoing capital expenditure, and bringing forward substantially the point in time where existing production reaches its economic limit.

Table 8: NPV of 80% RI in Block 212 Proved and Probable Reserves as at 31st December 2015 US$MM — US$32/Bbl Lowest Price Case (Delayed and No Cost Reduction Case)

Discount Rates	8%	10%	12%	15%
PDP	23	22	20	19
1P	51	44	38	31
2P	81	69	58	46

Table 9: NPV of 80% RI in Block 212 Proved and Probable Reserves as at 31st December 2015 US$MM — US$32/Bbl Lowest Price Case (Delayed and 10% Cost Reduction Case)

Discount Rates	8%	10%	12%	15%
PDP	29	27	25	22
1P	64	55	48	39
2P	96	82	71	57

Table 10: NPV of 80% RI in Block 212 Proved and Probable Reserves as at 31st December 2015 US$MM — US$26/Bbl Constant Price Case (10% Cost Reduction Case)

Discount Rates	8%	10%	12%	15%
PDP	(6)	(5)	(5)	(4)
1P	(24)	(23)	(22)	(21)
2P	(22)	(22)	(22)	(22)

Valuation Analysis

Based on DCF analysis, Block 212 Reserves would typically be valued based on the NPV at a discount rate of between 8% and 12%.

Given market conditions and the high sensitivity to assumptions, GCA has assessed a value range based on a weighting of the NPVs from the GCA 1Q2016 oil price assumption, and the different higher oil price cases, of which the US$90/Bbl Brent case was taken as representative. The value impact from the risk of delay in development due to persistent low oil prices is assumed to be offset by a reduction in costs in the same environment. The overall set of results from considering the broad range of price scenarios shown in **Figure 3** have also been examined, and suggest a valuation in line with that concluded herein. While the US$32/Bbl sensitivity case shows NPVs significantly lower than the bottom end of the valuation range, and the US$26/Bbl sensitivity gives negative NPVs to the point where it is unlikely that the transaction would be considered, GCA does not believe that either represent a Fair Market Value because in GCA's opinion the market would assume higher future oil prices than embedded in these scenarios.

GCA is also of the opinion that, notwithstanding assurances provided by the PRC legal counsel to Shun Cheong, there is still likely to be a market adjustment for risk associated with the approval for the Production Permit(s). This reflects the likelihood that any transaction involving the Hongbo interest would otherwise have the approval of the Production Permit(s) as a condition precedent.

Comparable Transactions

GCA identified and reviewed three transactions involving oil assets in China (see **Appendix I**) that have taken place in the third Quarter of 2014, in order to consider these for comparison to the NPVs derived above. For the purposes of this valuation, GCA is of the opinion that none of those transactions are suitable as not only did they take place in the context of a very different oil price environment, but they also involved only a very small Reserve base, or the assets concerned include assets located offshore China and other countries.

Fair Market Value

It is GCA's opinion that, as of 31st December, 2015, and subject to a number of key assumptions or meeting pre-conditions outlined herein, Hongbo's 80% revenue interest in Block 212 is worth between US$120 million and US$130 million.

Notwithstanding the effective date, which governs the date from which Hongbo would be entitled to its share of revenue, the value range has taken into account the actual oil price that would have been received, and market conditions prevailing during the first half of 2016. This time window has exhibited extreme volatility. Having fallen from over US$100 per barrel in the middle of 2014 to under US$50 per barrel in early 2015, oil prices recovered to almost US$70 per barrel by May before sliding dramatically again to under US$30 per barrel in early 2016. Towards the end of the first quarter 2016 they once more improved to hover around the US$45 to US$50 per barrel range for much of May and June. General market sentiment which was very negative for much of the first quarter of 2016 has also improved, although remains cautious and, while there are signs that the number of transactions are increasing, there is no clear and firm trend yet and any valuation still needs to reflect a range of uncertainty in future oil prices. However, this is not considered material in the context of the valuation range given herein.

Hongbo's management has indicated that while it intends to continue with the planned development program for the time being, and it has been able to take significant advantage of cost reductions resulting from the current market environment, if low prices were to return it may defer or adjust plans. GCA has taken into account in its valuation the benefit of such cost reductions and the risk of such deferral.

Qualifications

In performing this study, GCA is not aware that any conflict of interest has existed. As an independent consultancy, GCA is providing impartial technical, commercial, and strategic advice within the energy sector. GCA's remuneration was not in any way contingent on the contents of this report.

In the preparation of this document, GCA has maintained, and continues to maintain, a strict independent consultant-client relationship with Shun Cheong. Furthermore, the management and employees of GCA have no interest in any of the assets evaluated or related with the analysis performed, as part of this report.

This report was prepared by or under the guidance of Mr. Stephen Lane, and approved at a corporate level by Mr. Robert George, Vice President of GCA. Mr. Lane holds a degree in geoscience, and Mr. George a degree in geoscience and an MBA. Both have more than 40 years industry experience in economic analysis and public report preparation.

Notice

This document has been prepared for inclusion in a Circular to Shun Cheong's shareholders once the form and context of its inclusion has been approved by GCA. It may not be distributed nor made available, in whole or in part, for any other purpose. In line with standard contract conditions for work of this kind Shun Cheong has indemnified GCA, its affiliated entities and persons involved in the preparation of this report against any claims that might be made by Shun Cheong or a third party resulting from use of or reliance on this report for any other purpose.

Yours sincerely,
Gaffney, Cline & Associates

Project Manager
Stephen Lane, *Technical Director*
80 Anson Road, 31–01C Fuji Xerox Towers, Singapore 079907
Society of Petroleum Engineers (Membership no. 3416400)

Reviewed by
Robert George, *Vice President*
5555 San Felipe St., Suite 550, Houston, TX 77056, USA
American Association of Petroleum Geologists (Membership no. 137671), Society of Petroleum Engineers (Membership no. 0528182), Association of International Petroleum Negotiators (Membership no. 1171)

Appendix

I. Transactions in China (from August 2014 to Late 2015)

TRANSACTIONS IN CHINA (FROM AUGUST 2014 TO LATE 2015)

Date Announced	Target	Acquirer	Deal Type	Transaction Value (US$ MM)	Net 2P Reserves (MMboe)	Implied 2P US$/boe
3 Aug, 2014	Roc Oil	Fosun	Corporate	442	17.2	26
21 Aug, 2014	MIE — Block Kongnan, Hebei	China Oil HBP	Asset	83	5.1	16
26 Sep, 2014	MIE — Block Miao 3, Jilin	Undisclosed	Asset	25	0.5	46

Notes:

1. Source: Titan Gas & GCA.

2. Fosun — Roc Oil transaction involved offshore assets in China, Malaysia, Australia and UK. No onshore assets in transaction.

3. MIE/Block Kongnan transaction Net 2P reserves is less than half of Hongbo's 80% RI 2P reserves (11.6 MMbbl).

4. MIE/Block Miao 3 transaction Net 2P reserves are extremely small, and the implied value per boe significantly higher than either of the other two transactions.

B. REPORT FROM THE REPORTING ACCOUNTANTS ON DISCOUNTED FUTURE CASH FLOWS

The following is the text of a report received from the reporting accountant, KPMG, Certified Public Accountants, Hong Kong, for inclusion in this circular.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

29 June 2016

REPORT ON THE DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH THE VALUATION OF AN 80% REVENUE INTEREST IN THE OIL RESERVES ATTRIBUTABLE TO XILIN GOL LEAGUE HONGBO MINING DEVELOPMENT CO., LTD. IN BLOCK 212 IN THE ULIASTAI DEPRESSION OF THE ERLIAN BASIN, INNER MONGOLIA

TO THE DIRECTORS OF SHUN CHEONG HOLDINGS LIMITED

We refer to the discounted future cash flows on which the valuation (the "**Valuation**") dated 29 June 2016 prepared by Gaffney, Cline & Associates (Consultants) Pte. Ltd. ("**GCA**") in respect of the appraisal of the value of an 80% revenue interest in the oil reserves attributable to Xilin Gol League Hongbo Mining Development Co., Ltd. in Block 212 in the Uliastai Depression of the Erlian Basin, Inner Mongolia (the "**Revenue Interest**") as at 31 December 2015 is based. The Valuation is prepared based in part on the discounted future cash flows and is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and Rule 11.1(a) of the Code on Takeovers and Mergers issued by the Securities and Futures Commission (the "**Takeovers Code**").

Directors' Responsibilities

The directors of Shun Cheong Holdings Limited (the "**Directors**") are responsible for the preparation of the discounted future cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Valuation. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to report, as required by paragraph 14.62(2) of the Listing Rules and Rule 10.3(b) of the Takeovers Code, on the calculations of the discounted future cash flows used in the Valuation. The discounted future cash flows do not involve the adoption of accounting policies.

Basis of opinion

We conducted our engagement in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the calculations are concerned, the Directors have properly compiled the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation. We performed procedures on the arithmetical calculations and the compilations of the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the calculations are concerned, the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation.

Other matters

Without qualifying our opinion, we draw to your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future cash flows are based and our work does not constitute any valuation of the Revenue Interest or an expression of an audit or review opinion on the Valuation.

The discounted future cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and Rule 10.3(b) of the Takeovers Code and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

KPMG
Certified Public Accountants
Hong Kong

C. REPORT FROM REORIENT FINANCIAL MARKETS LIMITED ON THE COMPETENT EVALUATOR'S REPORT

The following is the text of a report received from the financial advisor to the Company, REORIENT Financial Markets Limited, for inclusion in this circular.

瑞東
REORIENT

29 June 2016

The Board of Directors
Shun Cheong Holdings Limited
Suite 2302, Wing On Centre
111 Connaught Road Central
Hong Kong

Dear Sirs

SHUN CHEONG HOLDINGS LIMITED (THE "COMPANY", TOGETHER WITH ITS SUBSIDIARIES, THE "GROUP")

COMPETENT EVALUATOR'S REPORT PREPARED BY GAFFNEY, CLINE & ASSOCIATES ("COMPETENT EVALUATOR") DATED 29 JUNE 2016 AS SET OUT IN THE COMPANY'S CIRCULAR DATED 29 JUNE 2016 (THE "CIRCULAR")

We refer to the Competent Evaluator's Report dated 29 June 2016 in respect of the valuation of the potential value of the 80% revenue interest (the "**Revenue Interest**") of Xilin Gol League Hongbo Mining Development Co., Ltd. (the "**PRC Target**") in Unit 2 and Unit 19 of Block 212 in Uliastai Depression of the Erlian Basin, Inner Mongolia, China as of 31 December 2015 (the "**Valuation Range**") as set out in Appendix VIII to the Circular. Pursuant to an acquisition agreement dated 22 June 2015 (as amended by agreements dated 20 November 2015, 28 January 2016 and 23 March 2016), the Company has conditionally agreed to acquire the entire equity interest in the PRC Target. Capitalised terms used in this letter, unless otherwise defined, shall have the same meanings as those defined in the Circular.

Our work does not constitute any valuation of the equity interest in the PRC Target or any assets, liabilities or interests of the PRC Target. We understand that the Valuation Range has been independently prepared by the Competent Evaluator based on, among other things, (1) its projections of future oil production in Unit 2 and Unit 19 of Block 212 based on the development plan of the PRC Target and as modified in the Independent Technical Report, as considered therein appropriate in different scenarios and cases covering (i) the proved developed reserves, (ii) proved reserves, and (iii) proved plus probable reserves, (2) its perception of the market outlook for future oil prices and thus the selling prices of any crude oil produced from Unit 2 and Unit 19 of Block 212 under different assumptions, (3) the capital, operating and other cost and expenses in respect of the development and production plan under different scenarios covering (i) the proved developed reserves, (ii) proved reserves, and (iii) proved plus probable reserves, and (4) different discount rates reflecting the different risk characteristics of the different reserves categories. Details of the bases and assumptions of the Valuation are set out in the Competent Evaluator's Report. The Competent Evaluator's Report shall be read in conjunction with the Independent Technical Report, as set out in Appendix VII to the Circular, which sets out the Competent Person's independent assessment of the estimated reserves and resources in Unit 2 and Unit 19 of Block 212 (including the projected level of production under different scenarios) as well as the details of the PRC Target's development plan and the related projected cost and expenses. The Independent Technical Report has been prepared using the definitions of the PRMS and the Valuation Report has been prepared using the VALMIN Code (2005 edition) in accordance with the Listing Rules requirement.

The Competent Evaluator has set out different analyses of the estimated NPVs of the PRC Target's 80% revenue interest in Unit 2 and Unit 19 of Block 212 in the Competent Evaluator's Report including (1) those under an oil price assumption which assumes an average Brent Crude Price of US$40.90 per barrel in 2016 escalating to US$70.00 per barrel in 2019 and then further escalating by 2% per annum thereafter (the "**GCA 1Q2016 case**"), (2) those under an upside case which assumes an average Brent Crude Price of US$45.00 per barrel in 2016 escalating to US$90.00 per barrel in 2019 and then further escalating by 2% per annum thereafter (the "**US$90 case**"), (3) those under a downside case which assumes an average Brent Crude Price of US$32.00 per barrel in 2016 followed by changes based on the Brent future strip for 2017 up to 2020 and then escalating by 2% per annum thereafter (the "**US$32 case**"), and (4) those under a further downside case which assumes an average Brent Crude Price of US$26.00 per barrel in 2016 and throughout the entire project life (the "**US$26 case**"). We understand that none of those NPV analyses individually represents an opinion of the Competent Evaluator as to the market value of the PRC Target's interest in Block 212.

We understand from the Competent Evaluator that when it considered the Valuation Range, it has substantively weighted its opinion on the assumption that future oil prices will be more reflective of the price assumption under the GCA 1Q2016 case but it has also recognised the potential upside value of the Revenue Interest in a higher crude oil price environment, as illustrated by the US$90 case, by adjusting its valuation opinion upwards to reflect the possibility that such a scenario could occur. It is stated in the Competent Evaluator's Report that while the US$32 case shows NPVs significantly lower than the bottom end of the Valuation Range, the Competent Evaluator does not believe that it represents a fair market value case because in its opinion, the market would assume higher future oil prices than embedded in this scenario. Similarly, the Competent Person does not consider the US$26 case to represent a fair market value case. We are not an oil industry expert and do not express any opinion on future oil prices. We note that the price assumptions of the Competent Evaluator under the GCA 1Q2016 case and the US$90 case are consistent with other available market oil price forecasts in 2016 that we could identify using Bloomberg.

We note that the Competent Evaluator has taken into account the above NPV analyses in arriving at the Valuation Range after considering other subjective factors such as the Competent Evaluator's professional judgement on the effect of potential delays, further cost reduction, nature of competition perceived, and market conditions/sentiment. Accordingly the final Valuation Range does not equate to any particular NPV under any of the scenarios set out in the Competent Evaluator's Report.

As the NPV analyses under the GCA 1Q2016 case and the US$90 case play a significant part in the process of determining the Valuation Range and those NPVs have been prepared based on the discounted cash flow method, they are therefore regarded as a profit forecast under Rule 11.1(a) of the Takeovers Code, which is required to be reported on (as set out below) by us pursuant to the Takeovers Code.

Furthermore, we are also required under Rule 11.1(b) of the Takeovers Code to report on the qualifications and experience of the Competent Evaluator in preparing the Competent Evaluator's Report and this letter also constitutes such report from us.

We have reviewed the Competent Evaluator's Report and discussed with the Competent Person regarding the Independent Technical Report and the Competent Evaluator regarding the Competent Evaluator's Report, including the qualifications, bases and assumptions set out therein. We have also discussed with the Company regarding the qualifications of the Competent Person and the bases and assumptions of the discounted cash flows used in the NPV analyses under the GCA 1Q2016 case and the US$90 case. We have also considered the letter addressed to the Company from KPMG dated 29 June 2016 as set out in Appendix VIII to the Circular on the calculations of the discounted cash flows used in the NPV analyses under the GCA 1Q2016 case and the US$90 case and noted that KPMG is of the opinion that, in so far as such calculations are concerned, these have been properly compiled in all material respects in accordance with the bases and assumptions.

In arriving at our views, we have relied on information and materials supplied to us by the Company, the PRC Target and the Competent Evaluator, and the opinions expressed by, and the representations of, the management of the Group, the PRC Target and the Competent Evaluator, which we have assumed to be true, accurate, complete and not misleading and remain so as of the date hereof, and that no material fact or information has been omitted therefrom. Circumstances could have developed or could develop in the future that, if known to us at the time of the issue of this letter, may affect our assessment and our views on the Valuation Range.

With regard to the Competent Evaluator's qualifications and experience, we have conducted reasonable checks to assess its relevant qualifications, and experience, including reviewing the supporting documents on the qualifications and experience of staff members of the Competent Evaluator signing off the Competent Evaluator's Report.

We are acting as the financial advisor to the Company in relation to the Transactions. We and our respective directors and affiliates will not, whether jointly or severally, be responsible to anyone other than the Company for providing advice in connection with the Transactions, nor will we, our respective directors and affiliates, whether jointly or severally, owe any responsibility to anyone other than the Company. Nothing in this letter should be construed as an opinion or recommendation to any person as to how to vote on the Transactions.

On the basis of the foregoing and the information comprising the Competent Evaluator's Report, and our discussions with and understanding from the Competent Evaluator, we are of the opinion that the bases and assumptions set out in the Competent Evaluator's Report in respect of the NPV analyses under the GCA 1Q2016 case and the US$90 case, which are prepared by the Competent Evaluator and duly reviewed and accepted by the directors of the Company (and are considered to be determined by the directors of the Company for the purposes of this report), have been made with due care and consideration as a whole for the purpose of determining the Valuation Range. We are also satisfied that the Competent Evaluator is suitably qualified and experienced to undertake the determination of the Valuation Range competently.

We are not an expert on oil and gas project development or investment. This letter does not represent any opinion by us on any future production and sale levels, the future level of development and production cost and profitability of Unit 2 and Unit 19 of Block 212, the PRC Target or the Group. Further, we would caution that the bases and assumptions underlying the Valuation Range (including, among other things, the estimation of reserves and resources, and the projections of future production, development expenditures, operating expenses and cash flows) are inherently subjected to potentially significant uncertainties and contingencies in respect of business environment, general economy, market competition, and interpretation of geoscience and engineering data, which are beyond the control of the Company, the PRC Target, the Competent Evaluator and us. Accordingly, neither the Independent Technical Report nor the Competent Evaluator's Report shall be construed as a guarantee or prediction of results, and no warranty is implied or expressed that the actual outcome will conform to the outcomes presented therein. Attention should be paid to the risk factors and limitations as explained in the Independent Technical Report and the Competent Evaluator's Report.

We make no representation as to the legal interpretation of the above information as presented in the Circular.

This letter is supplied on the understanding that it is for the sole use of the Company. It must not be made available to any other party or filed with or referred to (either in whole or in part) in the Circular or any other document or otherwise quoted, circulated or used for any other purpose without our prior written consent, except that we understand a copy of this letter will be lodged with the Stock Exchange and the Executive and included in the Circular to be despatched by the Company. For the avoidance of doubt, all duties and liabilities (including without limitation those arising from negligence) to third parties are specifically disclaimed, except those of our responsibilities under the Takeovers Code, the Listing Rules or other applicable laws and regulations that cannot be disclaimed.

Yours faithfully
For and on behalf of
REORIENT Financial Markets Limited
Allen Tze
Managing Director

The following is the text of a letter, a summary of values and the valuation certificate prepared for the purpose of incorporation in this circular received from LCH (Asia-Pacific) Surveyors Limited, an independent professional surveyor, in connection with its valuation as at 31 March 2016 of the property interests held by the PRC Target.

利駿行測量師有限公司
LCH (Asia-Pacific) Surveyors Limited
PROFESSIONAL SURVEYOR
PLANT AND MACHINERY VALUER
BUSINESS & FINANCIAL ASSETS VALUER

*The readers are reminded that the report which follows has been prepared in accordance with the reporting guidelines set by the International Valuation Standard 2013 (the "**IVS**") published by the International Valuation Standards Council as well as the HKIS Valuation Standards 2012 Edition (the "**HKIS Standards**") published by the Hong Kong Institute of Surveyors (the "**HKIS**"). Both standards entitle the valuer to make assumptions which may on further investigation, for instance by the readers' legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer. Translations of terms in English or in Chinese are for reader's identification purpose only and have no legal status or implication in this report. This report was prepared and signed off in English format, translation of this report in language other than English shall only be used as a reference and should not be regarded as a substitute for this report. Piecemeal reference to this report is considered to be inappropriate and no responsibility is assumed from our part for such piecemeal reference.*

17th Floor
Champion Building
Nos. 287–291 Des Voeux Road
Central
Hong Kong

29 June 2016

The Board of Directors
Shun Cheong Holdings Limited
Suite 2302
Wing On Centre
111 Connaught Road Central
Hong Kong

Dear Sirs,

In accordance with the instructions given by the present management of Shun Cheong Holdings Limited (hereinafter referred to as the "**Instructing Party**") to us to conduct an agreed-upon procedures valuation of various *real properties* (same as the word "*properties*" in this report) proposed to be acquired by Shun Cheong Holdings Limited (hereinafter referred to as the "**Company**") and its subsidiaries (collectively, together with the Company hereinafter referred to as the "**Group**") in the People's Republic of China (hereinafter referred to as the "**PRC**" or "**China**"), and to report the existing status of certain property interests rented and occupied by the Target Group in the PRC, we confirm that we have conducted inspections, made relevant enquiries and obtained such further information as we consider necessary to support our findings and our conclusion of values of the property interests as at 31 March 2016 (hereinafter referred to as the "**Valuation Date**") for the Instructing Party's internal management reference purpose. We are given to understand the real properties are currently held or occupied by 錫林郭勒盟宏博礦業開發有限公司 (translated as Xilin Gol League Hongbo Mining Development Company Limited hereinafter referred to as "**Target Group**") and the Group will inject capital to the Target Group.

