

## RELATIONSHIP BETWEEN THE RESTRUCTURED GROUP AND THE CONTROLLING SHAREHOLDERS

### THE CONTROLLING SHAREHOLDERS

Immediately following the completion of the Transactions, the Offeror will own approximately 51.01% (not taking into account any Shares which may be acquired by the Offeror pursuant to the Offer and assuming all the Subscription Shares are issued to the Subscribers pursuant to the Subscription Agreement and assuming no conversion of the Convertible Bonds, the Convertible Note or the Preferred Shares) or 56.37% (assuming conversion in full of the Convertible Bonds (at the Adjusted CB Conversion Price), the Convertible Note and the Preferred Shares) equity interest in the Company and will become the controlling shareholder of the Company. The Offeror is an investment holding company set up for the purpose of investing in the Company pursuant to the Share Transfer, the Offer and the Subscription.

The entire issued share capital of the Offeror is owned by Titan Gas Holdings. Titan Gas Holdings is an investment holding company set up for the purpose of investing in conventional and unconventional oil and gas projects. As confirmed by Titan Gas Holdings, up to the Latest Practicable Date, it has not invested in any upstream crude oil exploration and/or production project other than its proposed investment in the PRC Target through the Company. Titan Gas Holdings is owned as to approximately 35.13% by Standard Gas, approximately 8.05% by Mr. Wang and approximately 6.87% by Kingsbury (altogether controlling approximately 50.05% voting rights in Titan Gas Holdings as a result of the acting in concert arrangement described below). The other shareholders of Titan Gas Holdings are (i) the IDG Funds which hold an approximately 49.14% equity interest in aggregate; and (ii) two individuals who hold an approximately 0.81% equity interest in aggregate, details of whom are set out in the section headed "Letter from the Board — Information on the Offeror" in this circular. As at the Latest Practicable Date, the board of directors of Titan Gas Holdings comprises Mr. Wang, Lin Dongliang (林棟梁), Shong Hugo (熊曉鵠) and Shi Weiguo. Mr. Wang and Lin Dongliang (林棟梁) are proposed to be appointed as executive Directors and Shong Hugo is proposed to be appointed as a non-executive Director as further detailed in the section headed "Directors and Senior Management of the Restructured Group" in this circular.

On 8 May 2015, Standard Gas, Mr. Wang and Kingsbury, entered into an acting in concert arrangement with respect to their voting rights in Titan Gas Holdings (the "Arrangement") for the purpose of facilitating a more efficient decision-making process in connection with the exercise of their shareholders' rights in Titan Gas Holdings. Pursuant to the Arrangement, Standard Gas, Mr. Wang and Kingsbury agree to align with each other in respect of the voting of major actions in respect of Titan Gas Holdings' business and each of Standard Gas, Mr. Wang and Kingsbury will consult each other and reach agreement on material matters of Titan Gas Holdings before it/he exercises its/his respective voting rights in Titan Gas Holdings, provided that Mr. Wang will have a casting vote in the event that a consensus cannot be reached among Standard Gas, Mr. Wang and Kingsbury.

All the issued voting shares in Standard Gas are held by Blazing Success Limited ("Blazing Success") which in turn is wholly owned by Lee Khay Kok. On 8 May 2015, Blazing Success granted an irrevocable power of attorney to the board of directors of Standard Gas, or a person designated by the board of directors of Standard Gas, to exercise all the

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voting rights attached to the 2,500,000 voting shares in Standard Gas held by Blazing Success. The board of directors of Standard Gas, which comprises Mr. Wang, Lin Dongliang (林棟梁) (“**Mr. Lin**”) and Shong Hugo (熊曉鵠), designated Mr. Wang as the exclusive attorney-in-fact pursuant to the power of attorney granted by Blazing Success. Further, each of Blazing Success and Lee Khay Kok (in the capacity as the sole shareholder and sole director of Blazing Success) has also given an irrevocable undertaking that it/he will not exercise its/his rights in respect of the shares in Standard Gas held by Blazing Success. Approximately 60% and 40% of the non-voting shares in Standard Gas are held by Neptune Gas Capital Limited and Oceanus Capital Limited respectively. Neptune Gas Capital Limited is held as to 51% by Mr. Lin and 49% by Yang Fei (楊飛).

Kingsbury is owned as to approximately 74.80% by Luo Yuping (羅玉平) and as to approximately 14.15% by Guo Xihong (郭西紅), with the remaining approximately 11.05% equity interest held by six PRC individuals, none of whom is holding more than 10% of the equity interest in Kingsbury or is affiliated with the other shareholders of Titan Gas Holdings and details of whom are set out in the section headed “Letter from the Board — Information on the Offeror” in this circular.

The IDG Funds are under common control of their ultimate general partner, IDG-Accel Ultimate GP. IDG-Accel Ultimate GP is an exempted company incorporated in the Cayman Islands with limited liability and is beneficially owned as to 50% by Ho Chi Sing (何志成), as to 10% by Zhou Quan (周全) and as to 10% by Shong Hugo, with the remaining 30% interest held by three individuals details of whom are set out in the section headed “Letter from the Board — Information on the Offeror” in this circular. IDG-Accel Ultimate GP’s board of directors (comprising Ho Chi Sing (何志成) and Zhou Quan (周全)) is responsible for decision-making matters relating to the IDG Funds and their investments, hence controls the exercise of the voting rights attached to the shares that the IDG Funds hold in Titan Gas Holdings.

On the basis set out above, Standard Gas, