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.