We understand that the use of our work product (regardless of form of presentation) will form part of the Instructing Party's due diligence but we have not been engaged to make specific sales or purchase recommendations, or give opinion for any financing arrangement. We further understand that the use of our work product will not supplant other due diligence which the Instructing Party should conduct in reaching its business decision regarding the properties valued. Our work is designed solely to provide information that will give the Instructing Party a reference in its due diligence process, and our work should not be the only factor to be referenced by the Instructing Party. Our findings and conclusion of values of the property interests are documented in a valuation report and submitted to the Instructing Party at today's date (hereinafter referred to as the "**Report Date**").

At the request of the Instructing Party, we prepared this summary report (including this letter, summary of values and the valuation certificate) to summarise our findings and conclusion of values as documented in the valuation report for the purpose of inclusion in this circular at the Report Date for the Instructing Party's reference. Terms used herein without definition shall have the same meanings as in the valuation report, and the assumptions and caveats adopted in the valuation report also apply to this summary report.

VALUATION OF PROPERTIES IN GROUP I

Basis of Valuation and Assumptions

According to the IVS which the HKIS Standards also follows, there are two valuation bases, namely market value basis and valuation bases other than market value. In this engagement, we have provided our conclusion of values of the properties on the market value basis.

The term "Market Value" is defined by the IVS and the HKIS Standards as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Unless otherwise stated, our valuations of the real properties have been made on the assumptions that, as at the Valuation Date,

1. the legally interested party in each of the properties has free and uninterrupted rights to assign its relevant property interest for the whole of the unexpired terms as granted, and any premium payable have already been fully paid;

2. the legally interested party in each of the properties sells its relevant property interest in the market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which could serve to increase the value of the property interest;

3. the legally interested party in each of the properties has absolute title to its relevant property interest;

4. the legally interested party in each of the properties has obtained relevant government's approvals for the sale of the property and is able to dispose of and transfer it free of all encumbrances (including but not limited to the cost of transaction) in the market; and

5. each of the properties can be freely disposed of and transferred free of all encumbrances as at the Valuation Date for its existing use in the market to both local and overseas purchasers without payment of any premium to the government.

Should any of the above not be the case, it will have adverse impact to the values as reported.

Approach to Value

There are three generally accepted approaches in arriving at the market value of a property on an absolute title basis, namely the Sales Comparison Approach (or known as the Market Approach), the Cost Approach and the Income Approach.

In valuing the properties, we have adopted the depreciated replacement cost ("**DRC**") approach. The DRC approach is a procedural valuation approach and is an application of the Cost Approach in valuing specialised properties like these properties when there is no readily identifiable market sale comparable, and the buildings cannot be valued by comparable market transactions. The use of this approach requires an estimate of the market value of the land use rights for its existing use, and an estimate of the new replacement cost of the buildings and other site works from which deductions are then made to allow for age, condition, and functional obsolescence taken into account of the site formation cost and those public utilities connection charges to the properties. The land use rights of these properties have been determined from market-based evidences by analysing similar sales or offerings of comparable properties.

The valuations of these properties are on the assumption that each of the properties is subject to the test of adequate potential profitability of the business having due regard to the value of the total assets employed and the nature of the operation.

By using this approach, the land should be assumed to have the benefit of planning permission for the replacement of the existing buildings and it is always necessary when valuing the land, to have regard to the manner in which the land is developed by the existing buildings and site works, and the extent to which these realise the full potential value of the land. When considering a notional replacement site, it should normally be regarded as having the same physical and location characteristics as the actual site, other than characteristics of the actual site which are not relevant, or are of no value, to the existing use. In considering the buildings, the gross replacement cost of the buildings should take into consideration everything which is necessary to complete the construction from a new green field site to provide buildings as they are, at the valuation date, fit for and capable of being occupied and used for the current use. These costs to be estimated are not to erect buildings in the future but have the buildings available for occupation at the valuation date, the work having commenced at the appropriate time.

Unless otherwise stated, we have not carried out any valuation on a redevelopment basis to the properties and the study of possible alternative development options and the related economics do not come within the scope of our work.

We need to state that our opinion of value of each of the properties is not necessarily intended to represent the amount that might be realised from disposition of land use rights or various building(s) of the property on piecemeal basis in the open market.

REPORTING OF RENTED PROPERTY INTERESTS IN GROUP II

Properties in Group II are subject to various leasehold arrangement, and we have assigned no commercial value to such property interests mainly due to the short-term nature of the tenancy agreements or prohibition against assignment or sub-letting or lack of substantial rents.

MATTERS THAT MIGHT AFFECT THE VALUES REPORTED

For the sake of valuation, we have adopted the areas as appeared in the copies of the documents as provided and no further verification work has been conducted. Should it be established subsequently that the adopted areas were not the latest approved, we reserve the right to revise our report and the valuations accordingly.

No allowance has been made in our valuations for any charges, mortgages, outstanding premium or amounts owing on the properties valued nor any expenses or taxation which may be incurred in affecting sale of the properties in Group I. Unless otherwise stated, it is assumed that the properties in Group I are free from all encumbrances, restrictions, and outgoings of an onerous nature which could affect their values.

In our valuations, we have assumed that the properties in Group I are able to be sold and purchased in the market without any legal impediment (especially from the regulators). Should this not be the case, it will affect the reported values significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability is assumed.

As at the Latest Practicable Date of this circular, we were unable to identify any adverse news against the properties which may affect the reported values or findings in our work product. Thus, we are not in the position to report and comment on its impact (if any) to the properties. However, should it be established subsequently that such news did exist at the Valuation Date, we reserve the right to adjust the values reported herein.

ESTABLISHMENT OF TITLES

Due to the purpose of this engagement and the market value basis of valuation, the Instructing Party or the appointed personnel of the Company provided us the necessary copies of documents to support that the legally interested party in each of the properties in Group I, (in this instance, the Target Group) has free and uninterrupted rights to transfer, to mortgage or to let its relevant property interests (in this instance, an absolute title) for the whole of the unexpired terms as granted, free of all encumbrances and any premiums payable have already been paid in full or outstanding procedures have been completed, and the Target Group has the right to occupy and use the properties in Group II. However, our procedures to value, as agreed with the Instructing Party, did not require us to conduct legal due diligence on the legality and formality on the way that the legally interested party obtained the properties from the relevant authorities. We agreed with the Instructing Party that this should be the responsibility of the legal advisor to the Instructing Party. Thus, no responsibility or liability is assumed from our part to the origin and continuity of the titles to the properties.

The land registration system of China forbids us to search the original documents of the properties that are filed in the relevant authorities, and to verify legal titles or to verify any material encumbrances or amendment which may not appear on the copies handed to us. For the purpose of valuation, we have relied solely on a copy of the PRC legal opinions provided by the Instructing Party or the appointed personnel of the Company with regards to the legal titles of the properties. We are given to understand that the PRC legal opinions was prepared by a qualified PRC legal advisor Haiwen & Partners (北京市海問律師事務所) dated 29 June 2016.

We need to state that we are not legal professionals and are not qualified to ascertain the titles and to report any encumbrances that may be registered against the properties. However, we have complied with the requirements as stated in Chapter 5 and Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and relied solely on the copies of documents and the various copies of legal opinions provided by the Instructing Party or the appointed personnel of the Company in our valuations. No responsibility or liability from our part is assumed in relation to those legal opinions.

In our report, we have assumed that the Target Group has obtained all the approval and/or endorsement from the relevant authorities to own or to use the properties, and that there would be no legal impediment (especially from the regulators) for the Target Group to continue the legal titles to the properties. Should this not be the case, it will affect our findings or conclusion of value in this report significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability is assumed.

INSPECTIONS AND INVESTIGATIONS OF THE PROPERTIES

We have conducted inspections to the exterior, and where possible, the interior of the properties in respect of which we have been provided with such information as we have requested for the purpose of engagement. The properties were inspected by graduate surveyor Mr. Ivan Mak Kin Hong in August of 2015. Mr. Ivan Mak has about 3 years' experience in property valuation in the PRC. We have not inspected those parts of the properties which were covered, unexposed or inaccessible and such parts have been assumed to be in a reasonable condition. We cannot express an opinion about or advice upon the condition of the properties and our work product should not be taken as making any implied representation or statement about the condition of the properties. No building survey, structural survey, investigation or examination has been made, but in the course of our inspections, we did not note any serious defects in the properties inspected. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out to the utilities (if any) and we are unable to identify those utilities covered, unexposed or inaccessible.

We have not carried out on-site measurements to verify the correctness of the areas of the properties, but have assumed that the areas shown on the documents and official layout plans handed to us are correct. All dimensions, measurements and areas are approximations.

Our engagement and the agreed procedures to value the properties did not include an independent land survey to verify the legal boundaries of the properties. We need to state that we are not in the land survey profession, therefore, we are not in the position to verify or ascertain the correctness of the legal boundaries of such properties that appeared on the documents handed to us. No responsibility from our part is assumed. The Instructing Party or interested party in the properties should conduct their own legal boundaries due diligence work.

We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction of the properties, or has since been incorporated, and we are therefore unable to report that the properties are free from risk in this respect, and therefore we have not considered such factors in our valuations.

We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the properties and which may draw attention to any contamination or the possibility of any such contamination. In undertaking our work, we have assumed that no contaminative or potentially contaminative uses have ever been carried out in the properties. We have not carried out any investigation into past or present uses, either of the properties or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the properties from these uses or sites, and have therefore assumed that none exists. However, should it be established subsequently that contamination, seepage or pollution exists at the properties or on any neighbouring land, or that the premises have been or are being put to a contaminative use, this might reduce the values now reported or affect our findings.

If the Instructing Party or other interested party is proposing to purchase the properties and wants to satisfy themselves as to its condition, then they should obtain a surveyor's detailed inspection and report of their own before deciding whether or not to enter into an agreement for sale and purchase.

SOURCES OF INFORMATION AND ITS VERIFICATION

In the course of our work, we have been provided with copies of the documents regarding the properties, and these copies have been referenced without further verifying with the relevant bodies and/or authorities. Our procedures did not require us to conduct any searches or to inspect the original documents to verify ownership or to verify any amendment which may not appear on the copies handed to us. We need to state that we are not legal professionals, therefore, we are not in the position to advise and comment on the legality and effectiveness of the documents provided by the Instructing Party or the appointed personnel of the Company.

We have relied solely on the information provided by the Instructing Party or the appointed personnel of the Company without further verification and have fully accepted advice given to us on such matters as planning approvals or statutory notices, locations, titles, easements, tenure, occupation, lettings, rentals, site and floor areas and all other relevant matters.

Our valuations have been made only based on the advice and information made available to us. While a limited scope of general inquiries had been made to the local real property market practitioners, we are not in a position to verify and ascertain the correctness of the advice given by the relevant personnel. No responsibility or liability is assumed.

Information furnished by others, upon which all or portions of our report are based, is believed to be reliable but has not been verified in all cases. Our procedures to work do not constitute an audit, review, or compilation of the information provided. Thus, no warranty is made nor liability assumed for the accuracy of any data, advice, opinions, or estimates identified as being furnished by others which have been used in formulating our work product.

When we adopted the work products from other professions, external data providers and the Instructing Party or the appointed personnel of the Company in our works, the assumptions and caveats that adopted by them in arriving at their figures also applied to this report. The procedures we have taken do not provide all the evidence that would be required in an audit and, as we have not performed an audit, accordingly, we do not express an audit opinion.

The scope of valuation has been determined by reference to the property list provided by the Instructing Party. All properties on the list have been included in our report. The Instructing Party has confirmed to us that the Target Group has no property interests other than those specified on the list supplied to us and included in this report.

We are unable to accept any responsibility for the information that has not been supplied to us by the Instructing Party or the appointed personnel of the Company. Also, we have sought and received confirmation from the Instructing Party or its appointed personnel that no material factors have been omitted from the information supplied. Our analysis and valuations are based upon full disclosure between us and the Instructing Party of material and latent facts that may affect the works.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Instructing Party or the appointed personnel of the Company. We consider that we have been provided with sufficient information to reach an informed view, and have had no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts are in Renminbi Yuan ("**RMB**").

LIMITING CONDITIONS IN THIS SUMMARY REPORT

Our findings or conclusion of values of the properties in this summary report is valid only for the stated purpose and only for the Valuation Date, and for the sole use of the Instructing Party. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this summary report, and we accept no responsibility whatsoever to any other person.

Our valuations have been made on the assumption that no unauthorised alteration, extension or addition has been made in the properties, and that the inspections and the use of this report do not purport to be a building survey of the properties. We have assumed that the properties are free of rot and inherent danger or unsuitable materials and techniques.

Neither the whole nor any part of this summary report or any reference made hereto may be included in any published documents, prospectus or statement, or published in any way, without our written approval of the form and context in which it may appear. Nonetheless, we consent to the publication of this summary report in this circular to the Company's shareholders' reference.

Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the charges paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

The Company and the Instructing Party are required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our work product except to the extent that any such loses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

STATEMENTS

This summary report is prepared in line with the requirements contained in Chapter 5 and Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as well as the reporting guidelines contained in the IVS and the HKIS Standards. The valuation has been undertaken by qualified valuer, acting as external valuer, for the purpose of this valuation.

We retain a copy of this summary report and the detailed valuation report together with the data and documents provided by the Instructing Party for the purpose of this valuation, and these data and documents will, according to the Laws of Hong Kong, be kept for a period of 6 years from the date of this report and to be destroyed thereafter. We considered these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the Instructing Party's authorisation and prior arrangement made with us. Moreover, we will add the Company information into our client list for our future reference.

The analysis or valuation of each of the properties depends solely on the assumptions made in this report and not all of which can be easily quantified or ascertained exactly. Should some or all of the assumptions prove to be inaccurate after the Latest Practicable Date of the circular, it will affect the reported findings or conclusion of values significantly.

We hereby certify that the fee for this service is not contingent upon our conclusion and we have no significant interest in the properties, the Group, the Target Group or the values reported.

Our valuations are summarised below and the valuation certificate is attached.

Yours faithfully,
For and on behalf of
LCH (Asia-Pacific) Surveyors Limited

Elsa Ng Hung Mui *B.Sc. M.Sc. RPS(GP)*
Executive Director

Contributing valuer:
Ivan Mak Kin Hong *B.Sc.*

Notes:

1. Sr Elsa Ng Hung Mui has been conducting valuation of real properties in Hong Kong, Macau and mainland China since 1994. She is a Fellow Member of The HKIS and a valuer on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuation in Connection with Takeovers and Mergers published by The HKIS.

2. Mr. Ivan Mak Kin Hong is a graduate surveyor (graduated from bachelor degree in surveying) and probationer of The HKIS. He has been involved in valuation of real properties both in Hong Kong and mainland China for around 3 years. He has been involved in conducting real properties valuations for publicly listed companies for various purposes including merger and acquisition, initial public offering, financing and accounts reporting purposes.

SUMMARY OF VALUES

Group I — Properties held and occupied by the Target Group in the PRC and valued on the market value basis by the DRC Approach

	Property	Amount of valuations in existing state as at 31 March 2016 *RMB*	Interest attributable to the Target Group	Amount of valuations in existing state attributable to the Target Group as at 31 March 2016 *RMB*
1.	An oil gathering station erected on a parcel of land located at Lot No. 152525103206GB03001 Gahailesumu East Ujimqin Banner Xilin Gol League Inner Mongolia Autonomous Region The PRC 026300	7,300,000	100 per cent.	7,300,000
2.	A logistic center erected on a parcel of land located at Lot No. 1032061001 Erengaobigacha Mandubaolige Town East Ujimqin Banner Xilin Gol League Inner Mongolia Autonomous Region The PRC 026300	45,100,000	100 per cent.	45,100,000
			Sub-total:	RMB52,400,000

Group II — Properties occupied by the Target Group under various operating leases in the PRC

	Property	Amount of valuation in its existing state attributable to the Target Group as at 31 March 2016 *RMB*
3.	Levels 1 and 2 of an office building located at No. 77 Baogedawula Dong Street Wuliyasitai Town East Ujimqin Banner Xilin Gol League Inner Mongolia Autonomous Region The PRC 026300	No commercial value
4.	A parcel of agricultural land located at Erengaobigacha Gahailesumu East Ujimqin Banner Xilin Gol League Inner Mongolia Autonomous Region The PRC 026300	No commercial value
	Sub-total:	NIL
	Grand Total:	*RMB52,400,000

*** RENMINBI FIFTY TWO MILLION AND FOUR HUNDRED THOUSAND YUAN ONLY**

VALUATION CERTIFICATE

Group I — Properties held and occupied by the Target Group in the PRC and valued on the market value basis by the DRC Approach

	Property	Description and tenure	Particulars of occupancy	Amount of valuations in existing state attributable to the Target Group as at 31 March 2016 *RMB*
1.	An oil gathering station erected on a parcel of land located at Lot No. 152525103206 GB03001 Gahailesumu East Ujimqin Banner Xilin Gol League Inner Mongolia Autonomous Region The PRC 026300	The property comprises a parcel of land having a site area of approximately 90,000 sq. m. with 14 various major buildings and structures erected thereon. (S*ee Note 1 below)* The buildings and structures include a 2-storey office, a single storey warehouse and 12 various single storey ancillary facilities which were completed in 2010. They have a total gross floor area of approximately 2,707.19 sq. m. *(See Note 2 below).* The property is located at the rural area of East Ujimqin Banner and surrounded by prairie. The property is subject to a right to use the land for a term of 40 years till 10 February 2054 for industrial usage.	As inspected and confirmed by the Instructing Party and the appointed personnel of the Company, the property was occupied by the Target Group as an oil gathering station as at the Valuation Date.	7,300,000 (100 per cent. interest to the Target Group)

Notes:

1. The right to possess the land is held by the State and the rights to use the land has been granted by the State to 錫林郭勒盟宏博礦業開發有限公司 (translated as Xilin Gol League Hongbo Mining Development Company Limited hereinafter referred to as "**Hongbo**"), via the following ways:

   (i) Pursuant to a Contract for the Grant of State-owned Land Use Rights (國有土地使用權出讓合同) dated 10 February 2014 and made between Bureau of Land and Resources of East Ujimqin Banner (東烏珠穆沁旗國土資源局) and Hongbo, a parcel of land having a site area of 90,000 sq. m. was granted to Hongbo at a consideration of RMB5,400,000 for a term of 40 years for industrial usage. The consideration has been fully paid.

   (ii) Pursuant to a State-owned Land Use Rights Certificate known as Dong 2014 Guo Yong 25401A Di 010 Hao (東2014國用25401A第010號) dated 23 May 2014 and issued by the People's Government of East Ujimqin Banner (東烏珠穆沁旗人民政府), Hongbo has the right to use the land which having a site area of 90,000 sq. m. for a term till 10 February 2054 for industrial usage.

2. Pursuant to 14 various Building Ownership Certificates issued by the People's Government of East Ujimqin Banner (東烏珠穆沁旗人民政府), the legally interested party in these buildings having a total gross floor area of approximately 2,707.19 sq. m. is Hongbo. They are listed as follows:

Building Ownership Certificates	**Issue Date**	**Buildings**	**No. of storeys**	**Gross Floor Area** *(sq.m.)*
蒙村房權證蒙H-04-07-00080號	24/9/2014	Office	2-storey	807.35
蒙村房權證蒙H-04-07-00081號	24/9/2014	Warehouse	1-storey	355.46
蒙村房權證蒙H-04-07-00082號	25/9/2014	Toilet	1-storey	43.42
蒙村房權證蒙H-04-07-00083號	24/9/2014	Heating Room	1-storey	154.36
蒙村房權證蒙H-04-07-00084號	25/9/2014	Complex Building	1-storey	244.15
蒙村房權證蒙H-04-07-00085號	25/9/2014	Generator Room	1-storey	122.82
蒙村房權證蒙H-04-07-00086號	25/9/2014	Complex Building	1-storey	211.88
蒙村房權證蒙H-04-07-00087號	25/9/2014	Water Pumping Room	1-storey	170.49
蒙村房權證蒙H-04-07-00088號	25/9/2014	Valve Room	1-storey	80.00
蒙村房權證蒙H-04-07-00089號	25/9/2014	Valve Room	1-storey	80.00
蒙村房權證蒙H-04-07-00090號	25/9/2014	Valve Room	1-storey	39.35
蒙村房權證蒙H-04-07-00091號	26/9/2014	Valve Room	1-storey	34.65
蒙村房權證蒙H-04-07-00092號	26/9/2014	Valve Room	1-storey	39.35
蒙村房權證蒙H-04-07-00093號	26/9/2014	Switch Room	1-storey	323.91
			Total:	**2,707.19**

3. According to the information provided by the Target Group, the total cost spent on the property was approximately RMB25,580,000 (including gas pipelines and equipment).

