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 113 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	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 (林楝梁), 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 (林楝梁) (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 (林楝梁) 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

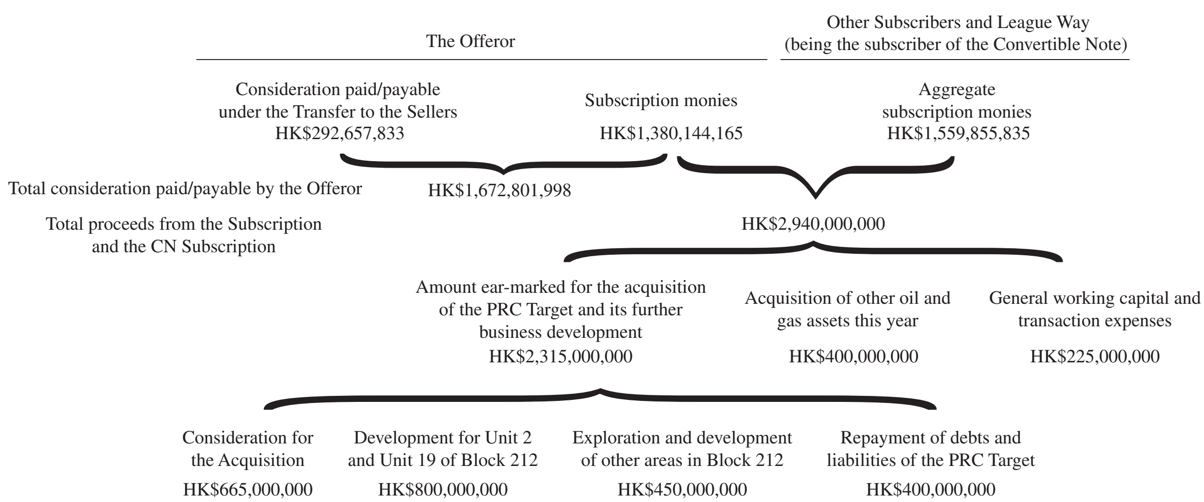
The Independent Shareholders shall pay particular attention that substantial deemed listing expenses are expected to be recognised in the consolidated income statement of the Restructured Group upon the S&P Completion and the completion of the Transactions. Details of the basis of the deemed listing 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.

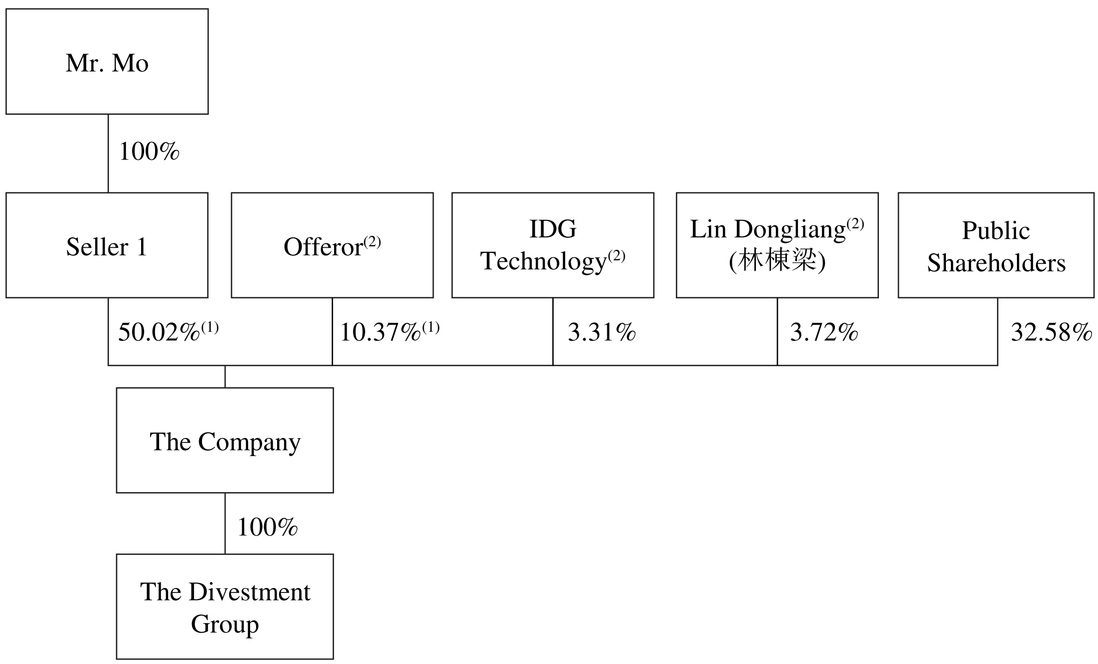
c. The unaudited pro forma adjusted net tangible assets of the Restructured Group are arrived at after the adjustments referred to in the paragraphs as detailed in Appendix VI to this circular and calculated based on the amount of the unaudited pro forma adjusted net liabilities attributable to the owners 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