4. Pursuant to a copy of the Enterprise Legal Person Business Licence (企業法人營業執照) dated 22 May 2015, Hongbo is a limited liability company registered in the PRC for an operational period commencing from 29 July 2008 to 28 July 2028.

5. According to the legal opinions as prepared by the Company's PRC legal advisor, Haiwen & Partners (北京市海問律師事務所), the following opinions are noted:

   (i) Hongbo is the legally interested party in the property and has the right to occupy, to use, to transfer, to lease and to mortgage the property;

   (ii) the existing usage of the land is in line with the usage stated in the Land Use Rights Certificate; and

   (iii) the property is not subject to any mortgage, sealing up or other form of restrictions.

	Property	Description and tenure	Particulars of occupancy	Amount of valuations in existing state attributable to the Target Group as at 31 March 2016 *RMB*
2.	A logistic center erected on a parcel of land located at Lot No. 1032061001 Erengaobigacha Mandubaolige Town East Ujimqin Banner Xilin Gol League Inner Mongolia Autonomous Region The PRC 026300	The property comprises a parcel of land having a site area of approximately 60,347.67 sq. m. with 2 various major buildings and structures erected thereon. (S*ee Note 1 below)* The buildings and structures include a 2-storey office and dormitory complex and a single storey warehouse which were completed in 2011. They have a total gross floor area of approximately 13,155.49 sq. m. *(See Note 2 below).* The property is located at the rural area of East Ujimqin Banner and surrounded by prairie. The property is subject to a right to use the land for a term of 40 years till October 2050 for other commercial usage.	As inspected and confirmed by the Instructing Party and the appointed personnel of the Company, the property was occupied by the Target Group as office and dormitory as at the Valuation Date.	45,100,000 (100 per cent. interest to the Target Group)

Notes:

1. The right to possess the land is held by the State and the rights to use the land has been granted by the State to 錫林郭勒盟宏博礦業開發有限公司 (translated as Xilin Gol League Hongbo Mining Development Company Limited hereinafter referred to as "**Hongbo**"), via the following ways:

   (i) Pursuant to a Contract for the Grant of State-owned Land Use Rights (國有土地使用權出讓合同) dated 20 September 2011 and made between Bureau of Land and Resources of East Ujimqin Banner (東烏珠穆沁旗國土資源局) and Hongbo, a parcel of land having a site area of 60,347 sq. m. was granted to Hongbo at a consideration of RMB3,862,251 for a term of 40 years for other commercial usage. The consideration has been fully paid.

   (ii) Pursuant to a State-owned Land Use Rights Certificate known as Dong 2011 Guo Yong 25610A Di 071 Hao (東2011國用25610A第071號) dated 11 October 2011 and issued by the People's Government of East Ujimqin Banner (東烏珠穆沁旗人民政府), Hongbo has the right to use the land which having a site area of 60,347.67 sq. m. for a term till October 2050 for commercial usage.

2. Pursuant to 2 various Building Ownership Certificates issued by the People's Government of East Ujimqin Banner (東烏珠穆沁旗人民政府), the legally interested party in these buildings having a total gross floor area of approximately 13,155.49 sq. m. is Hongbo. They are listed as follows:

Building Ownership Certificates	Issue Date	Buildings	No. of storeys	Gross Floor Area *(sq.m.)*
蒙村房權證蒙H-04-07-00068號	28/10/2012	Office and dormitory complex	2-storey	9,499.15
蒙村房權證蒙H-04-07-00069號	28/10/2012	Warehouse	1-storey	3,656.34
			Total:	**13,155.49**

3. According to the on-site inspection in August 2015, 3 various structures (listed below) without Building Ownership Certificate with a total gross floor area of approximately 760.4 sq.m. were erected on the land in Note 1. In our valuation, we have not taken into account of these structures.

Buildings	No. of storeys	Gross Floor Area *(sq.m.)*
Water Treatment Room	1-storey	215.8
Boiling Room	1-storey	311.2
Generator Room	1-storey	233.4
	Total:	**760.4**

4. According to the information provided by the Target Group, the total costs spent on the property was approximately RMB73,120,000.

5. Pursuant to a copy of the Enterprise Legal Person Business Licence (企業法人營業執照) dated 22 May 2015, Hongbo is a limited liability company registered in the PRC for an operational period commencing from 29 July 2008 to 28 July 2028.

6. According to the legal opinions as prepared by the Company's PRC legal advisor, Haiwen & Partners (北京市海問律師事務所), the following opinions are noted:

   (i) Hongbo is the legally interested party in the property and has the right to occupy, to use, to transfer and to lease the property;

   (ii) the existing usage of the land is in line with the usage stated in the Land Use Rights Certificate;

   (iii) the property is not subject to any sealing up or other form of restrictions;

   (iv) the property is subject to a mortgage in favour of the Bank of China Xilinhot Branch;

   (v) various ancillary structures with a total gross floor area of 760.4 sq. m. were erected without certain planning, construction approval, completion and acceptance procedures and no building certificates were obtained. According to the PRC law and regulations, disciplinary actions should be taken by the relevant government authorities. For construction without Construction Planning Permit, a maximum 10% of construction cost penalty could be charged. For construction without a Permit to Commence Construction, a maximum 2% of construction contract sum penalty could be charged. For construction without completion and acceptance procedures, a maximum RMB500,000 penalty could be charged; and

(vi) according to the Company's statement no investigation or disciplinary action were taken by the relevant government authorities from the completion date of those various ancillary structures in 2011 till the date of the PRC legal opinion.

7. According to the information provided from the Target Group, the total construction cost of the buildings without building certificates in Note 3 is approximately RMB1.76 million. According to the legal opinion stated in Note 6(v), the total maximum penalty could be charged at RMB711,200 if disciplinary actions are taken by the relevant government authority.

Group II — Properties occupied by the Target Group under various operating lease in the PRC

	Property	Description and occupancy	Amount of valuations in existing state attributable to the Target Group as at 31 March 2016 *RMB*
3.	Levels 1 and 2 of an office building located at No. 77 Baogedawula Dong Street Wuliyasitai Town East Ujimqin Banner Xilin Gol League Inner Mongolia Autonomous Region The PRC 026300	The property comprises 2 office levels on the Levels 1 and 2 of a 3-storey office building which was completed in about 2013. According to the information made available to us, the property has a total gross floor area of approximately 3,071.47 sq. m. The property is rented to the lessor for a term of 1 year commencing from 1 January 2016 to 31 December 2016 for office purpose at a monthly rental RMB67,000 exclusive of water, electricity, telephone, internet, management and tax charges. The property is located at the urban area of East Ujimqin Banner. The property was occupied by the Target Group for office purpose as at the Valuation Date.	No commercial value

Notes:

1. The lessor of the property is 錫林郭勒盟上東房地產開發有限公司 (translated as Xilin Gol League Shangdong Real Estate Development Company Limited), a related party of the Target Group.

2. The lessee of the property is 錫林郭勒盟宏博礦業開發有限公司 (translated as Xilin Gol League Hongbo Mining Development Company Limited), the Target Group.

3. According to the legal opinions as prepared by the Company's PRC legal advisor, Haiwen & Partners (北京市海問律師事務所), the tenancy agreement is legal and valid.

	Property	Description and occupancy	Amount of valuations in existing state attributable to the Target Group as at 31 March 2016 *RMB*
4.	A parcel of agricultural land located at Erengaobigacha Gahailesumu East Ujimqin Banner Xilin Gol League Inner Mongolia Autonomous Region The PRC 026300	The property comprises a parcel of agricultural land having a site area of approximately 739,973.44 sq. m. The property was granted to the Target Group for a further term commencing from 26 May 2016 to 26 May 2018 for an Oil and Gas Extraction Construction Project. The property is located at the rural area of East Ujimqin Banner and surrounded by prairie. The property was occupied by the Target Group for oil extraction purpose as at the Valuation Date.	No commercial value

Notes:

1. Pursuant to a Temporary Land Use Rights Certificate known as Dong Wu Lin Yong 2016 Di 01 Hao (東烏臨用2016第01號) dated 26 May 2016 and issued by Bureau of Land and Resources of East Ujimqin Banner (東烏珠穆沁旗國土資源局) (hereinafter referred to as the "Land Bureau"), 錫林郭勒盟宏博礦業開發有限公司 (translated as Xilin Gol League Hongbo Mining Development Company Limited, hereinafter referred to as "Hongbo"), has the right to use the agricultural land which having a site area of 739,973.44 sq. m. for a term commencing from 26 May 2016 till 26 May 2018 for an Oil and Gas Extraction Construction Project.

2. Pursuant to a copy of the Enterprise Legal Person Business Licence (企業法人營業執照) dated 22 May 2015, Hongbo is a limited liability company registered in the PRC for an operational period commencing from 29 July 2008 to 28 July 2028.

3. As advised by the Target Group, there is no rental expense on the property.

4. According to the legal opinions as prepared by the Company's PRC legal advisor, Haiwen & Partners (北京市海問律師事務所), Hongbo is the legally interested party in the property and has the right to occupy and to use within the term specified under the certificate mentioned in Note 1 above. According to a certificate letter dated 28 September 2015 and issued by the Land Bureau, Hongbo has complied with the relevant laws, rules and regulations in the PRC. Usage of the land complies with land planning and has obtained the relevant approval. All relevant payment has been fully paid. There exists no conflict between Hongbo and the Land Bureau on the land usage.

The following is the text of a letter, a summary of values and the valuation certificate prepared for the purpose of incorporation in this circular received from LCH (Asia-Pacific) Surveyors Limited, an independent professional surveyor, in connection with its valuation as at 31 March 2016 of the property interests held by the Group.

利駿行測量師有限公司
LCH (Asia-Pacific) Surveyors Limited
PROFESSIONAL SURVEYOR
PLANT AND MACHINERY VALUER
BUSINESS & FINANCIAL ASSETS VALUER

*The readers are reminded that the report which follows has been prepared in accordance with the reporting guidelines set by the International Valuation Standard 2013 (the "**IVS**") published by the International Valuation Standards Council as well as the HKIS Valuation Standards 2012 Edition (the "**HKIS Standards**") published by the Hong Kong Institute of Surveyors (the "**HKIS**"). Both standards entitle the valuer to make assumptions which may on further investigation, for instance by the readers' legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer. Translations of terms in English or in Chinese are for reader's identification purpose only and have no legal status or implication in this report. This report was prepared and signed off in English format, translation of this report in language other than English shall only be used as a reference and should not be regarded as a substitute for this report. Piecemeal reference to this report is considered to be inappropriate and no responsibility is assumed from our part for such piecemeal reference.*

17th Floor
Champion Building
Nos. 287–291 Des Voeux Road
Central
Hong Kong

29 June 2016

The Board of Directors
Shun Cheong Holdings Limited
Suite 2302
Wing On Centre
111 Connaught Road Central
Hong Kong

Dear Sirs,

In accordance with the instructions given by the present management of Shun Cheong Holdings Limited (hereinafter referred to as the "**Instructing Party**") to us to conduct an agreed-upon procedure valuation on certain designated *real properties* (same as the word *properties* in this report) which are held by Shun Cheong Holdings Limited (hereinafter referred to as the "**Company**") and 廣西普凱興業酒店投資有限公司 (translated as Guangxi Pukai Xingye Hotel Investment Ltd. and referred hereinafter as the "**JV Company**") in which a 26.7% equity interest of the JV Company was indirectly held by the Company and its subsidiaries (collectively, hereinafter together with the Company and the JV Company referred to as the "**Group**") have interests in the People's Republic of China (hereinafter referred to as the "**PRC**" or "**China**"), we confirm that we have conduct inspection, made relevant enquiries and obtained such further information as we consider necessary to support our findings and our conclusion of values of the properties as at 31 March 2016 (hereinafter referred to as the "**Valuation Date**") for the Instructing Party's internal management reference.

We understand that the use of our work product (regardless of form of presentation) will form part of the Instructing Party's due diligence but we have not been engaged to make specific sales or purchase recommendations, or give opinion for any financing arrangement. We further understand that the use of our work product will not supplant other due diligence which the Instructing Party should conduct in reaching its business decision regarding the properties valued. Our work is designed solely to provide information that will give the Instructing Party a reference in its due diligence process, and our work should not be the only factor to be referenced by the Instructing Party. Our findings and conclusion of values of the property interests are documented in a valuation report and submitted to the Instructing Party at today's date (hereinafter referred to as the "**Report Date**").

At the request of the Instructing Party, we prepared this summary report (including this letter, summary of values and the valuation certificate) to summarise our findings and conclusion of values as documented in the valuation report for the purpose of inclusion in this circular at the Report Date for the Instructing Party's reference. Terms used herein without definition shall have the same meanings as in the valuation report, and the assumptions and caveats adopted in the valuation report also apply to this summary report.

BASIS OF VALUATION AND ASSUMPTIONS

According to the IVS which the HKIS Standards also follows, there are two valuation bases, namely market value basis and valuation bases other than market value. In this engagement, we have provided our conclusion of values of the properties on the market value basis.

The term "Market Value" is defined by the IVS and the HKIS Standards as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Unless otherwise stated, our valuations of the real properties have been made on the assumptions that, as at the Valuation Date,

1. the legally interested party in each of the properties has free and uninterrupted rights to assign its relevant property interest for the whole of the unexpired terms as granted, and any premium payable have already been fully paid;

2. the legally interested party in each of the properties sells its relevant property interest in the market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which could serve to increase the value of the property interest;

3. the legally interested party in each of the properties has absolute title to its relevant property interest;

4. the legally interested party in each of the properties has obtained relevant government's approvals for the sale of the property and is able to dispose of and transfer it free of all encumbrances (including but not limited to the cost of transaction) in the market; and

5. each of the properties can be freely disposed of and transferred free of all encumbrances as at the Valuation Date for its existing use in the market to both local and overseas purchasers without payment of any premium to the government.

Should any of the above not be the case, it will have adverse impact to the values as reported.

APPROACH TO VALUE

There are three generally accepted approaches in arriving at the market value of a property on an absolute title basis, namely the Sales Comparison Approach (or known as the Market Approach), the Cost Approach and the Income Approach.

In valuing the Property No. 1 in Group I, we have adopted the Income Approach. The Income Approach focuses on the economic benefits generated by the income-producing capability of a property. The underlying theory of this approach is that the value of a property can be measured by the present worth of the economic benefits to be received over the useful life of the property. Based on this valuation principle, the Income Approach estimates the future economic benefits and discounts these benefits to its present value using a discount rate suitable for the risks associated with realising those benefits. This is subject to the assumption that the property has been maintaining stable economic benefits. We have been provided with a latest version of financial projection of the property from the Instructing Party, and they are responsible for the assumptions upon which the projections are based. We have adopted the cash flow in our computation. Key assumptions such as average daily room rate, room revenue percentage, food and beverage percentage used in the valuation were determined with reference to the 2016 forecast, which was reference to historical performance, provided by the appointed personnel of the Company. For the annual growth rate used in the valuation, we have made reference to the industry report and the historical consumer price index in the PRC.

In valuing the Property No. 2 in Group I, we have adopted the investment method of the Income Approach (or sometimes referred to as a method of the Market Approach for the reversionary interests and the rate of return are market-derived) by taking into account the current rent receivable from the existing tenancy agreements and the reversionary potential of the property interests. Our opinion of value of the property is subject to the existing tenancy agreements. The underlying assumption of this method is that an investor will pay no more for the property than he or she would have to be paid for another property with an income stream of comparable amount, duration, and certainty.

In valuing properties in Groups II, III and IV, we have adopted the Sales Comparison Approach on the assumption that each of the properties was sold with the benefit of vacant possession as at the Valuation Date. This approach considers the sales, listings or offering of similar or substitute properties and related market data and establishes a value of a property that a reasonable investor would have to pay for a similar property of comparable utility and with an absolute title. We have also considered the Cost Approach, in conducting the valuation of the Property No. 3 in Group II.

Unless otherwise stated, we have not carried out any valuation on a redevelopment basis to the properties and the study of possible alternative development options and the related economics do not come within the scope of our work.

MATTERS THAT MIGHT AFFECTS THE VALUES REPORTED

For the sake of valuation, we have adopted the areas as they appear in the copies of the documents as provided and no further verification work has been conducted. Should it be established subsequently that the adopted areas were not the latest approved, we reserve the right to revise our report and the valuations accordingly.

No allowance has been made in our valuations for any charges, mortgages, outstanding premium or amounts owing on the properties valued nor any expenses or taxation which may be incurred in affecting sale of the properties. Unless otherwise stated, it is assumed that the properties are free from all encumbrances, restrictions, and outgoings of an onerous nature which could affect their values.

In our valuations, we have assumed that the properties are able to be sold and purchased in the market without any legal impediment (especially from the regulators). Should this not be the case, it will affect the reported values significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability is assumed.

For the purpose of compliance with Rule 11.3 of The Code on Takeovers and Mergers by Securities and Future Commission (the "**Takeovers Code**"), as advised by the appointed personnel of the Company, the tax liabilities which shall arise from the sale of the properties in the PRC include applicable Stamp Duties at 0.05%, Business Tax at 5% and related surcharges on Business Tax ranging from 4% to 12%, Enterprise Income Tax on the taxable income from the sale of the properties at 25%, and Land Value Appreciation Tax at progressive tax rates ranging from 30% to 60% on the taxable gains from the sale of the properties. As advised by the Instructing Party, they intended to sell their active interests in the overseas holding companies holding all their indirect interests in the properties, and they understand that the legal owners of the related properties have no intention to sell their titles in the properties. As such, the likelihood of the relevant tax liabilities being crystallised is remote because the property interests are only deemed to be sold by way of transferring overseas holding company shares instead of directly selling the property interests.

As at the Latest Practicable Date of this circular, we were unable to identify any adverse news against the properties which may affect the reported values in our work product. Thus, we are not in the position to report and comment on its impact (if any) to the properties. However, should it be established subsequently that such news did exist at the Valuation Date, we reserve the right to adjust the values reported herein.

ESTABLISHMENT OF TITLES

Due to the purpose of this engagement and the market value basis of valuation, the appointed personnel of the Company provided us the necessary copies of documents to support that the legally interested party in the properties (in this instance, the Group) has free and uninterrupted rights to transfer, to mortgage or to let its relevant property interests (in this instance, an absolute title) for the whole of the unexpired terms as granted, free of all encumbrances and any premiums payable have already been paid in full or outstanding procedures have been completed, and the Group has the right to occupy and use the properties. However, our procedures to value, as agreed with Instructing Party, did not require us to conduct legal due diligence on the legality and formality on the way that the legally interested party obtained the properties from the relevant authorities. We agreed with the Instructing Party that this should be the responsibility of the legal advisor to the Instructing Party. Thus, no responsibility or liability is assumed from our part to the origin and continuity of the titles to the properties.

The land registration system of China forbids us to search the original documents of the properties that are filed in the relevant authorities, and to verify legal titles or to verify any material encumbrances or amendment which may not appear on the copies handed to us. For the purpose of valuation, we have relied solely on a copy of the PRC legal opinions provided by the Instructing Party or the appointed personnel of the Company with regards to the legal titles of the properties. We are given to understand that the PRC legal opinions was prepared by a qualified PRC legal advisor Haiwen & Partners (北京市海問律師事務所) dated 29 June 2016.

We need to state that we are not legal professionals and are not qualified to ascertain the titles and to report any encumbrances that may be registered against the properties. However, we have complied with the requirements as stated in Chapter 5 and Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and relied solely on the copies of documents and the various copies of legal opinions provided by the Instructing Party for the appointed personnel of the Company in our valuations. No responsibility or liability from our part is assumed in relation to those legal opinions.

In our report, we have assumed that the Group has obtained all the approval and/or endorsement from the relevant authorities to own or to use the properties, and that there would be no legal impediment (especially from the regulators) for the Group to continue the legal titles to the properties. Should this not be the case, it will affect our findings or conclusion of value in this report significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability is assumed.

INSPECTIONS AND INVESTIGATIONS OF THE PROPERTIES

We have conducted inspections to the exterior, and where possible, the interior of the properties in respect of which we have been provided with such information as we have requested for the purpose of engagement. The properties were inspected by graduate surveyor Mr Ivan Mak Kin Hong in September of 2015. Mr. Ivan Mak has about 3 years experience in property valuation in the PRC. We have not inspected those parts of the properties which were covered, unexposed or inaccessible and such parts have been assumed to be in a reasonable condition. We cannot express an opinion about or advice upon the condition of the properties and our work product should not be taken as making any implied representation or statement about the condition of the properties. No building survey, structural survey, investigation or examination has been made, but in the course of our inspections, we did not note any serious defects in the properties inspected. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out to the utilities (if any) and we are unable to identify those utilities covered, unexposed or inaccessible.

We have not carried out on-site measurements to verify the correctness of the areas of the properties, but have assumed that the areas shown on the documents and official layout plans handed to us are correct. All dimensions, measurements and areas are approximations.

Our engagement and the agreed procedures to value the properties did not include an independent land survey to verify the legal boundaries of the properties. We need to state that we are not in the land survey profession, therefore, we are not in the position to verify or ascertain the correctness of the legal boundaries of such properties that appeared on the documents handed to us. No responsibility from our part is assumed. The Instructing Party or interested party in the properties should conduct their own legal boundaries due diligence work.

We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction of the properties, or has since been incorporated, and we are therefore unable to report that the properties are free from risk in this respect, and therefore we have not considered such factors in our valuations.

We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the properties and which may draw attention to any contamination or the possibility of any such contamination. In undertaking our work, we have assumed that no contaminative or potentially contaminative uses have ever been carried out in the properties. We have not carried out any investigation into past or present uses, either of the properties or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the properties from these uses or sites, and have therefore assumed that none exists. However, should it be established subsequently that contamination, seepage or pollution exists at the properties or on any neighbouring land, or that the premises have been or are being put to a contaminative use, this might reduce the values now reported or affect our findings.

If the Instructing Party or other interested party is proposing to purchase the properties and wants to satisfy themselves as to its condition, then they should obtain a surveyor's detailed inspection and report of their own before deciding whether or not to enter into an agreement for sale and purchase.

SOURCES OF INFORMATION AND ITS VERIFICATION

In the course of our work, we have been provided with copies of the documents regarding the properties, and these copies have been referenced without further verifying with the relevant bodies and/or authorities. Our procedures did not require us to conduct any searches or to inspect the original documents to verify ownership or to verify any amendment which may not appear on the copies handed to us. We need to state that we are not legal professionals, therefore, we are not in the position to advise and comment on the legality and effectiveness of the documents provided by the Instructing Party and the appointed personnel of the Company.

We have relied solely on the information provided by the Instructing Party and the appointed personnel of the Company without further verification and have fully accepted advice given to us on such matters as planning approvals or statutory notices, locations, titles, easements, tenure, occupation, lettings, rentals, site and floor areas and all other relevant matters.

Our valuations have been made only based on the advice and information made available to us. While a limited scope of general inquiries had been made to the local real property market practitioners, we are not in a position to verify and ascertain the correctness of the advice given by the relevant personnel. No responsibility or liability is assumed.

Information furnished by others, upon which all or portions of our report are based, is believed to be reliable but has not been verified in all cases. Our procedures to work do not constitute an audit, review, or compilation of the information provided. Thus, no warranty is made nor liability assumed for the accuracy of any data, advice, opinions, or estimates identified as being furnished by others which have been used in formulating our work product.

When we adopted the work products from other professions, external data providers and the Instructing Party and the appointed personnel of the Company in our works, the assumptions and caveats that adopted by them in arriving at their figures also applied to this report. The procedures we have taken do not provide all the evidence that would be required in an audit and, as we have not performed an audit, accordingly, we do not express an audit opinion.

The scope of valuation has been determined by reference to the property list provided by the Instructing Party. All properties on the list have been included in our report. The Instructing Party has confirmed to us that the Group has no property interests other than those specified on the list supplied to us and included in this report.

We are unable to accept any responsibility for the information that has not been supplied to us by the Instructing Party and the appointed personnel of the Company. Also, we have sought and received confirmation from the Instructing Party that no material factors have been omitted from the information supplied. Our analysis and valuation are based upon full disclosure between us and the Instructing Party of material and latent facts that may affect the works.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Instructing Party or the appointed personnel of the Company. We consider that we have been provided with sufficient information to reach an informed view, and have had no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts are in Renminbi Yuan ("**RMB**").

LIMITING CONDITIONS IN THIS SUMMARY REPORT

Our findings or conclusion of values of the properties in this summary report is valid only for the stated purpose and only for the Valuation Date, and for the sole use of the Instructing Party. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this summary report, and we accept no responsibility whatsoever to any other person.

Our valuations have been made on the assumption that no unauthorised alteration, extension or addition has been made in the properties, and that the inspections and the use of this report do not purport to be a building survey of the properties. We have assumed that the properties are free of rot and inherent danger or unsuitable materials and techniques.

Neither the whole nor any part of this summary report or any reference made hereto may be included in any published documents, prospectus or statement, or published in any way, without our written approval of the form and context in which it may appear. Nonetheless, we consent to the publication of this summary report in this circular to the Company's shareholders' reference.

The Company and the Instructing Party are required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our work product except to the extent that any such loses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

STATEMENTS

This summary report is prepared in line with the requirements contained in Chapter 5 and Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as well as the reporting guidelines contained in the IVS and the HKIS Standards. The valuation has been undertaken by qualified valuer, acting as external valuer, for the purpose of this valuation.

We retain a copy of this summary report and the detailed valuation report together with the data and documents provided by the Instructing Party for the purpose of this valuation, and these data and documents will, according to the Laws of Hong Kong, be kept for a period of 6 years from the date of this report and to be destroyed thereafter. We considered these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the Instructing Party's authorisation and prior arrangement made with us in writing. Moreover, we will add the Company information into our client list for our future reference.

The analysis or valuations of the properties depend solely on the assumptions made in this report and not all of which can be easily quantified or ascertained exactly. Should some or all of the assumptions prove to be inaccurate after the Latest Practicable Date of this circular, it will affect the reported findings or conclusion of value significantly. Should there be any material change, we will inform the Instructing Party and advise them to make relevant announcement to the Company's shareholders and we will amend this report and its conclusion afterwards.

We hereby certify that the fee for this service is not contingent upon our conclusion and we have no significant interest in the properties, the JV Company, the Group or the values reported.

Our valuations are summarised below and the valuation certificate is attached.

Yours faithfully,
For and on behalf of
LCH (Asia-Pacific) Surveyors Limited

Elsa Ng Hung Mui *B.Sc. M.Sc. RPS(GP)*
Executive Director

Contributing valuer:
Ivan Mak Kin Hong *B.Sc.*

Notes:

1. Sr Elsa Ng Hung Mui has been conducting valuation of real properties in Hong Kong, Macau and mainland China since 1994. She is a Fellow Member of The HKIS and a valuer on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuation in Connection with Takeovers and Mergers published by The HKIS.

2. Mr. Ivan Mak Kin Hong is a graduate surveyor (graduated from bachelor degree in surveying) and probationer of The HKIS. He has been involved in valuation of real properties both in Hong Kong and mainland China for around 3 years. He has been involved in conducting real properties valuations for publicly listed companies for various purposes including merger and acquisition, initial public offering, financing and accounts reporting purposes.

SUMMARY OF VALUES

Group I — Property held by the Group with long-term title certificates for investment in the PRC and valued on the market value basis

	Property	Market value in its existing state as at 31 March 2016 *RMB*	Interest attributable to the Group	Market value in its existing state attributable to the Group as at 31 March 2016 *RMB*
1.	The whole of Guangxi Wharton International Hotel located at Lot No. 0411224 No. 88 Minzu Avenue Nanning City Guangxi Zhuang Autonomous Region The People's Republic of China 530022	251,000,000	100 per cent.	251,000,000
2.	9 various residential units located in Ruishi Garden No. 10 Daxue West Road Nanning City Guangxi Zhuang Autonomous Region The People's Republic of China 530022	3,100,000	100 per cent.	3,100,000
			Sub-total:	**RMB254,100,000**

Group II — Property held by the JV Company and indirectly held by the Group with long-term title certificates for investment in the PRC and valued on the market value basis

	Property	Market value in its existing state as at 31 March 2016	Interest attributable to the Group	Market value in its existing state attributable to the Group as at 31 March 2016
		RMB		*RMB*
3.	The whole of Silver Beach 1 International Conference Centre Hotel located at Lot No. 8-6-194 No. 333 Yunnan Road Yintan West District Beihai City Guangxi Zhuang Autonomous Region The People's Republic of China 536000	243,300,000	26.7 per cent.	65,000,000
			Sub-total:	**RMB65,000,000**

Group III — Property held by the JV Company and indirectly held by the Group for future development and with long-term title certificates in the PRC and valued on the market value basis

	Property	Market value in its existing state as at 31 March 2016 *RMB*	Interest attributable to the Group	Market value in its existing state attributable to the Group as at 31 March 2016 *RMB*
4.	Two parcels of land known as Lot Nos. 8-6-210 and 8-6-194 located at Yintan West District Beihai City Guangxi Zhuang Autonomous Region The People's Republic of China 536000	79,800,000	26.7 per cent.	21,300,000
			Sub-total:	**RMB21,300,000**

Group IV — Property occupied by the Group under long-term title certificates in the PRC and valued on market value basis

	Property	Market value in its existing state as at 31 March 2016 *RMB*	Interest attributable to the Group	Market value in its existing state attributable to the Group as at 31 March 2016 *RMB*
5.	10 various residential units located in Minghu Garden No. 1–4 Binhu Road Nanning City Guangxi Zhuang Autonomous Region The People's Republic of China 530022	5,200,000	100 per cent.	5,200,000
			Sub-total:	**RMB5,200,000**
			Grand Total:	***RMB345,600,000**

***RENMINBI THREE HUNDRED FORTY FIVE MILLION AND SIX HUNDRED THOUSAND YUAN ONLY**

VALUATION CERTIFICATE

Group I — Property held by the Group with long-term title certificates for investment in the PRC and valued on the market value basis

	Property	Description and tenure	Particulars of occupancy	Amount of valuations in its existing state attributable to the Group as at 31 March 2016 *RMB*
1.	The whole of Guangxi Wharton International Hotel located at Lot No. 0411224 No. 88 Minzu Avenue Nanning City Guangxi Zhuang Autonomous Region The People's Republic of China 530022	The property comprises the whole of a 23-storey with a basement hotel building with various ancillary buildings and minor structures erected on a parcel of land having a site area of approximately 41,426.70 sq.m. The property has a total gross floor area of approximately 46,409.36 sq.m. It was completed in around 1997. *(See Note 2 below)* The property is located at the urban area of Nanning City. The property is subject to a right to use the land for a term of 40 years till 29 May 2043 for beverage and hotel industry purposes. *(See Note 1 below)*	As inspected and confirmed with the Instructing Party and the appointed personnel of the Company, the property was traded and operated under the trading name of Guangxi Wharton International Hotel as at the Valuation Date.	251,000,000 (100 per cent. interest to the Group)

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate known as Nan Ning Guo Yong (2005) Di 429198 Hao (南寧國用(2005)第429198號) dated 28 February 2005 and issued by the Nanning Municipal Bureau of Land and Resources (南寧市國土資源局), 廣西沃頓國際大酒店有限公司 (translated as Guangxi Wharton International Hotel Limited and hereinafter referred to as "**Guangxi Wharton**"), a wholly owned subsidiary of the Company, has the right to use the land having a site area of 41,426.70 sq.m. for a term of 40 years till 29 May 2043 for beverage and hotel industry purposes.

2. Pursuant to a Building Ownership Certificate known as Yong Fang Quan Zheng Zi Di 01483395 Hao (邕房權證字第01483395號) dated 25 March 2005 and issued by the Nanning Real Estate Management Bureau (南寧市房產管理局), the legally interested party in the building erected on the land as mentioned in Note 1 having a total gross floor area of approximately 46,409.36 sq.m. is Guangxi Wharton.

3. Details of the room configuration are summarised as follow:

Room Type	Size (sq m)	Number of Rooms (Typical Floors)
Standard Room		268
Superior Room		71
Deluxe Suite		6
President Suite		1
Total		346

4. Details of the facilities and amenities are summarised as follow:

Food and Beverage	Floor	Style	Total Seating Area (sq m)	Maximum Seating Capacity
China Hall	Level 1	Chinese	398	148
Western Restaurant	Level 2	Western	400	150

Function and Banquet Facilities	Floor	Style	Total Seating Area (sq m)	Maximum Seating Capacity
Hong Kong Hall	Level 1	Chinese	551	312
Sydney Hall	Level 1	Chinese	1,069	780
Athens Hall	Level 1	Chinese	248	168
Nanhu Banquet Hall	Level 2	Chinese	1,170	720
Moscow Hall	Level 3	Chinese	252	130
New York Hall	Level 3	Chinese	150	80
Rome Hall	Level 3	Chinese	80	40
Paris Hall	Level 3	Chinese	96	36
London Hall	Level 3	Chinese	72	20
Tokyo Hall	Level 3	Chinese	120	80
Nanning Hall	Level 3	Chinese	480	156
Beijing Hall	Level 3	Chinese	588	350
Singapore Hall	Level 3	Chinese	55	20

Other Amenities	Floor	Total Area (sq m)
Swimming Pool	Level 1	1,800
Tennis Court	Level 1	N/A
Gymnasium	Level 1	N/A
International Club	Level 1	N/A

5. Pursuant to the Enterprise Legal Person Business Licence (企業法人營業執照) dated 8 July 2010, Guangxi Wharton is a limited liability company registered in the PRC for an operational period commencing from 2 September 1992 to 2 September 2022.

6. Our key assumptions used in the DCF valuation are summarised as follows:

(i)	Average daily room rate ("**ADR**")	:	2016/2017 — RMB542
(ii)	Annual growth rate of ADR	:	2016/2018 — 2%
			2018/2019 and onwards — Stabilised at 3%
(iii)	Occupancy rate on available room basis	:	Stabilised at about 56%
(iv)	Room revenue percentage	:	31% of gross revenue
(v)	Food and beverage percentage	:	62% of gross revenue
(vi)	Discount rate	:	10%

7. We noted that, according to the land boundary plan as attached to the State-owned Land Use Rights Certificate, portion of the swimming pool of the hotel and a workshop and a changing room in the tennis court were erected outside the land boundary of the site. We also noted that a 3-storey staff quarters, a physical fitness room, a small oil depot room and a car-washing shelter are all erected within the land boundary of the site but are not covered by the above-mentioned Building Ownership Certificate. In our valuation, we have assumed that the continued use and operation of the hotel will not be affected by these findings. Should these not be the case, our valuation will be affected. As advised by the Company, the Company has not received any indication or notification from the relevant authorities in respect of the non-compliance, and the Company will cease to have any interests in any member of the Divestment Group after completion of the Divestment, the Company does not consider the above non-compliance and the related potential legal consequence will have any material adverse impact affecting the Company after completion of the Divestment.

8. As advised by the Company, the area of unauthorized occupation of the state owned land in Note 7 above is approximately 1,500 sq.m. and hence a maximum penalty of RMB45,000 could be charged by the relevant government authorities.

9. According to the maximum mortgage agreements made between Guangxi Wharton and Bank of China Limited Guangxi Zhuang Autonomous Region Branch dated 8 January 2009 and 16 February 2009 respectively, the property is subject to a mortgage with a maximum consideration of RMB320,000,000.

10. According to the legal opinions as prepared by the Company's PRC legal advisor, Haiwen & Partners (北京市海問律師事務所) dated 29 June 2016, the following opinions are noted:

    (i) the swimming pool, the workshop and the changing room in the tennis court stated in Note 7 above are exposed to the risk of being forced to be demolished and restored by the relevant government authorities and the offender may be subject to a maximum penalty of RMB30 per sq.m. and administrative sanction;

    (ii) subject to (i) above, Guangxi Wharton is the legally interested party in the property and has the right to occupy, to use, to transfer and to lease the property; and

    (iii) the property is subject to a mortgage in favour of the Bank of China Guangxi Zhuang Autonomous Region Branch.

	Property	Description and tenure	Particulars of occupancy	Amount of valuations in its existing state attributable to the Group as at 31 March 2016 *RMB*
2.	9 various residential units located in Ruishi Garden No. 10 Daxue West Road Nanning City Guangxi Zhuang Autonomous Region The People's Republic of China 530022	The property comprises 9 various residential units in Ruishi Garden which is a medium scale residential development located at Daxue Road just opposite to the Nanning City Zoo in Xixiangtang District. The property is located at the urban area of Nanning City. The property has a total gross floor area of approximately 793.58 sq. m. It was completed in around 1995. *(See Note 1 below)*	As inspected and confirmed with the Instructing Party and the appointed personnel of the Company, portion of the property was subject to tenancies and the total monthly rental was approximately RMB6,300 as at the Valuation Date.	3,100,000 (100 per cent. interest to the Group)

Notes:

1. Pursuant to 9 various Building Ownership Certificates issued by Nanning Real Estate Management Bureau (南寧市房產管理局), the legally interested party in 9 various major buildings having a total gross floor area of approximately 793.58 sq.m. is 廣西沃頓國際大酒店有限公司 (translated as Guangxi Wharton International Hotel Limited and hereinafter referred to as "**Guangxi Wharton**"), a wholly owned subsidiary of the Company. They are listed as follows:

Building Ownership Certificates	Court	Tower	Block	Unit	Issue Date	Gross Floor Area *(sq.m.)*
邕房權證字第01483379	Bihu	1	C	304	25/3/2005	78.31
邕房權證字第01483376	Bihu	1	C	303	25/3/2005	70.25
邕房權證字第01483384	Bihu	1	C	302	25/3/2005	70.25
邕房權證字第01483373	Bihu	1	C	301	25/3/2005	78.32
邕房權證字第01483388	Cuihu	6	B	602	25/3/2005	99.29
邕房權證字第01483370	Cuihu	6	B	601	25/3/2005	99.29
邕房權證字第01483391	Cuihu	6	B	502	25/3/2005	99.29
邕房權證字第01483382	Cuihu	6	B	501	25/3/2005	99.29
邕房權證字第01483387	Cuihu	6	A	601	25/3/2005	99.29
					Total:	793.58

2. Pursuant to 7 various tenancy agreements made between Guangxi Wharton and various independent third parties, portion of the property was leased with a total monthly rental of about RMB6,300 with the latest term till 14 September 2016 for residential purpose.

3. Pursuant to the Enterprise Legal Person Business Licence (企業法人營業執照) dated 8 July 2010, Guangxi Wharton is a limited liability company registered in the PRC for an operational period commencing from 2 September 1992 to 2 September 2022.

4. In our valuation, the adjusted market price ranged from RMB3,871 to RMB4,223 per square meter on gross floor area basis and yield ranged from 3% to 4% were adopted.

5. According to the maximum mortgage agreements made between Guangxi Wharton and Bank of China Limited Guangxi Zhuang Autonomous Region Branch dated 8 January 2009 and 16 February 2009 respectively, the property is subject to a mortgage with a maximum amount of RMB320,000,000.

6. According to the legal opinions as prepared by the Company's PRC legal advisor, Haiwen & Partners (北京市海問律師事務所) dated 29 June 2016, the following opinions are noted:

   (i) Guangxi Wharton is the legally interested party in the property and has the right to occupy, to use, to transfer and to lease the property; and

   (ii) the property is subject to a mortgage in favour of the Bank of China Guangxi Zhuang Autonomous Region Branch.

Group II — Property held by the JV Company and indirectly held by the Group with long-term title certificates for investment in the PRC and valued on the market value basis

	Property	Description and tenure	Particulars of occupancy	Amount of valuations in its existing state attributable to the Group as at 31 March 2016 *RMB*
3.	The whole of Silver Beach 1 International Conference Centre Hotel located at Lot No. 8-6-194 No. 333 Yunnan Road Yintan West District Beihai City Guangxi Zhuang Autonomous Region The People's Republic of China 536000	The property comprises the whole of a 5-storey with a basement hotel building erected on a parcel of land having a site area of approximately 60,895.40 sq.m. The property has a gross floor area of approximately 48,759.94 sq.m. It was completed in around 2013. The property is located at the rural area near to the beach in Beihai City. The property is subject to a right to use the land for a term till 22 December 2039 for accommodation and beverage purposes. *(See Note 1)*	As inspected and confirmed with the Instructing Party and the appointed personnel of the Company, the property was traded and operated under the trading name of Silver Beach 1 International Conference Centre Hotel as at the Valuation Date.	65,000,000 (represents 26.7 per cent. interest to the Group)

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate known as Bei Guo Yong (2013) Di B45862 Hao (北國用 (2013) 第B45862號) dated 17 June 2013 and issued by Bureau of Land and Resources of Beihai City (北海市國土資源局), 北海海興房地產開發有限公司 (translated as Beihai Haixing Real Estate Development Limited and hereinafter referred to "**Beihai Haixing**") has the right to use the land having a site area of 60,895.40 sq.m. for a term till 22 December 2039 for accommodation and beverage purposes. The consideration has been fully paid.