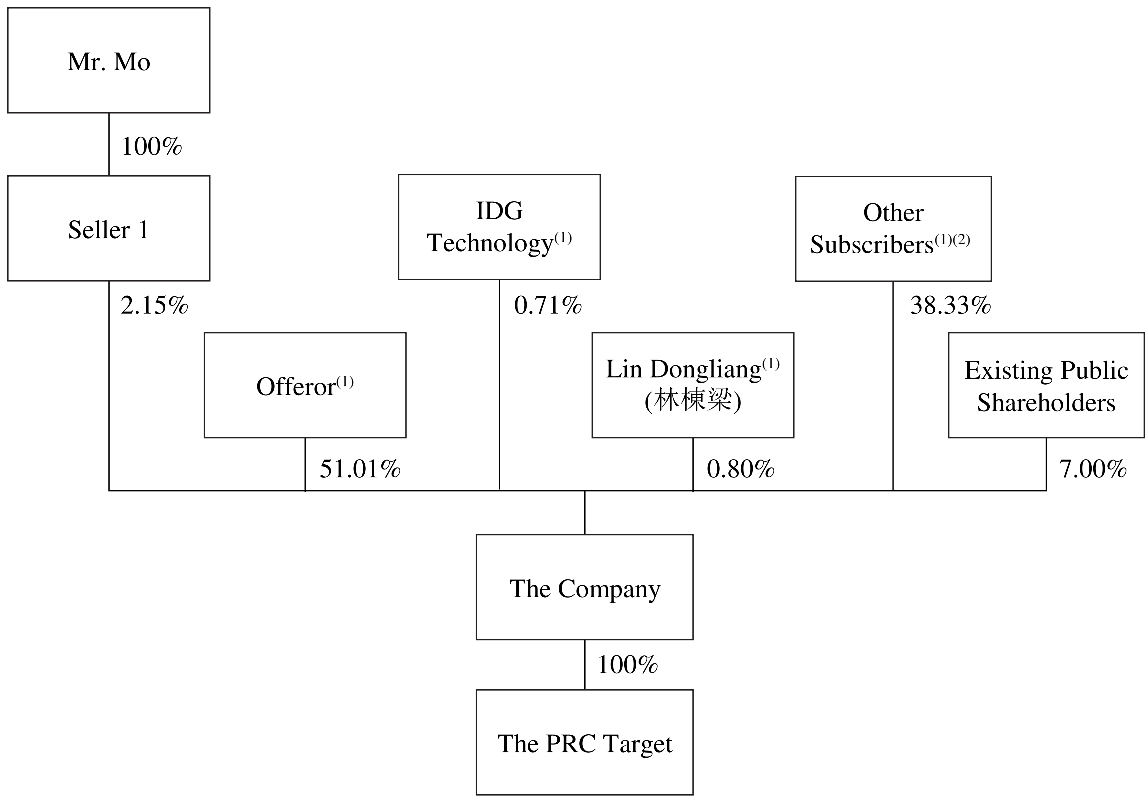


Notes:

(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

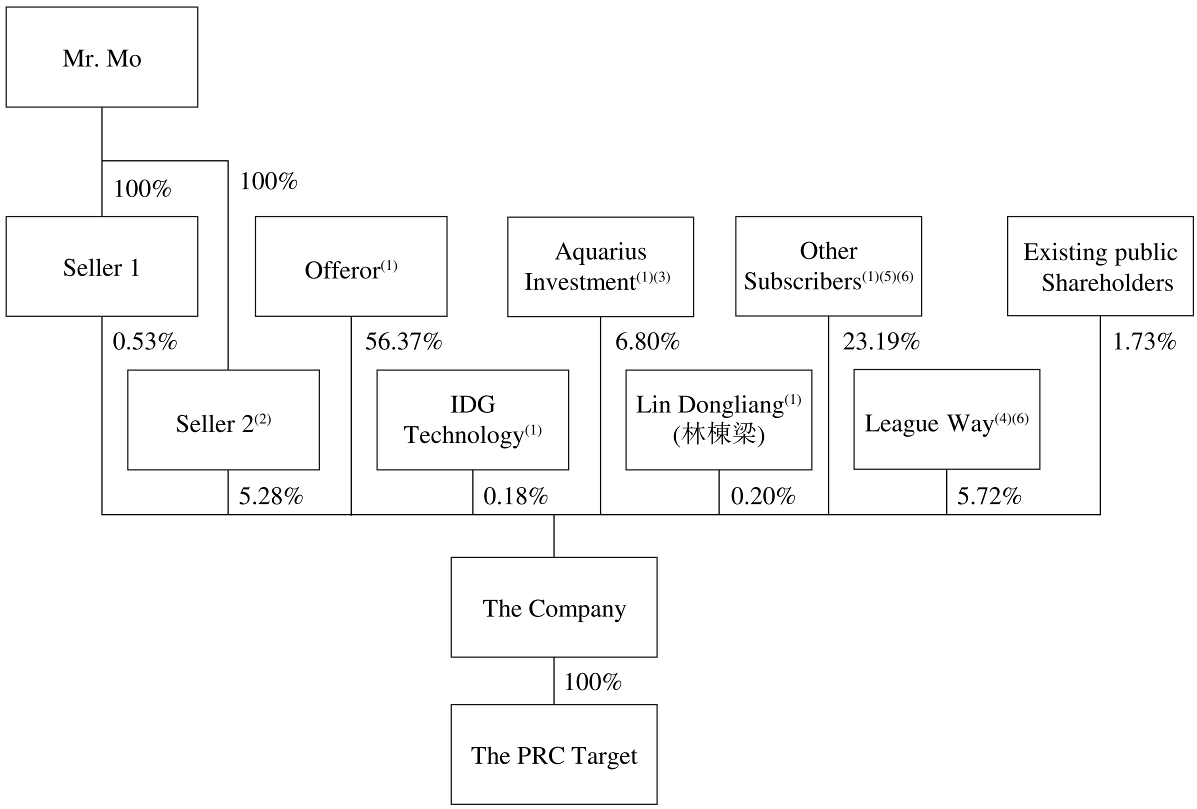


Notes:

(1) The Offeror, IDG Technology, Lin Dongliang (林楝梁) 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.