2. Pursuant to a Building Ownership Certificate known as Bei Fang Quan Zheng (2014) Zi Di 014875 Hao (北房權証(2014)字第014875號) dated 15 March 2014 and issued by Beihai City Bureau of Housing and Urban and Rural Development (北海市住房和城鄉建設局), the legally interested party in the building erected on the land as mentioned in Note 1 having a gross floor area of approximately 48,759.94 sq.m. is Beihai Haixing.

3. Details of the room configuration are summarised as follow:

Room Type	Size (sq m)	Number of Rooms (Typical Floors)
Standard Room		66
Superior Room		20
Suite		106
Total		192

4. Details of the facilities and amenities are summarised as follow:

Food and Beverage	Floor	Style	Total Seating Area (sq m)	Maximum Seating Capacity
China Hall	Level 1	Chinese	490	280
America Hall	Level 1	Western	470	260

Function and Banquet Facilities	Floor	Style	Total Seating Area (sq m)	Maximum Seating Capacity
Northeast Hall	Level 2	Chinese	171	100
East Lake Hall	Level 2	Chinese	118	60
East Mountain Hall 1	Level 2	Chinese	153	45
East Mountain Hall 2	Level 2	Chinese	230	280
East River Hall	Level 2	Chinese	108	60
East Sea Hall	Level 2	Chinese	620	400
Southeast Hall	Level 2	Chinese	412	200
Northwest Hall	Level 2	Chinese	171	100
West Lake Hall	Level 2	Chinese	118	60
West Mountain Hall	Level 2	Chinese	383	400
West Sea Hall	Level 2	Chinese	620	280
Southwest Hall	Level 2	Chinese	412	200
West River Hall	Level 2	Chinese	108	60

Other Amenities	Floor	Total Area (sq m)
Table tennis room	Level 1	N/A

5. Pursuant to a copy of the Enterprise Legal Person Business Licence (企業法人營業執照) dated 3 December 2012, Beihai Haixing is a limited liability company registered in the PRC for an operational period commencing from 29 April 2006 to 29 April 2016.

6 According to the joint venture agreement provided by the Company, Beihai Haixing was wholly owned by 廣西普凱興業酒店投資有限公司 (translated as Guangxi Pukai Xingye Hotel Investment Limited and hereinafter referred as "**JV Company**") and 廣西沃頓國際大酒店有限公司 (translated as Guangxi Wharton International Hotel Limited and hereinafter referred to as "**Guangxi Wharton**"), a wholly owned subsidiary of the Company, and 北京普凱世杰投資諮詢有限公司 (translated as Beijing Pukai Shijie Investment Consultancy Company) (the "**JV Partner**") invested in the equity capital of the JV Company in accordance with the proportion of approximately 26.7% and 73.3%, respectively. Besides, the profit, assets and dividend declared (if any) of JV Company shall be distributed or shared between Guangxi Wharton and the JV Partner in accordance with their respective proportion of equity capital invested in JV Company pursuant to the joint venture agreement.

7. According to the shares transfer agreement dated 25 February 2012 and made between 北京車天下資訊有限公司 (translated as Beijing Che Tian Xia Information Company Limited) and the JV Company, 100% shares of Beihai Haixing were transferred to the JV company with a consideration of RMB1. The total cost spent in the property is approximately RMB347,120,000.

8. According to the legal opinions as prepared by the Company's PRC legal advisor, Haiwen & Partners (北京市海問律師事務所) dated 29 June 2016, the following opinions are noted:

(i) Beihai Haixing is the legally interested party in the property and has the right to occupy, to use, to transfer, to lease and to mortgage the property; and

(ii) the property is not subject to any mortgage, sealing up or other form of restrictions.

Group III — Property held by the JV Company and indirectly held by the Group for future development and with long-term title certificates in the PRC and valued on the market value basis

	Property	Description and tenure	Particulars of occupancy	Amount of valuations in its existing state attributable to the Group as at 31 March 2016 *RMB*
4.	Two parcels of land known as Lot Nos. 8-6-210 and 8-6-194 located at Yintan West District Beihai City Guangxi Zhuang Autonomous Region The People's Republic of China 536000	The property comprises two parcels of land having a total site area of approximately 29,790.30 sq.m. The two parcels of land are not adjoining to each other. The property is located next to the Silver Beach 1 International Conference Centre Hotel. The property is subject to a right to use the lands for various terms with the latest term till 22 December 2069 for various usages. *(See Note 1)*	As inspected and confirmed with the Instructing Party and the appointed personnel of the Company, the property was vacant as at the Valuation Date.	21,300,000 (represents 26.7 per cent. interest to the Group)

Notes:

1. The right to possess the land is held by the State and the right to use the land has been granted by the State to北海海興房地產開發有限公司 (translated as Beihai Haixing Real Estate Development Limited and hereinafter referred to "**Beihai Haixing**") via the following ways and the consideration has been fully paid:

   (i) A parcel of land having a site area of approximately 28,864.70 sq.m.

   Pursuant to a State-owned Land Use Rights Certificate known as Bei Guo Yong (2012) Di B39674 Hao (北國用(2012)第B39674號) dated 18 October 2012 and issued by Bureau of Land and Resources of Beihai City (北海市國土資源局), Beihai Haixing has the right to use the land having a site area of 28,864.70 sq.m. for a various term till:

   — 22 December 2039 for wholesale and retail usages; and

   — 22 December 2069 for residential usage

   (ii) A parcel of land having a site area of approximately 925.60 sq.m.

   Pursuant to a State-owned Land Use Rights Certificate known as Bei Guo Yong (2013) Di B46763 Hao (北國用(2013)第B46763號) dated 1 July 2013 and issued by Bureau of Land and Resources of Beihai City (北海市國土資源局), Beihai Haixing has the right to use the land having a site area of 925.60 sq.m. for a term till 22 December 2039 for accommodation and beverage usages.

2. Pursuant to a Planning Permit for Using Construction Usage Land (建設用地規劃許可證) Di Zi Di 450501201400054 Hao (地字第450501201400054號) dated 31 March 2014 and issued by Beihai City Planning Bureau (北海市規劃局), Beihai Haixing is permitted to develop usage lands with a site area of approximately 28,864.70 sq.m. for commercial and residential usages.

3. Pursuant to the Land Use Rights Certificate mentioned in Note 1(i) and the attachment of the Planning Permit for Using Construction Usage Land (建設用地規劃許可證) issued by Beihai City Planning Bureau (北海市規劃局), the land as mentioned in Note 1(i) is subject to the following development covenants:

Plot ratio:	≦3.5 (on total site area including road)
Site Coverage:	≦22.6%
Building height restriction:	- - -
Greenery area:	≧30%
Other development parameters:	according to the planning requirements

4. Pursuant to a copy of the Enterprise Legal Person Business Licence (企業法人營業執照) dated 3 December 2012, Beihai Haixing is a limited liability company registered in the PRC for an operational period commencing from 29 April 2006 to 29 April 2016.

5. According to the joint venture agreement provided by the Company, Beihai Haixing was wholly owned by 廣西普凱興業酒店投資有限公司 (translated as Guangxi Pukai Xingye Hotel Investment Limited and hereinafter referred as "**JV Company**") and 廣西沃頓國際大酒店有限公司 (translated as Guangxi Wharton International Hotel Limited and hereinafter referred to as "**Guangxi Wharton**"), a wholly owned subsidiary of the Company, and 北京普凱世杰投資諮詢有限公司 (translated as Beijing Pukai Shijie Investment Consultancy Company) (the "**JV Partner**") invested in the equity capital of the JV Company in accordance with the proportion of approximately 26.7% and 73.3%, respectively. Besides, the profit, assets and dividend declared (if any) of JV Company shall be distributed or shared between Guangxi Wharton and the JV Partner in accordance with their respective proportion of equity capital invested in JV Company pursuant to the joint venture agreement.

6. In our valuation, market price ranged from RMB1,010 to RMB1,050 per square meter on gross floor area basis were adopted.

7. According to the shares transfer agreement dated 25 February 2012 and made between 北京車天下資訊有限公司 (translated as Beijing Che Tian Xia Information Company Limited) and the JV Company, 100% shares of Beihai Haixing were transferred to the JV company with a consideration of RMB1. No cost was spent in the property.

8. According to the legal opinions as prepared by the Company's PRC legal advisor, Haiwen & Partners (北京市海問律師事務所) dated 29 June 2016, the following opinions are noted:

   (i) the property is exposed to a resumption risk by relevant government authorities;

   (ii) subject to (i) above, Beihai Haixing is the legally interested party in the property and has the right to occupy, to use, to transfer, to lease and to mortgage the property; and

   (iii) the property is not subject to any mortgage, sealing up or other form of restrictions.

Group IV — Property occupied by the Group under long-term title certificates in the PRC and valued on market value basis

	Property	Description and tenure	Particulars of occupancy	Amount of valuations in its existing state attributable to the Group as at 31 March 2016 *RMB*
5.	10 various residential units located in Minghu Garden No. 1–4 Binhu Road Nanning City Guangxi Zhuang Autonomous Region The People's Republic of China 530022	The property comprises 10 various residential units in Minghu Garden which is a small scale residential development located at the junction of Shuangyong Road Qingshan Road in Qingxiu District. The property is located at the urban area of Nanning City. The property has a total gross floor area of approximately 837.23 sq. m. It was completed in around 1995. *(See Note 1 below)*	As inspected and confirmed with the Instructing Party and the appointed personnel of the Company, the property was occupied by the Group as staff quarters as at the Valuation Date.	5,200,000 (100 per cent. interest to the Group)

Notes:

1. Pursuant to 10 various Building Ownership Certificates issued by Nanning Real Estate Management Bureau (南寧市房產管理局), the legally interested party in 10 various major buildings having a total gross floor area of approximately 837.23 sq.m. is 廣西沃頓國際大酒店有限公司 (translated as Guangxi Wharton International Hotel Limited and hereinafter referred to as "**Guangxi Wharton**"), a wholly owned subsidiary of the Company. They are listed as follows:

Building Ownership Certificates	Tower	Block	Unit	Issue Date	Gross Floor Area *(sq.m.)*
邕房權證字第01483393	A	2	321	25/3/2005	82.56
邕房權證字第01483390	A	2	324	25/3/2005	82.66
邕房權證字第01483394	A	2	524	25/3/2005	82.66
邕房權證字第01483401	A	2	723	25/3/2005	86.27
邕房權證字第01483367	A	2	724	25/3/2005	82.66
邕房權證字第01483397	A	2	424	25/3/2005	82.66
邕房權證字第01483398	A	2	224	25/3/2005	82.66
邕房權證字第01483365	A	2	223	25/3/2005	86.27
邕房權證字第01483374	A	2	423	25/3/2005	86.27
邕房權證字第01483377	A	2	421	25/3/2005	82.56
				Total:	837.23

2. Pursuant to the Enterprise Legal Person Business Licence (企業法人營業執照) dated 8 July 2010, Guangxi Wharton is a limited liability company registered in the PRC for an operational period commencing from 2 September 1992 to 2 September 2022.

3. According to the maximum mortgage agreements made between Guangxi Wharton and Bank of China Limited Guangxi Zhuang Autonomous Region Branch dated 8 January 2009 and 16 February 2009 respectively, the property is subject to a mortgage with a maximum consideration of RMB320,000,000.

4. According to the legal opinions as prepared by the Company's PRC legal advisor, Haiwen & Partners (北京市海問律師事務所) dated 29 June 2016, the following opinions are noted:

   (i) Guangxi Wharton is the legally interested party in the property and has the right to occupy, to use, to transfer and to lease the property; and

   (ii) the property is subject to a mortgage in favour of the Bank of China Guangxi Zhuang Autonomous Region Branch.

Set out below is a summary of certain provisions of the memorandum of association (the "**Memorandum of Association**") and the proposed new bye-laws (the "**Bye-laws**") of the Company and of certain aspects of Bermuda company law.

1. MEMORANDUM OF ASSOCIATION

The Memorandum of Association states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the Company is an exempted company as defined in the Companies Act. The Memorandum of Association also sets out the objects for which the Company was formed including to act and perform all functions of a holding company. As an exempted company, the Company will be carrying on business outside Bermuda from a place of business within Bermuda.

In accordance with and subject to section 42A of the Companies Act, the Memorandum of Association empowers the Company to purchase its own shares and pursuant to its Bye-laws, this power is exercisable by the board of Directors (the "**board**") upon such terms and subject to such conditions as it thinks fit.

2. BYE-LAWS

The following is a summary of certain provisions of the Bye-laws:

(a) Shares

The share capital of the Company at the date on which the Bye-laws come into effect shall be HK$130,000,000 divided into 8,000,000,000 ordinary shares of a par value of HK$0.01 each ("**Ordinary Shares**") and 5,000,000,000 restricted voting non-redeemable convertible shares of a par value of HK$0.01 each (the "**Preferred Shares**").

(b) Directors

(i) Power to allot and issue shares and warrants

Subject to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Act, any preference shares may be issued or converted into shares that are liable to be redeemed, at a determinable date or at the option of the Company or, if so authorised by the Memorandum of Association, at the option of the holder, on such terms and in such manner as the Company before the issue or conversion may by ordinary resolution determine. The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Act, the Bye-laws, any direction that may be given by the Company in general meeting and, where applicable, the rules of any Designated Stock Exchange (as defined in the Bye-laws) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Bye-laws relating to the disposal of the assets of the Company or any of its subsidiaries.

Note: The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Bye-laws or the Companies Act to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are no provisions in the Bye-laws relating to the making of loans to Directors. However, the Companies Act contains restrictions on companies making loans or providing security for loans to their directors, the relevant provisions of which are summarised in the sub-section headed “4. Bermuda Company Law” in this Appendix.

(v) Financial assistance to purchase shares of the Company

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Bye-laws) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(vi) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of auditor of the Company) in conjunction with his office of Director for such period and, subject to the Companies Act, upon such terms as the board may determine, and may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Bye-laws. A Director may be or become a director or other officer of, or a member of, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Bye-laws, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Act and to the Bye-laws, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates (as defined in the Bye-laws) is materially interested but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or

(ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vii) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such remuneration (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Bye-law. A Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependants or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependants are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(viii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Note: There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or, subject to authorisation by the members in general meeting, as an addition to the existing board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. Any Director appointed by the board to fill a casual vacancy shall hold office until the first general meeting of Members after his appointment and be subject to re-election at such meeting and any Director appointed by the board as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director fourteen (14) days before the meeting and, at such meeting, such Director shall be entitled to be heard on the motion for his removal. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors unless otherwise determined from time to time by members of the Company.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the board may determine and the board may revoke or terminate any of such appointments (but without prejudice to any claim for damages that such Director may have against the Company or vice versa). The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ix) Borrowing powers

The board may from time to time at its discretion exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Bye-laws in general, can be varied with the sanction of a special resolution of the Company.

(c) Alterations to constitutional documents

The Bye-laws may be rescinded, altered or amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association, to confirm any such rescission, alteration or amendment to the Bye-laws or to change the name of the Company.

(d) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Act:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association;

(v) change the currency denomination of its share capital;

(vi) make provision for the issue and allotment of shares which do not carry any voting rights; and

(vii) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may, by special resolution, subject to any confirmation or consent required by law, reduce its authorised or issued share capital or, save for the use of share premium as expressly permitted by the Companies Act, any share premium account or other undistributable reserve.

(e) Variation of rights of existing shares or classes of shares

Subject to the Companies Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Bye-laws relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons or (in the case of a member being a corporation) its duly authorised representative holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or (in the case of a member being a corporation) its duly authorised representative or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

(f) Special resolution-majority required

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Bye-laws (see paragraph 2(i) below for further details).

(g) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Bye-laws, at any general meeting on a poll every member present in person or by proxy or (being a corporation) by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share.

A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares held by that clearing house (or its nominee(s)) in respect of the number and class of shares specified in the relevant authorisation including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Bye-laws), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(h) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year other than the year in which its statutory meeting is convened at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Bye-laws)) and place as may be determined by the board.

(i) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the provisions of the Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or, subject to the Companies Act, at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right of inspecting any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

Subject to the Companies Act, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the auditors' report, shall be sent to each person entitled thereto at least twenty-one (21) days before the date of the general meeting and at the same time as the notice of annual general meeting and laid before the Company at the annual general meeting in accordance with the requirements of the Companies Act provided that this provision shall not require a copy of those documents to be sent to any person whose address the Company is not aware or to more than one of the joint holders of any shares or debentures; however, to the extent permitted by and subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Bye-laws), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Subject to the Companies Act, at the annual general meeting or at a subsequent special general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the members appoint another auditor. Such auditor may be a member but no Director or officer or employee of the Company shall, during his continuance in office, be eligible to act as an auditor of the Company. The remuneration of the auditor shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than Bermuda. If the auditing standards of a country or jurisdiction other than Bermuda are used, the financial statements and the report of the auditor should disclose this fact and name such country and jurisdiction.

(j) Notices of meetings and business to be conducted thereat

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings (including a special general meeting) must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange (as defined in the Bye-laws), it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together representing not less than ninety-five per cent (95%) of the total voting rights at the meeting of all the members.

(k) Transfer of shares

All transfers of shares may be effected in any manner permitted by and in accordance with the rules of the Designated Stock Exchange by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in Bermuda or such other place in Bermuda at which the principal register is kept in accordance with the Companies Act.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Bye-laws) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in an appointed newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Bye-laws), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(l) Power for the Company to purchase its own shares

The Bye-laws supplement the Company's Memorandum of Association (which gives the Company the power to purchase its own shares) by providing that the power is exercisable by the board upon such terms and conditions as it thinks fit.

(m) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Bye-laws relating to ownership of shares in the Company by a subsidiary.

(n) Dividends and other methods of distribution

Subject to the Companies Act, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board. The Company in general meeting may also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Companies Act). No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than its liabilities.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to a member by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

(o) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

(p) Call on shares and forfeiture of shares

Subject to the Bye-laws and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect.

Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(q) Inspection of register of members

The register and branch register of members shall be open to inspection between 10:00 a.m. and 12:00 noon during business hours by members of the public without charge at the registered office or such other place in Bermuda at which the register is kept in accordance with the Companies Act, unless the register is closed in accordance with the Companies Act.

(r) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person or (in the case of a member being a corporation) by its duly authorised representative or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(s) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Bye-laws relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Bermuda law, as summarised in paragraph 4(e) of this Appendix.

(t) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(u) Untraceable members

The Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Bye-laws) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Bye-laws), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Bye-laws) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(v) Other provisions

The Bye-laws provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

The Bye-laws also provide that the Company is required to maintain at its registered office a register of directors and officers in accordance with the provisions of the Companies Act and such register is open to inspection by members of the public without charge between 10:00 a.m. and 12:00 noon during business hours.

(w) Terms of the Preferred Shares

The terms of the Preferred Shares are as set out in Bye-law 9A of the Bye-laws. A summary of certain provisions of the terms of the Preferred Shares is as set out below.

(1) Definitions

For the purpose of this paragraph (w), unless the context otherwise requires, the following words and expressions shall have the following meanings:

"Business Day" means any day (other than a Saturday or Sunday or a bank or public holiday or days on which a tropical cyclone warning Number 8 or above or a "black" rain storm warning signal is hoisted in Hong Kong at any time between 9 am and 5 pm) on which banks generally are open for general banking business in New York, the PRC and Hong Kong.

"Conversion Event" the conversion of Preferred Shares by a Preferred Shareholder (as defined in the Bye-laws) pursuant to Bye-law 9A. (6.1) (Conversion) of the Bye-laws.

"Conversion Notice" means the notice of conversion (in such form as may be required by the Company from time to time).

"Conversion Price" means HK$0.6696, as adjusted in accordance with Bye-law 9A. (7) (Conversion adjustments) of the Bye-laws.

"Conversion Rate" means the rate for conversion of the Preferred Shares into Ordinary Shares as determined in accordance with Bye-law 9A. (6.3) (Conversion) of the Bye-laws.

"Conversion Right" means the right of Preferred Shareholders to convert their Preferred Shares into Ordinary Shares.

"Hong Kong" means Hong Kong Special Administrative Region of the People's Republic of China.

"Listing Rules" means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

"PRC" or "China" means the People's Republic of China excluding Hong Kong, the Special Administrative Region of Macau and Taiwan region.

"Subscription Price" means HK$0.6696 per Preferred Share.

(2) Dividend

None of the Preferred Shares shall confer on the holders thereof the right to receive out of the funds of the Company available for distribution.

(3) Return of Capital

The Preferred Shares shall rank pari passu in all respects for return of capital on liquidation, winding up or dissolution of the Company and participation in the distribution of surplus assets of the Company with all other shares in the capital of the Company for the time being in issue.

(4) Transferability

Any Preferred Share, subject to it having been fully paid up, shall be freely transferable subject to compliance with the Bye-laws and all applicable laws and regulations. For the avoidance of doubt, no partly paid Preferred Shares can be transferred.

(5) Voting

Save as otherwise provided by all applicable laws, the holder(s) of the Preferred Shares shall not be entitled to attend or vote at any general meeting of the Company by reason only of his/her/its being the holder(s) of the Preferred Shares, unless a resolution is to be proposed at a general meeting for winding up the Company or a resolution is to be proposed which if passed would vary or abrogate the rights or privileges of the holder(s) of the Preferred Shares, in which event the Preferred Shares in respect of which the relevant Subscription Price has been fully paid up shall confer on the holder thereof the right to receive notice of, and to attend and vote at, the general meeting, save that such holders may not vote upon any business dealt with at such general meeting except the election of a chairman, any motion for adjournment or relating to the proceedings of the general meeting and the resolution for winding-up or the resolution which if passed would (subject to any consents required for such purpose being obtained) vary or abrogate the rights and privileges of the holder(s) of the Preferred Shares. In such event, the votes of holders of Preferred Shares shall be counted on an as converted basis provided that only such Preferred Shares that have been fully paid up shall be so counted.

(6) Conversion

(6.1) Subject to Bye-law 9A. (6.8) of the Bye-laws and subject further to payment in full of the Subscription Price of the relevant Preferred Shares, a Preferred Shareholder may, by serving the Conversion Notice to the Company on any Business Day without the payment of any additional consideration therefor, elect to convert up to the total number of Preferred Shares held by such Preferred Shareholder in respect of which the relevant Subscription Price has been fully paid by such Preferred Shareholder, each as of the date of the Conversion Notice into such number of fully-paid Ordinary Shares as determined in accordance with Bye-law 9A. (6) of the Bye-laws.

(6.2) The number of Ordinary Shares to which a holder of Preferred Shares shall be entitled upon conversion following a Conversion Event shall be the number obtained by multiplying the Conversion Rate then in effect by the number of Preferred Shares being converted.

(6.3) The Conversion Rate of each Preferred Share shall be determined by dividing the Subscription Price by the Conversion Price in effect at the time of conversion, provided that the Conversion Price shall not be less than the then subsisting par value of an Ordinary Share into which such Preferred Share is convertible. The Conversion Price shall be subject to adjustment in accordance with Bye-law9A. (7) (Conversion adjustments) of the Bye-laws.

(6.4) Upon delivery of the Conversion Notice and certificate(s) evidencing the Preferred Shares to be converted by the holder thereof to the Company, the Company shall promptly and, in any event no later than 10 Business Days after the date of receipt of the Conversion Notice and such certificate(s):

(a) issue and deliver to such holder (a) certificate(s) for the number of Ordinary Shares into which the Preferred Shares are converted in the name as shown on the certificate(s) evidencing the Preferred Shares so surrendered to the Company; or

(b) cause to be credited into the relevant Preferred Shareholder's brokers' account such number of Ordinary Shares into which the Preferred Shares are converted.

(6.5) No fraction of an Ordinary Share shall be issued upon conversion of the Preferred Shares. Fractional entitlement shall be ignored by the holder of the Preferred Shares and any sum paid in respect of such subscription shall be retained by the Company for its own benefit.

(6.6) The Company shall ensure that at all times there is a sufficient number of unissued Ordinary Shares in its authorised share capital to be issued in satisfaction of the conversion rights of Preferred Shares pursuant to Bye-law 9A. (6.1) of the Bye-laws.

(6.7) Upon the issue of the Ordinary Shares into which the Preferred Shares are converted, the Company shall enter such member of the Company in its Register in respect of the relevant number of Ordinary Shares arising from such conversion, and the Preferred Shares which have been converted into Ordinary Shares shall be treated as cancelled.

(6.8) Notwithstanding any provisions in Bye-law 9A of the Bye-laws, conversion shall be subject to the following requirements:

(a) The Company's obligation to effect conversion of fully paid Preferred Shares into Ordinary Shares in respect of which Conversion Notice has been served ("**Outstanding Preferred Shares**"), shall be subject to the Company's compliance with the Listing Rules.

(b) The Company undertakes with the Preferred Shareholders that in the event that the Company is unable to effect conversion of any Outstanding Preferred Shares for the reason of compliance with the Listing Rules, it shall, once headroom for conversion of such Outstanding Preferred Shares is available, effect conversion of such Outstanding Preferred Shares into Ordinary Shares to the maximum extent possible.

(c) In the event the Outstanding Preferred Shares are held by more than one Preferred Shareholders and the headroom for conversion by the Company under Bye-law 9A. (6.8(b)) (Conversion) of the Bye-laws is insufficient to enable all of such Outstanding Preferred Shares be converted in one batch, the Outstanding Preferred Shares held by the relevant Preferred Shareholders shall be converted by the Company on a pro-rata basis.

(d) Conversion of the Preferred Shares shall be effected in such manner as the Directors shall subject to these terms, the Bye-laws and to any other applicable law and regulations, from time to time determine, including, without limitation, by way of repurchase or (where the conversion is to be effected on a one for one basis) by way of re-designation of Preferred Shares into Ordinary Shares without further approval of the shareholders of the Company.

(7) Conversion adjustments

The Conversion Price shall from time to time be adjusted in accordance with Bye-law 9A(7) of the Bye-laws provided always that no adjustment shall be made so that the Conversion Price will fall below the par value of the shares of the Company. Please refer to Bye-law 9A(7) of the Bye-laws for detail of the adjustments.

(8) Redemption

The Preferred Shares shall be non-redeemable.

(9) Listing

The Preferred Shares shall not be listed on any stock exchange.

3. VARIATION OF MEMORANDUM OF ASSOCIATION AND BYE-LAWS

The Memorandum of Association may be altered by the Company in general meeting. The Bye-laws may be amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to confirm any amendment to the Bye-laws or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' and not less than ten clear business days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of twenty-one (21) clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 percent in nominal value of the shares giving that right.

4. BERMUDA COMPANY LAW

The Company is incorporated in Bermuda and, therefore, operates subject to Bermuda law. Set out below is a summary of certain provisions of Bermuda company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Bermuda company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account", to which the provisions of the Companies Act relating to a reduction of share capital of a company shall apply as if the share premium account was paid up share capital of the company except that the share premium account may be applied by the company:

(i) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;

(ii) in writing off:

(aa) the preliminary expenses of the company; or

(bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or

(iii) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

In the case of an exchange of shares the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

The Companies Act permits a company to issue preference shares and subject to the conditions stipulated therein to convert those preference shares into redeemable preference shares.

The Companies Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or bye-laws for authorising the variation of rights attached to any class of shares in the company, the consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required, and where no provision for varying such rights is made in the memorandum of association or bye-laws and nothing therein precludes a variation of such rights, the written consent of the holders of three-fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

(b) Financial assistance to purchase shares of a company or its holding company

There is no longer any statutory restriction in Bermuda on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in accordance with their fiduciary duties to the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(c) Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its memorandum of association or bye-laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of the company otherwise available for dividend or distribution or out of the company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of the company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Any purchase by a company of its own shares may be authorised by its board of directors or otherwise by or in accordance with the provisions of its bye-laws. Such purchase may not be made if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the company is, or after the purchase would be, unable to pay its liabilities as they become due. The shares so purchased may either be cancelled or, if so authorised by its memorandum of association or bye-laws, be held as treasury shares. Any purchased shares that are cancelled will, in effect, revert to the status of authorised but unissued shares. If shares of the company are held as treasury shares, the company is prohibited to exercise any rights in respect of those shares, including any right to attend and vote at meetings, including a meeting under a scheme of arrangement, and any purported exercise of such a right is void. No dividend shall be paid to the company in respect of shares held by the company as treasury shares; and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) shall be made to the company in respect of shares held by the company as treasury shares. Any shares allotted by the company as fully paid bonus shares in respect of shares held by the company as treasury shares shall be treated for the purposes of the Companies Act as if they had been acquired by the company at the time they were allotted.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Bermuda law that a company's memorandum of association or its bye-laws contain a specific provision enabling such purchases.

Under Bermuda law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. A company, whether a subsidiary or a holding company, may only purchase its own shares if it is authorised to do so in its memorandum of association or bye-laws pursuant to section 42A of the Companies Act.

(d) Dividends and distributions

A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the company's assets would thereby be less than its liabilities. Contributed surplus is defined for purposes of section 54 of the Companies Act to include the proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to the company.

(e) Protection of minorities

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association and bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than actually approved it.

Any member of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the members, including himself, may petition the court which may, if it is of the opinion that to wind up the company would unfairly prejudice that part of the members but that otherwise the facts would justify the making of a winding up order on just and equitable grounds, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in future or for the purchase of shares of any members of the company by other members of the company or by the company itself and in the case of a purchase by the company itself, for the reduction accordingly of the company's capital, or otherwise. Bermuda law also provides that the company may be wound up by the Bermuda court, if the court is of the opinion that it is just and equitable to do so. Both these provisions are available to minority shareholders seeking relief from the oppressive conduct of the majority, and the court has wide discretion to make such orders as it thinks fit.

Except as mentioned above, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers of shares in a company against persons, including directors and officers, responsible for the issue of a prospectus in respect of damage suffered by reason of an untrue statement therein, but this confers no right of action against the company itself. In addition, such company, as opposed to its shareholders, may take action against its officers including directors, for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company.

(f) Management

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, the Companies Act requires that every officer should comply with the Companies Act, regulations passed pursuant to the Companies Act and the bye-laws of the company. The directors of a company may, subject to the bye-laws of the company, exercise all the powers of the company except those powers that are required by the Companies Act or the bye-laws to be exercised by the members of the company.

(g) Accounting and auditing requirements

The Companies Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Furthermore, it requires that a company keeps its records of account at the registered office of the company or at such other place as the directors think fit and that such records shall at all times be open to inspection by the directors or the resident representative of the company. If the records of account are kept at some place outside Bermuda, there shall be kept at the office of the company in Bermuda such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each three month period, except that where the company is listed on an appointed stock exchange, there shall be kept such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each six month period.

The Companies Act requires that the directors of the company must, at least once a year, lay before the company in general meeting financial statements for the relevant accounting period. Further, the company's auditor must audit the financial statements so as to enable him to report to the members. Based on the results of his audit, which must be made in accordance with generally accepted auditing standards, the auditor must then make a report to the members. The generally accepted auditing standards may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing standards as may be appointed by the Minister of Finance of Bermuda under the Companies Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor shall identify the generally accepted auditing standards used. All members of the company are entitled to receive a copy of every financial statement prepared in accordance with these requirements, at least five (5) days before the general meeting of the company at which the financial statements are to be tabled. A company the shares of which are listed on an appointed stock exchange may send to its members summarised financial statements instead. The summarised financial statements must be derived from the company's financial statements for the relevant period and contain the information set out in the Companies Act. The summarised financial statements sent to the company's members must be accompanied by an auditor's report on the summarised financial statements and a notice stating how a member may notify the company of his election to receive financial statements for the relevant period and/or for subsequent periods.

The summarised financial statements together with the auditor's report thereon and the accompanied notice must be sent to the members of the company not less than twenty-one (21) days before the general meeting at which the financial statements are laid. Copies of the financial statements must be sent to a member who elects to receive the same within seven (7) days of receipt by the company of the member's notice of election.

(h) Auditors

Unless the requirement to appoint an auditor is waived by all of the shareholders and all of the directors, either in writing or at the general meeting, any auditor appointed shall hold office until a successor is appointed by the members or if the members fail to do so until the directors appoint a successor.

A person, other than an incumbent auditor, shall not be capable of being appointed auditor at a general meeting unless notice in writing of an intention to nominate that person to the office of auditor has been given not less than twenty-one (21) days before the general meeting. The company must send a copy of such notice to the incumbent auditor and give notice thereof to the members not less than seven (7) days before the general meeting. An incumbent auditor may, however, by notice in writing to the secretary of the company waive the requirements of the foregoing.

Where an auditor is appointed to replace another auditor, the new auditor must seek from the replaced auditor a written statement as to the circumstances of the latter's replacement. If the replaced auditor does not respond within fifteen (15) days, the new auditor may act in any event. An appointment as auditor of a person who has not requested a written statement from the replaced auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned, been removed or whose term of office has expired or is about to expire, or who has vacated office is entitled to attend the general meeting of the company at which he is to be removed or his successor is to be appointed; to receive all notices of, and other communications relating to, that meeting which a member is entitled to receive; and to be heard at that meeting on any part of the business of the meeting that relates to his duties as auditor or former auditor.

(i) Exchange control

An exempted company is usually designated as "non-resident" for Bermuda exchange control purposes by the Bermuda Monetary Authority. Where a company is so designated, it is free to deal in currencies of countries outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the Bermuda Monetary Authority is required for the issue of shares and securities by the company and the subsequent transfer of such shares and securities. In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before the company can issue or transfer any further shares and securities in excess of the amounts already approved, it must obtain the prior consent of the Bermuda Monetary Authority.

The Bermuda Monetary Authority has granted general permission for the issue and transfer of shares and securities to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as any equity securities, including shares, are listed on an appointed stock exchange (as defined in the Companies Act). Issues to and transfers involving persons regarded as "resident" for exchange control purposes in Bermuda will be subject to specific exchange control authorisation.

(j) Taxation

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non-residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until 31st March 2035, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

(k) Stamp duty

An exempted company is exempt from all stamp duties except on transactions involving "Bermuda property". This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

(l) Loans to directors

Bermuda law prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold more than a twenty per cent. (20%) interest, without the consent of any member or members holding in aggregate not less than nine-tenths of the total voting rights of all members having the right to vote at any meeting of the members of the company. These prohibitions do not apply to (a) anything done to provide a director with funds to meet the expenditure incurred or to be incurred by him for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it will be repaid within six months of the next following annual general meeting or in the case of a company that has made an election to dispense with annual general meetings in accordance with the Companies Act, at or before the next following general meeting which shall be convened within 12 months of the authorisation of the making of the loan, if the loan is not approved at or before such meeting, (b) in the case of a company whose ordinary business includes the lending of money or the giving of guarantees in connection with loans made by other persons, anything done by the company in the ordinary course of that business, or (c) any advance of moneys by the company to any officer or auditor under Section 98(2)(c) of the Companies Act which allows the company to advance moneys to an officer or auditor of the company for the costs incurred in defending any civil or criminal proceedings against them, on condition that the officer or auditor shall repay the advance if any allegation of fraud or dishonesty is proved against them. If the approval of the company is not given for a loan, the directors who authorised it will be jointly and severally liable for any loss arising therefrom.

(m) Inspection of corporate records

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda which will include the company's certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company's memorandum of association. The members of the company have the additional right to inspect the bye-laws of a company, minutes of general meetings and the company's audited financial statements. Minutes of general meetings of a company are also open for inspection by directors of the company without charge for not less than two (2) hours during business hours each day. The register of members of a company is open for inspection by members of the public without charge. The company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside Bermuda. Any branch register of members established by the company is subject to the same rights of inspection as the principal register of members of the company in Bermuda. Any person may on payment of a fee prescribed by the Companies Act require a copy of the register of members or any part thereof which must be provided within fourteen (14) days of a request. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

A company is required to maintain a register of directors and officers at its registered office and such register must be made available for inspection for not less than two (2) hours in each day by members of the public without charge. If summarised financial statements are sent by a company to its members pursuant to section 87A of the Companies Act, a copy of the summarised financial statements must be made available for inspection by the public at the registered office of the company in Bermuda.

(n) Winding up

A company may be wound up by the Bermuda court on application presented by the company itself, its creditors or its contributors. The Bermuda court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Bermuda court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators within the period prescribed by the Companies Act for the purpose of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice published in an appointed newspaper in Bermuda.

In the case of a creditors' voluntary winding up of a company, the company must call a meeting of creditors of the company to be summoned on the day following the day on which the meeting of the members at which the resolution for winding up is to be proposed is held. Notice of such meeting of creditors must be sent at the same time as notice is sent to members. In addition, such company must cause a notice to appear in an appointed newspaper on at least two occasions.

The creditors and the members at their respective meetings may nominate a person to be liquidator for the purposes of winding up the affairs of the company provided that if the creditors nominate a different person, the person nominated by the creditors shall be the liquidator. The creditors at the creditors' meeting may also appoint a committee of inspection consisting of not more than five persons.

If a creditors' winding up continues for more than one year, the liquidator is required to summon a general meeting of the company and a meeting of the creditors at the end of each year to lay before such meetings an account of his acts and dealings and of the conduct of the winding up during the preceding year. As soon as the affairs of the company are fully wound up, the liquidator must make an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon shall call a general meeting of the company and a meeting of the creditors for the purposes of laying the account before such meetings and giving an explanation thereof.

5. GENERAL

Conyers Dill & Pearman, the Company's legal advisors on Bermuda law, have sent to the Company a letter of advice summarising certain aspects of Bermuda company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the "Appendix XIII — Documents Available for Inspection" to this circular. Any person wishing to have a detailed summary of Bermuda company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Company. The Directors and proposed Directors jointly and severally accept full responsibility for the accuracy of information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge and belief, such information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

Information and confirmation relating to the Offer, the Offeror and parties acting in concert with it set out in this circular have been duly extracted from the Joint Announcement or provided by the Offeror and parties acting in concert with it. The sole director of the Offeror accepts full responsibility for the accuracy of the information contained in this circular (other than the information relating to the Group, Mr. Mo, the Sellers, the PRC Target, League Way and parties acting in concert with them), and confirm, having made all reasonable enquires, that to the best of his knowledge, opinions of the Offeror expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any such statement contained in this circular misleading.

B. FURTHER INFORMATION ABOUT THE GROUP AND THE PRC TARGET

1. Incorporation of the Company

The Company was incorporated as an exempted company with limited liability in Bermuda on 20 August 1992. As at the date of its incorporation, the Company had an authorised share capital of HK$100,000 divided into 1,000,000 shares of HK$0.10 each. It was registered on 6 October 1992 under Part XI of the then Companies Ordinance (Chapter 32 of the Laws of Hong Kong), which is now Part 16 of the new Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as a non-Hong Kong company.

As at the Latest Practicable Date, the Company's principal place of business in Hong Kong is at Suite 2302, Wing On Centre, 111 Connaught Road Central, Hong Kong. Ms. Wang Jing was appointed the authorised representative of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong at Suite 2302, Wing On Centre, 111 Connaught Road Central, Hong Kong.

As the Company was incorporated in Bermuda, it operates subject to the Companies Act and to its constitution comprising the Memorandum of Association and the Bye-Laws. As disclosed in the section headed "Letter from the Board" in this circular, the Company proposed to amend its Bye-Laws by way of adoption of the New Bye-Laws at the SGM. A summary of certain provisions of the New Bye-Laws and certain relevant aspects of Bermuda company law is set out in Appendix XI to this circular.

2. Changes in share capital of the Group

(a) The Company

There has been no change to the share capital of the Company within the two years immediately preceding the date of this circular.

(b) Other members of the Group

The Company established 廣西南寧米谷豐餐飲管理有限公司 (Guangxi Nanning Migufeng Food & Beverages Management Company Limited*) with paid-up registered capital of RMB500,000 on 25 November 2013.

3. Changes in the registered capital of the PRC Target

There has been no alteration in the registered capital of the PRC Target within the two years immediately preceding the date of this circular save as disclosed in the section headed "History and Business of the PRC Target" in this circular.

C. INTELLECTUAL PROPERTY RIGHTS

1. Intellectual property rights of the Group

(a) Trademarks of the Group

As at the Latest Practicable Date, the Group had registered the following trademark in the PRC which, in the opinion of the Directors, are material to the business of the Group:

No.	Trademark	Place of registration	Class	Registration no.	Expiry date
1.		PRC	30	938509	27 January 2017

(b) Trademarks of the PRC Target

As at the Latest Practicable Date, the PRC Target was granted a non-exclusive licence to use each of the following registered trademarks in the PRC pursuant to a licence agreement dated 22 June 2015 and entered into between Hongbo Investment as licensor and the PRC Target as licensee for an indefinite term ending on the earlier of the date on which Hongbo Investment ceases to be the registered owner of such trademarks or the expiry of the registration at no consideration, and such trademarks, in the opinion of the Directors based on their knowledge of the business of the PRC Target, are material to the business of the PRC Target:

No.	Trademark	Place of registration	Class	Registration no.	Expiry date
1.		PRC	37	8983353	20 January 2022
2.	宏博	PRC	36	8983325	13 October 2022

Save as disclosed above, there are no other trade or service marks, copyrights, patents or other intellectual property rights that are material to the business of the Group or the PRC Target.

(c) Domain names of the Group

As at the Latest Practicable Date, members of the Group have registered the following material domain names:

Domain name	Registrant	Expiry date
whartonhotel.com	廣西沃頓國際大酒店	29 September 2016
沃頓酒店.com	廣西沃頓國際大酒店有限公司	14 August 2016
廣西國際大酒店.com	廣西沃頓國際大酒店有限公司	14 August 2016
廣西沃頓國際大酒店.com	廣西沃頓國際大酒店有限公司	14 August 2016
廣西國大.com	廣西沃頓國際大酒店有限公司	14 August 2016
南寧沃頓國際大酒店.com	廣西沃頓國際大酒店有限公司	14 August 2016
南寧國際大酒店.com	廣西沃頓國際大酒店有限公司	14 August 2016
國大酒店.com	廣西沃頓國際大酒店有限公司	13 May 2017
upskyhotel.com	廣西沃頓國際大酒店有限公司	2 October 2016
upskyhotel.cn	廣西沃頓國際大酒店有限公司	8 September 2016
upskyhotel.win	廣西沃頓國際大酒店有限公司	8 September 2016
upskyhotel.net	廣西沃頓國際大酒店有限公司	8 September 2016
upskyhotel.cc	廣西沃頓國際大酒店有限公司	8 September 2016
upskyhotel.date	廣西沃頓國際大酒店有限公司	8 September 2016
upskyhotel.wang	廣西沃頓國際大酒店有限公司	8 September 2016
upskyhotel.top	廣西沃頓國際大酒店有限公司	8 September 2016
upskyhotel.org	廣西沃頓國際大酒店有限公司	8 September 2016
upskyhotel.com.cn	廣西沃頓國際大酒店有限公司	8 September 2016
upskyhotel.net.cn	廣西沃頓國際大酒店有限公司	8 September 2016
upskyhotel.org.cn	廣西沃頓國際大酒店有限公司	8 September 2016
upskyschool.com	南寧市普凱酒店職業培訓學校	1 September 2016
upskyedu.com	南寧市普凱酒店職業培訓學校	1 September 2016
upskyschool.com.cn	南寧市普凱酒店職業培訓學校	9 October 2016
upskyedu.com.cn	南寧市普凱酒店職業培訓學校	9 October 2016
upskyedu.cn	南寧市普凱酒店職業培訓學校	9 October 2016

D. DISCLOSURE OF INTERESTS

1. Interests of Directors

As at the Latest Practicable Date, the interests and/or short positions (as applicable) of the Directors in the shares, underlying shares and debentures of the Company or any of the Company's associated corporations (within the meaning of Part XV of the SFO) which were (i) 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/or short positions (as applicable) which they are taken or deemed to have under such provisions of the SFO); or (ii) required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") to be notified to the Company and the Stock Exchange, are as follows:

Name of Director	Capacity/ nature of interest	Number of Ordinary Shares or underlying Ordinary Shares *(Note 1)*	Percentage of the Company's issued share capital
MO Tianquan *(Note 4)*	Interest of controlled corporation *(Note 3)*	457,993,908 (L) *(Note 2)*	131.86%
		360,540,976 (S) *(Note 2)*	103.80%

Notes:

1. The letter "L" represents the individual's long position in the shares and the letter "S" represents the individual's short position in the shares.

2. The long position in the Ordinary Shares and underlying Ordinary Shares comprise 284,265,223 underlying Ordinary Shares in which Seller 2 has interest as the beneficial owner and 173,728,685 Ordinary Shares in which Seller 1 has interest as the beneficial owner. The short position in the Ordinary Shares comprise 221,565,700 underlying Ordinary Shares in which Seller 2 has short position and 138,975,276 Ordinary Shares in which Seller 1 has short position. These interests and short position in the underlying Ordinary Shares represent the derivative interests under the Convertible Bonds. Mr. Mo and Ms. Cao are directors of each of Seller 2 and Seller 1.

3. Mr. Mo has control over 100% interests of Seller 2 and Seller 1. Under the SFO, Mr. Mo is deemed to have interest in the shares in which Seller 2 or Seller 1 has interest.

4. Under the SFO, Ms. Cao is deemed to have interest in the shares in which Mr. Mo has interest.

2. Substantial shareholders of the Company

So far as it is known to the Directors, as at the Latest Practicable Date, the following persons (not being a Director) had an interest or short position in the shares or underlying shares of the Company which were required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	**Capacity/ nature of interest**	**Number of Ordinary Shares or underlying Ordinary Shares** *(Note 1)*	**Percentage of the Company's issued share capital**
Upsky Enterprises Limited *(Note 3)*	Beneficial owner	173,728,685 (L) 138,975,276 (S)	50.02% 40.01%
Tanisca Investments Limited *(Note 3)*	Beneficial owner	284,265,223 (L) *(Note 2)* 221,565,700 (S) *(Note 2)*	81.84% 63.79%
Aquarius Growth Investment Limited *(Note 5)*	Beneficial owner	443,369,176 (L) *(Note 4)*	127.65%
ZHAO Ming *(Note 5)*	Interest of a controlled corporation	443,369,176 (L) *(Note 4)*	127.65%
Grand Empire Global Limited *(Note 6)*	Beneficial owner	166,766,230 (L) *(Note 6)*	48.01%
Rexwell Holdings Limited *(Note 6)*	Interest of a controlled corporation	166,766,230 (L) *(Note 6)*	48.01%
ZHANG Lu *(Note 6)*	Interest of controlled corporations	166,766,230 (L) *(Note 6)*	48.01%
League Way Ltd. *(Note 7)*	Beneficial owner	373,357,228 (L) *(Note 7)*	107.49%

Name	Capacity/ nature of interest	Number of Ordinary Shares or underlying Ordinary Shares *(Note 1)*	Percentage of the Company's issued share capital
SHI Jianji *(Note 7)*	Interest of a controlled corporation	373,357,228 (L) *(Note 7)*	107.49%
New Fast Investments Limited *(Note 8)*	Beneficial owner	241,437,675 (L) *(Note 8)*	69.51%
Gate Success Investments Limited *(Note 8)*	Interest of a controlled corporation	241,437,675 (L) *(Note 8)*	69.51%
YU Nan *(Note 8)*	Interest of controlled corporations	241,437,675 (L) *(Note 8)*	69.51%
Real Smart Holdings Limited *(Note 9)*	Beneficial owner	166,766,230 (L) *(Note 9)*	48.01%
True Vision Global Limited *(Note 9)*	Interest of a controlled corporation	166,766,230 (L) *(Note 9)*	48.01%
XU Sa *(Note 9)*	Interest of controlled corporations	166,766,230 (L) *(Note 9)*	48.01%
Sonic Gain Limited *(Note 10)*	Beneficial owner	324,820,786 (L) *(Note 10)*	93.52%
KO Chun Shun, Johnson *(Note 10)*	Interest of a controlled corporation	324,820,786 (L) *(Note 10)*	93.52%
True Success Global Limited *(Note 11)*	Beneficial owner	250,149,340 (L) *(Note 11)*	72.02%
KO Wing Yan, Samantha *(Note 11)*	Interest of a controlled corporation	250,149,340 (L) *(Note 11)*	72.02%

Name	Capacity/ nature of interest	Number of Ordinary Shares or underlying Ordinary Shares *(Note 1)*	Percentage of the Company's issued share capital
上海宏流投資管理有限公司 (Shanghai Trend Capital Co., Ltd.*) *(Note 12)*	Beneficial owner	140,382,318 (L)	40.42%
華寶•境外市場投資2號系列20–6期QDII單一資金信托 (Hwabao•Overseas Investment Series 2 No 20–6 QDII Single Money Trust*) *(Note 12)*	Beneficiary of a trust	93,588,212 (L)	26.95%
華寶•境外市場投資2號系列20-7期QDII單一資金信托 (Hwabao•Overseas Investment Series 2 No 20-7 QDII Single Money Trust*) *(Note 12)*	Beneficiary of a trust	46,794,106 (L)	13.47%
華寶信托有限責任公司 (Hwabao Trust Co., Ltd.) *(Note 12)*	Trustee of a trust	140,382,318 (L)	40.42%

Name	Capacity/ nature of interest	Number of Ordinary Shares or underlying Ordinary Shares *(Note 1)*	Percentage of the Company's issued share capital
寶鋼集團有限公司 (Baosteel Group Corporation*) *(Note 12)*	Interest of a controlled corporation	140,382,318 (L)	40.42%
WANG Ruyuan *(Note 12)*	Interest of a controlled corporation	140,382,318 (L)	40.42%
Titan Gas Technology Investment Limited *(Note 13)*	Beneficial owner	2,498,210,870 (L)	719.27%
Titan Gas Technology Holdings Limited *(Note 13)*	Interest of a controlled corporation	2,498,210,870 (L)	719.27%
Standard Gas Capital Limited *(Note 13)*	Interest of controlled corporations	2,498,210,870 (L)	719.27%
金世旗國際控股股份有限公司 (Kingsbury International Holdings Co., Ltd.) *(Note 13)*	Interest of controlled corporations	2,498,210,870 (L)	719.27%
WANG Jingbo	Interest of controlled corporations	2,941,580,046 (L) *(Notes 13, 14)*	816.82%
SHONG Hugo	Interest of controlled corporations	2,498,210,870 (L) *(Notes 13, 15)*	719.27%
LIN Dongliang	Beneficial owner Interest of controlled corporations	12,910,000 (L) 2,498,210,870 (L) *(Notes 13, 16)*	3.72% 719.27%
IDG-Accel China Capital GP II Associates Ltd. *(Note 19)*	Interest of controlled corporations	2,498,210,870 (L) *(Notes 13, 17)*	719.27%

Name	Capacity/ nature of interest	Number of Ordinary Shares or underlying Ordinary Shares *(Note 1)*	Percentage of the Company's issued share capital
IDG-Accel China Capital II Associates L.P. *(Note 20)*	Interest of controlled corporations	2,498,210,870 (L) *(Notes 13, 19)*	719.27%
IDG-Accel China Capital II L.P. *(Note 20)*	Interest of controlled corporations	2,498,210,870 (L) *(Notes 13, 19)*	719.27%
Ho Chi Sing *(Note 19)*	Interest of controlled corporations	2,509,710,870 (L) *(Notes 13, 17, 19)*	722.58%
ZHOU Quan *(Note 19)*	Interest of a controlled corporation	2,509,710,870 (L) *(Notes 13, 17, 19)*	722.58%
LUO Yuping	Interest of controlled corporations	2,498,210,870 (L) *(Notes 13, 14, 20)*	719.27%
ZHANG Chunhua	Interest of controlled corporations	127,681,952 (L) *(Note 21)*	36.76%
Rich Harvest Worldwide Ltd.	Beneficial owner	127,681,952 (L) *(Note 21)*	36.76%

Notes:

1. The letter "L" represents the entity's/individual's long position in the shares and the letter "S" represents the entity's/individual's short positions in the shares.

2. These interests and short position in the underlying Ordinary Shares represent the derivative interests under the Convertible Bonds.

3. Mr. Mo has control over 100% interests of Seller 2 and Seller 1. Under the SFO, Mr. Mo is deemed to have interest in the shares in which Seller 2 and Seller 1 has interest.

4. Aquarius Investment has interests in respect of 443,369,176 underlying Ordinary Shares through the derivative interests under 443,369,176 Preferred Shares.

5. Aquarius Investment is controlled as to 91% by Zhao Ming and as to 9% by Mr. Wang. Under the SFO, Zhao Ming is deemed to have interest in the shares in which Aquarius Investment has interest.

6. Grand Empire Global Limited is controlled as to 100% by Rexwell Holdings Limited and Rexwell Holdings Limited is controlled as to 100% by Zhang Lu. Under the SFO, Zhang Lu and Rexwell Holdings Limited are deemed to have interest in the shares in which Grand Empire Global Limited has interest. It has interest in 116,736,360 underlying Ordinary Shares through derivative interests in 116,736,360 Preferred Shares.

7. League Way is controlled as to 70% by Shi Jianji. Under the SFO, Shi Jianji is deemed to have interest in the shares in which League Way has interest. It has interest in 373,357,228 underlying Ordinary Shares through derivative interests in the Convertible Note.

8. New Fast Investments Limited is controlled as to 100% by Gate Success Investments Limited. Gate Success Investments Limited is controlled as to 100% by Yu Nan. Under the SFO, Yu Nan and Gate Success Investments Limited are deemed to have interest in the shares in which New Fast Investments Limited has interest. It has interest in 116,736,360 underlying Ordinary Shares through derivative interests in 116,736,360 Preferred Shares.

9. Real Smart Holdings Limited is controlled as to 100% by True Vision Global Limited. True Vision Global Limited is controlled as to 100% by Xu Sa. Under the SFO, Xu Sa and True Vision Global Limited are deemed to have interest in the shares in which Real Smart Holdings Limited has interest. It has interest in 116,736,360 underlying Ordinary Shares through derivative interests in 116,736,360 Preferred Shares.

10. Sonic Gain Limited is owned as to 100% by Ko Chun Shun, Johnson. Under the SFO, Ko Chun Shun, Johnson is deemed to have interest in the shares in which Sonic Gain Limited has interest. It has interest in 175,104,540 underlying Ordinary Shares through derivative interests in 175,104,540 Preferred Shares.

11. True Success Global Limited is owned as to 100% by Ko Wing Yan, Samantha. Under the SFO, Ko Wing Yan, Samantha is deemed to have interest in the shares in which True Success Global Limited has interest. It has interest in 175,104,540 underlying Ordinary Shares through derivative interests in 175,104,540 Preferred Shares.

12. 上海宏流投資管理有限公司 (Shanghai Trend Capital Co., Ltd.*) has beneficial interest in an aggregate of 140,382,318 Ordinary Shares through 華寶•境外市場投資2號系列20-6期QDII單一資金信托 (Hwabao•Overseas Investment Series 2 No 20-6 QDII Single Money Trust*) and華寶•境外市場投資2號系列20-7期QDII單一資金信托 (Hwabao•Overseas Investment Series 2 No 20-7 QDII Single Money Trust*). Under the SFO, 華寶信托有限責任公司 (Hwabao Trust Co., Ltd.), as the trustee of the aforesaid trusts, is deemed to have interest in an aggregate of 140,382,318 Ordinary Shares in which the aforesaid trusts have interest; Wang Ruyuan, who has control of 66% of the interests of 上海宏流投資管理有限公司 (Shanghai Trend Capital Co., Ltd.*), is deemed to have interest in 140,382,318 Ordinary Shares in which 上海宏流投資管理有限公司 (Shanghai Trend Capital Co., Ltd.*) has beneficial interest; 寶鋼集團有限公司 (Baosteel Group Corporation*), which has control over 98% of the interests of 華寶信托有限責任公司 (Hwabao Trust Co., Ltd.), is deemed to have interest in 140,382,318 Ordinary Shares in which 華寶信托有限責任公司 (Hwabao Trust Co., Ltd.) has interest in the capacity of a trustee.

13. Titan Gas Technology Investment Limited (i.e. the Offeror) is controlled as to 100% by Titan Gas Holdings, which is in turn controlled as to 35.15% by Standard Gas, 49.14% by the IDG Funds, 8.05% by Mr. Wang and 6.87% by Kingsbury. Under the SFO, Titan Gas Holdings, Standard Gas, IDG Funds are deemed to have interest in 2,498,210,870 Ordinary Shares in which the Offeror has beneficial interest. Interest in such Ordinary Shares include interest in 1,673,569,292 underlying Ordinary Shares through derivative interests in the Convertible Bonds in the principal amount of HK$96,832,526 and the Preferred Shares that the Offeror has agreed to subscribe for under the Subscription Agreement.

14. Standard Gas, Mr. Wang and Kingsbury have entered into an acting in concert arrangement for the purpose of facilitating a more efficient decision-making process in connection with the exercise of their shareholders' rights in Titan Gas Holdings pursuant to which, Standard Gas, Kingsbury and Mr. Wang agree to align with each other in respect of the voting of major actions

in respect of Titan Gas Holdings' business and each of Standard Gas, Mr. Wang and Kingsbury will consult with each other and reach agreement on material matters of Titan Gas Holdings before it/he exercises its/his respective voting rights in Titan Gas Holdings, provided that Mr. Wang will have a casting vote and will have the final decision making power in the event that a consensus cannot be reached among Standard Gas, Mr. Wang and Kingsbury. Aquarius Investment is accustomed to act in accordance with the instructions of, among others, Mr. Wang. Under the SFO, Mr. Wang is deemed to have interests in the shares in which the Offeror or Aquarius Investment has interest on the basis set out above. The Ordinary Shares and underlying Ordinary Shares in which Mr. Wang has interest comprise 2,941,580,046 Ordinary Shares in which the Offeror has beneficial interest (including derivative interest in 1,673,569,292 underlying Ordinary Shares) and 443,369,176 underlying Ordinary shares in which Aquarius Investment has beneficial interest.

15. All the issued voting shares in Standard Gas are held by Blazing Success Limited ("**Blazing Success**") which in turn is wholly owned by Lee Khay Kok. Blazing Success has granted a power of attorney to the board of directors of Standard Gas which comprise Mr. Wang, Lin Dongliang and Shong Hugo. Under the SFO, Shong Hugo is deemed to have interest in the shares in which Standard Gas has interest.

16. All the issued voting shares in Standard Gas are held by Blazing Success which in turn is wholly owned by Lee Khay Kok. Blazing Success has granted a power of attorney to the board of directors of Standard Gas which comprise Mr. Wang, Lin Dongliang and Shong Hugo. Under the SFO, Lin Dongliang is deemed to have interest in the shares in which Standard Gas has interest.

17. The IDG Funds is under the control of its ultimate general partner, IDG-Accel Ultimate GP. Under the SFO, IDG-Accel Ultimate GP is deemed to have interest in the shares in which the IDG Funds have interest.

18. IDG-Accel China Capital II Associates L.P. has control over IDG-Accel Capital II. Under the SFO, IDG-Accel China Capital II Associates L.P. is deemed to have interest in the shares in which IDG-Accel Capital II has beneficial interest.

19. Ho Chi Shing and Zhou Quan are directors of IDG-Accel Ultimate GP and are responsible for decision-making matters relating to the IDG Funds and their investments, and hence controls the exercise of voting rights to the shares that the IDG Funds hold in Titan Gas Holdings. Therefore they are deemed to have interest in the shares in which IDG-Accel Ultimate GP has interest.

20. Kingsbury is controlled as to 74.8% by Luo Yuping. By virtue of the acting in concert arrangement referred to in Note 14, Luo Yuping is deemed to have interest in the shares in which Titan Gas Holdings has interest.

21. Rich Harvest Worldwide Ltd. is controlled as to 100% by Zhang Chunhua. Under the SFO, Zhang Chunhua is deemed to have interests in the shares in which Rich Harvest Worldwide Ltd. has interest. Interest in such Ordinary Shares include interest in 127,681,952 underlying Ordinary Shares has interest through derivative interests in 127,681,952 Preferred Shares.

3. Substantial shareholders of subsidiaries of the Company

As at the Latest Practicable Date, the following person had an interest, directly or indirectly, in 10% or more of the nominal value of any class of the share capital carrying rights to vote in all circumstances at general meetings of the members of the Group:

Name of company	Name of persons who have voting right of 10% or more	Percentage
廣西普凱礦業科技有限公司 (Guangxi Pukai Mineral Technology Company Limited*)	北京錦華銘廣告有限公司 (Beijing Jinhuaming Advertising Company Limited*)	Registered capital of US$1,200,000 (40%)

Save as disclosed above, the Directors were not aware, as at the Latest Practicable Date, of any person who had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who 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 member of the Group.

4. Directors' service contracts

As at the Latest Practicable Date, none of the Directors or proposed Directors has entered or proposed to enter into any service agreement with the Company or any member of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

5. Competing interest of Directors

Please refer to the section headed "Relationship between the Restructured Group and the Controlling Shareholder" in this circular.

6. Fees or commissions received

Save as disclosed in this circular, none of the Directors, the Proposed Directors or any of the persons whose names are listed under the sub-section headed "F. Other Information — Consents of Experts" in this Appendix below had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any capital of any member of the Group within the two years immediately preceding the date of this circular.

7. Disclaimers

Save as disclosed in this circular:

(a) none of the Directors is aware of any other Director who has any interests or short positions in any shares and underlying shares in, and debentures of, the Company or any associated corporation (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, under section 352 of the SFO, to be entered in the register referred to in that section, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code as at the Latest Practicable Date;

(b) none of the Directors, the proposed Directors or any of the persons whose names are listed in the sub-section headed "F. Other Information — 8. Consents of Experts" in this Appendix is interested in the promotion of the Company or in any assets which have within the two years immediately preceding the issue of this circular been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

(c) none of the Directors or proposed Directors is materially interested in any contract or arrangement subsisting at the date to this circular which is significant in relation to the business of the Group;

(d) no cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this circular to any promoter of the Company nor is any such cash, securities or benefit intended to be paid, allotted or given to any promoter.

E. SUMMARY OF MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by the Company or any member of the Group or the PRC Target within the two years preceding the date of this circular and are or may be material:

(a) the deed of amendment dated 3 June 2014 and entered into between the Company and Seller 2 pursuant to which the maturity date of the Convertible Bonds is extended to 30 April 2018;

(b) the tri-partite agreement entered into between Hongbo Investment, the PRC Target and Shanghai Hongyi Asset Management Co. Ltd. on 29 December 2014 whereby the PRC Target may use the commercial premises located in East Ujimqin Banner rented by Shanghai Hongyi Asset Management Co. Ltd., for no rent other than that paid by the PRC Target previously in respect of another property;

(c) the finance agreement dated 28 April 2015, supplemented by a supplemental agreement dated 1 September 2015, entered into between Hongbo Investment, the PRC Target and Guangzhou Zhang Su Investment Consulting Co. Ltd. pursuant to which the PRC Target borrowed approximately RMB70 million from Guangzhou Zhang Su Investment Consulting Co. Ltd., repayable within one year, at a floating rate of 110% of the prevailing market interest rate published by People's Bank of China;

(d) the share pledge agreement dated 28 April 2015 and entered into between Hongbo Investment, the PRC Target and Guangzhou Zhang Su Investment Consulting Co. Ltd. pursuant to which Hongbo Investment's equity interest in the PRC Target at that time was pledged to Guangzhou Zhang Su Investment Consulting Co. Ltd.;

(e) the license agreement dated 22 June 2015 and entered into between Hongbo Investment and the PRC Target pursuant to which the PRC Target was granted a license to use certain trademarks registered by Hongbo Investment for an indefinite term ending on the earlier of the date on which Hongbo Investment ceases to be the registered owner of such trademarks or the expiry of the registration;

(f) the finance agreement dated 24 June 2015, supplemented by a supplemental agreement dated 1 September 2015, entered into between Hongbo Investment, the PRC Target and Guangzhou Zhang Su Investment Consulting Co. Ltd. pursuant to which the PRC Target borrowed approximately RMB10 million from Guangzhou Zhang Su Investment Consulting Co. Ltd., repayable before 23 November 2015, at a floating rate of 110% of the prevailing market interest rate published by People's Bank of China;

(g) the agreement dated 1 July 2015 and entered into between Hongbo Investment and the PRC Target pursuant to which Hongbo Investment agreed to bear all direct loss suffered by the PRC Target caused by any dispute with the Claimant and/or related to the agreement between the Claimant and Hongbo Investment dated 15 June 2008;

(h) the entrusted loan agreement entered into on or around 30 December 2015 between the PRC Target and China Merchants Bank Co., Ltd. Beijing Dong San Huan Branch, pursuant to which the PRC Target obtained an unsecured six-month interest-bearing entrusted loan of RMB20.0 million at a fixed rate of 4.8% per annum;

(i) the entrusted loan agreement dated 23 May 2016 and entered into between the PRC Target and China Merchants Bank Co., Ltd. Beijing Dong San Huan Branch, pursuant to which the PRC Target obtained an unsecured six-month interest-bearing entrusted loan of RMB70.0 million at a fixed rate of 4.8% per annum;

(j) Subscription Agreement;

(k) Acquisition Agreement;

(l) CN Subscription Agreement;

(m) Divestment Agreement;

(n) EPCC;

(o) Services Agreement;

(p) Non-Competition Deed; and

(q) option deed dated 28 June 2016, entered into between the Offeror and the Company.

F. OTHER INFORMATION

1. Material adverse change

As at the date of this circular, save for the financial results as disclosed in the Company's results announcement and the interim report for the six months ended 30 September 2015, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2015, being the date to which the latest published audited financial statements of the Group were made up.

2. Litigation proceedings of the Group and the PRC Target

No member of the Group was engaged in any litigation or arbitration of material importance and no litigation/arbitration or claim of material importance was pending or threatened against any member of the Group as at the Latest Practicable Date.

Save as disclosed in the section headed "History and Business of the PRC Target" in this circular, the PRC Target was not engaged in any litigation or arbitration of material importance and no litigation/arbitration or claim of material importance was pending or threatened against the PRC Target as at the Latest Practicable Date.

3. Joint Sponsors

BOSC International and REORIENT Financial have been appointed as the Joint Sponsors of the Company for the deemed new listing application of the Company.

For the reasons set out in the sub-section headed "F. Other Information — 9. Interests of experts in the Company" in this Appendix below, REORIENT Financial is not regarded as independent under Rule 3A.07 of the Listing Rules but BOSC International satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

4. Promoters

The Company has no promoter for the purpose of the Listing Rules.

5. Total expenses

The aggregate legal and other professional fees, printing and other expenses payable by the Company relating to the Transfer and the Transactions, are estimated in aggregate to be approximately HK$60 million.

6. Joint Sponsors' fees

REORIENT Financial (in both capacities as one of the Joint Sponsors for the deemed new listing application of the Company and the financial advisor to the Company in respect of the Transactions) and BOSC International (for acting as one of the Joint Sponsors for the deemed new listing application of the Company) will receive a fee of HK$20 million and HK$6.5 million, respectively.

7. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this circular:

Expert	Qualification
BOSC International Company Limited	Licensed to conduct type 1 (dealing in securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
REORIENT Financial Markets Limited	Licensed to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
SHINEWING (HK) CPA Limited	Certified public accountants
Conyers Dill & Pearman	Bermuda Barristers and Attorneys
KPMG	Certified public accountants
Haiwen & Partners	Qualified PRC legal lawyers
Gaffney, Cline & Associates	Independent technical consultant/competent evaluator
Wood Mackenzie	Independent industry consultant
LCH (Asia-Pacific) Surveyors Limited	Property valuer

Expert	Qualification
Somerley Capital Limited	Licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

8. Consents of experts

Each of the experts listed in paragraph 7 above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report, letter, certificate, opinion and/or the references to its name in the form and context in which they are respectively included.

9. Interests of experts in the Company

Sonic Gain Limited, a company wholly owned by Ko Chun Shun Johnson ("**Mr. Ko**"), is a Subscriber which agreed to subscribe for 149,716,246 Ordinary Shares and 175,104,540 Preferred Shares under the Subscription Agreement. True Success Global Limited, a company wholly owned by Ko Wing Yan, Samantha ("**Ms. Ko**"), is a Subscriber which agreed to subscribe for 75,044,800 Ordinary Shares and 175,104,540 Preferred Shares under the Subscription Agreement. Ms. Ko is a daughter of Mr. Ko. Mr. Ko is a director of REORIENT Group Limited. Ms. Ko was a director of REORIENT Group Limited until 9 November 2015. As at the Latest Practicable Date, Mr. Ko was also an indirect shareholder of REORIENT Group Limited who was deemed to be interested in approximately 9.55% of the issued share capital of REORIENT Group Limited; and REORIENT Group Limited indirectly owns the entire issued share capital of REORIENT Financial which is the financial advisor to the Company in respect of the Transactions and one of the Joint Sponsors.

Save as disclosed above, none of the experts named in paragraph 7 of this Appendix is interested beneficially or otherwise in any shares or securities of any member of the Group or the PRC Target or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any shares or securities in any member of the Group or the PRC Target.

10. Estate Duty

The Directors have been advised that no material liability for estate duty would be likely to fall upon any member of the Group as a result of or arising from any of the Transactions.

G. MISCELLANEOUS

1. Save as disclosed in this circular:

   (a) within the two years immediately preceding the date of this circular,

      (i) no share or loan capital of the Company or the PRC Target had been issued or agreed to be issued fully or partly paid for either cash or a consideration other than cash;

      (ii) no commissions, discounts, brokerages or other special terms had been granted in connection with the issue or sale of any share or loan capital of the Company or the PRC Target;

      (iii) no share or loan capital of the Company or the PRC Target is under option or is agreed conditionally or unconditionally to be put under option;

      (iv) no founders or management or deferred shares of or any debentures in the Company or the PRC Target have been issued or agreed to be issued; and

      (v) the Company has no outstanding convertible debt securities.

   (b) there had not been any interruption in the business of the Group or the PRC Target which may have had a significant effect on the financial position of the Group or the PRC Target in the 12 months preceding the date of this circular;

   (c) all necessary arrangements had been made with HKSCC for the shares to continue to be accepted as eligible securities of CCASS;

   (d) there are no arrangements in existence under which future dividends are to be agreed or waived;

   (e) none of the Company's equity or debt securities is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought; and

   (f) the English text of this circular shall prevail over the Chinese text.

2. As at the Latest Practicable Date, the company secretary is Wang Jing (王晶). Wang Jing is a member of the Association of Chartered Certified Accountants. She holds a Master degree in Business Administration from the University of Exeter.

3. Yanchang has issued the following confirmation letters to the PRC Target:

   (a) the First Confirmation Letter dated 26 May 2015, confirming, among other things, that Yanchang will renew the EPCC with the PRC Target equal to the term of the relevant exploration and/or production permit, as long as the PRC Target has performed its obligations under the EPCC;

(b) a confirmation letter dated 25 March 2016 confirming the existence of the entrustment arrangement whereby the PRC Target was entrusted to sell crude oil to the Customer by way of the crude oil sales agreement between the PRC Target and the Customer;

(c) the Second Confirmation letter dated 17 May 2016 confirming, among other things, that Yanchang will not terminate the EPCC as a result of the overdue amounts from the PRC Target, and that the PRC Target may sell crude oil to other customer(s) subject to its approval; and

(d) a confirmation letter dated 23 May 2016 confirming that the crude oil sales agreement between Yanchang and the Customer was a standard form agreement of Yanchang, its content had adequately taken into account the cooperation partners' (the PRC Target's) interests and Yanchang would not easily change the standard form agreement nor change any terms of the sales agreement such that the interests of the PRC Target would be damaged.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the office of the Company at Suite 2302, Wing On Centre, 111 Connaught Road Central, Hong Kong from 9:00 a.m. to 5:00 p.m. on any business day in Hong Kong from the date of this circular up to and including the date of the SGM:

(a) the memorandum of association and the current bye-laws of the Company;

(b) the New Bye-Laws;

(c) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" in this circular;

(d) the letter of recommendation from the Independent Board Committee to the Independent Shareholders dated 29 June 2016, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;

(e) the letter of advice from the Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders dated 29 June 2016, the text of which is set out in the section headed "Letter from the Independent Financial Advisor" in this circular;

(f) the annual reports of the Company for each of the three years ended 31 March 2015;

(g) the industry report from Wood Mackenzie dated 29 June 2016, from which information was extracted to produce the Wood Mackenzie Report, the text of which is set out in Appendix I to this circular;

(h) the accountants' report on the PRC Target from KPMG, the text of which is set out in Appendix III to this circular;

(i) the review report from REORIENT Financial on the estimated gain from the Divestment and the unaudited net losses of the Divestment Group, the text of which is set out in section A of Appendix V to this circular;

(j) the review reports from SHINEWING (HK) CPA Limited on the unaudited financial statements of the Divestment Group, the text of which are set out in sections B and D of Appendix V to this circular;

(k) the report from KPMG relating to the unaudited pro forma financial information of the Restructured Group, the text of which is set out in section B of Appendix VI to this circular;

(l) the report from KPMG relating to the unaudited pro forma adjustment on financial information, the text of which is set out in section C of Appendix VI to this circular;

(m) the Independent Technical Report, the text of which is set out in Appendix VII to this circular;

(n) the Competent Evaluator's Report, the text of which is set out in Appendix VIII to this circular;

(o) the report from KPMG relating to the Competent Evaluator's Report, the text of which is set out in Section B of Appendix VIII to this circular;

(p) the report from REORIENT Financial relating to the Competent Evaluator's Report;

(q) the valuation report on the properties of the PRC Target, the text of which is set out in Appendix IX to this circular;

(r) the valuation report on the properties of the Divestment Group, the text of which is set out in Appendix X to this circular;

(s) letter of advice summarising certain aspects of Bermuda company law prepared by Conyers Dill & Pearman referred to in Appendix XI to this circular;

(t) the material contracts referred to in the sub-section headed "E. Summary of Material Contracts" in Appendix XII to this circular;

(u) the written consents referred to in the sub-section headed "F. Other Information — Consents of Experts" in Appendix XII to this circular;

(v) the legal opinions dated 29 June 2016 prepared by Haiwen & Partners in respect of, respectively, certain aspects of the PRC Target, the property interests of the PRC Target in the PRC and the property interests of the Divestment Group in the PRC;

(w) the memorandum dated 29 June 2016 prepared by Haiwen & Partners in respect of certain aspects of the PRC Target; and

(x) this circular.

SHUN CHEONG HOLDINGS LIMITED
順 昌 集 團 有 限 公 司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 650)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting of the Company (the "**Meeting**") will be held at United Conference Centre Limited — Room 4, 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong on Friday, 22 July 2016 at 10:00 a.m. to consider and, if thought fit, pass the following resolutions:

SPECIAL RESOLUTION

1. "**THAT**:

   (a) the new bye-laws of the Company (the "**New Bye-laws**") in the form of the document marked "A" and produced to the Meeting and for the purpose of identification signed by the chairman of the Meeting be approved and adopted as the new bye-laws of the Company in substitution for and to the exclusion of the existing bye-laws of the Company with immediate effect; and

   (b) the authorised share capital of the Company be increased from HK$80,000,000 divided into 8,000,000,000 ordinary shares of HK$0.01 each (the "**Ordinary Shares**") to HK$130,000,000 by the creation of 5,000,000,000 restricted voting non-redeemable convertible preferred shares of HK$0.01 each (the "**Preferred Shares**"), such Preferred Shares having the rights, privileges and restrictions as set out in the New Bye-laws, such that the authorised share capital of the Company shall become HK$130,000,000 divided into 8,000,000,000 Ordinary Shares of HK$0.01 each and 5,000,000,000 Preferred Shares of HK$0.01 each, and all the existing shares of the Company in issue shall be designated as Ordinary Shares.

ORDINARY RESOLUTIONS

2. "**THAT**:

   (a) Subject to the passing of resolution no. 1, the subscription agreement dated 22 June 2015 and entered into between Titan Gas Technology Investment Limited; Lu Xi; Fang Chao; Hwabao.Overseas Investment Series 2 No 20–6 QDII Single Money Trust; Hwabao.Overseas Investment Series 2 No 20–7 QDII Single Money Trust; Aquarius Growth Investment Limited; New Fast Investments

* *For identification purposes only*

Limited; Real Smart Holdings Limited; Grand Empire Global Limited; True Success Global Limited; Sonic Gain Limited (collectively, the "**Original Share Subscribers**"); Prime Eagle Holdings Limited; Classictime Investments Limited; China Alpha Fund Management (HK) Limited; and Leading Global Investment Ltd. (collectively, the "**Previous Subscriber**") as subscribers and the Company as issuer, as amended and supplemented by an amendment agreement dated 23 October 2015 and entered into among the Original Share Subscribers, the Previous Subscribers, the Company, and Haitong International Securities Company Limited, ExaByte Capital Fund L.P. and Rich Harvest Worldwide Ltd. as new subscribers (collectively, the "**New Subscribers**"), as further amended and supplemented by amendment agreements dated 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016 respectively and entered into among the Original Share Subscribers, the Previous Subscribers, the New Subscribers and the Company (the "**Share Subscription Agreement**"), a copy of which is produced to the Meeting and marked "B" and initialed by the chairman of the Meeting for identification purpose, pursuant to which the Original Share Subscribers and the New Subscribers (collectively, the "**Subscribers**") agreed to subscribe for an aggregate of 1,269,414,575 Ordinary Shares (the "**Subscription Ordinary Shares**") at the issue price of HK$0.6696 per Ordinary Share and an aggregate of 2,747,909,199 Preferred Shares (the "**Subscription Preferred Shares**") at the issue price of HK$0.6696 per Preferred Share be and is hereby approved, confirmed and ratified;

(b) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") granting the listing of, and permission to deal in, the Subscription Ordinary Shares and the Ordinary Shares which may fall to be issued upon exercise of the conversion rights attaching to the Preferred Shares (the "**Preferred Conversion Shares**"), the directors of the Company be and are hereby authorised to allot and issue the Subscription Ordinary Shares and the Subscription Preferred Shares (or such other adjusted number of Subscription Ordinary Shares and Subscription Preferred Shares as may be necessary to fulfil the public float requirement of the Company) to the Subscribers; and the Preferred Conversion Shares upon exercise of the conversion rights attached to the Preferred Shares by the holder(s) thereof, in accordance with the terms and conditions of the Share Subscription Agreement; and

(c) the directors of the Company be and are hereby authorised to do all such further acts and things and to take all such steps which may be necessary, appropriate, desirable or expedient to implement and/or give effect to the Share Subscription Agreement and the transactions contemplated thereunder."

3. "**THAT**:

(a) Subject to the passing of resolution no. 1, the subscription agreement dated 22 June 2015 (as supplemented on 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016) and entered into between League Way Ltd. ("**League Way**") as subscriber, the Company as issuer and Titan Gas Technology Investment Limited (the "**CN Subscription Agreement**"), a copy of which is produced to the Meeting and marked "C" and initialed by the chairman of the Meeting for identification purpose, pursuant to which League Way agreed to subscribe for a convertible note of the Company in a principal amount of HK$250,000,000 which is convertible into Ordinary Shares at the initial conversion price of HK$0.6696 per Ordinary Share (the "**Convertible Note**") be and is hereby approved, confirmed and ratified;

(b) conditional upon the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Ordinary Shares which may fall to be issued upon exercise of the conversion rights attaching to the Convertible Note (the "**CN Conversion Shares**"), the directors of the Company be and are hereby authorised to issue to League Way the Convertible Note in accordance with the terms and conditions of the CN Subscription Agreement; and to allot and issue the CN Conversion Shares upon exercise of the conversion rights attached to the Convertible Note by the holder(s) thereof in accordance with the terms and conditions of the Convertible Note; and

(c) the directors of the Company be and are hereby authorised to do all such further acts and things and to take all such steps which may be necessary, appropriate, desirable or expedient to implement and/or give effect to the CN Subscription Agreement and the transactions contemplated thereunder."

4. "**THAT**:

(a) the share purchase agreement dated 22 June 2015 (as supplemented on 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016) and entered into among 上海宏博投資管理(集團)有限公司 (Shanghai Hongbo Investment Management (Group) Company Limited*) and 上海立大投資管理有限公司 (Shanghai Lida Investment Management Company Limited*) (collectively, the "**Vendors**") as vendors, the Company as purchaser and 錫林郭勒盟宏博礦業開發有限公司 (Xilin Gol League Hongbo Mining Development Co., Ltd.*) (the "**PRC Target**") (the "**Acquisition Agreement**"), a copy of which is produced to the Meeting and marked "D" and initialed by the chairman of the Meeting for identification purpose, pursuant to which the Company shall acquire 100% equity interests in the PRC Target from the Vendors at the total consideration of RMB558,880,000 in cash be and is hereby approved, confirmed and ratified; and

(b) the directors of the Company be and are hereby authorised to do all such further acts and things and to take all such steps which may be necessary, appropriate, desirable or expedient to implement and/or give effect to the Acquisition Agreement and the transactions contemplated thereunder."

5. “**THAT**:

(a) subject to the consent of the Executive Director of Corporate Finance Division of the Securities and Futures Commission of Hong Kong (or any delegate of the Executive Director) pursuant to Rule 25 of the Takeovers Code and any conditions that may be imposed thereon, the agreement dated 22 June 2015 (as supplemented on 23 October 2015, 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016) and entered into between the Company as seller and Upsky Enterprises Limited as buyer (the “**Divestment Agreement**”), a copy of which is produced to the Meeting and marked “E” and initialed by the chairman of the Meeting for identification purpose, pursuant to which the Company shall dispose of the entire issued share capital of each of Aykens Holdings Limited and Hopland Enterprises Limited at the initial consideration of HK$1,652,995 in cash (subject to adjustment in accordance with the terms of the Divestment Agreement) be and is hereby approved, confirmed and ratified; and

(b) the directors of the Company be and are hereby authorised to do all such further acts and things and to take all such steps which may be necessary, appropriate, desirable or expedient to implement and/or give effect to the Divestment Agreement and the transactions contemplated thereunder.”

6. “**THAT**

(a) the maximum number of directors of the Company be fixed at 15; and

(b) the directors of the Company be and are hereby authorised to appoint from time to time such additional number of directors up to such maximum number.”

By order of the Board
Shun Cheong Holdings Limited
Cao Jing
Executive Chairman

Hong Kong, 29 June 2016

Notes:

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more than one proxy to attend and, subject to the provisions of the Bye-laws of the Company, vote in his stead. A proxy need not be a member of the Company.

2. A form of proxy for use for the aforesaid purpose will be delivered forthwith together with a copy of this original notice to the registered address of the members entitled to vote at the Meeting. In order to be valid, the said form of proxy, together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority, must be lodged with the Company’s share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the Meeting or any adjourned Meeting at which the person named in such instrument proposes to vote.

3. Whether or not you propose to attend the Meeting in person, you are strongly urged to complete and return the said form of proxy in accordance with the instructions printed thereon. Completion and return of such form of proxy will not preclude you from attending the Meeting and voting in person if you so wish (in which case any appointment of proxy for the purpose of the Meeting will be deemed to be revoked).

4. For joint registered holders of any share attending the Meeting on the same occasion, the vote of the holder whose name stands first on the register who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders.

5. As at the date hereof, the directors of the Company comprises six directors, of whom two are executive directors, namely Ms. Cao Jing (executive chairman) and Mr. Zhang Shaohua (managing director), one is non-executive director, namely Mr. Mo Tianquan, and three are independent non-executive directors, namely Prof. Ye Jianping, Mr. Palaschuk Derek Myles and Mr. Chen Zhiwu.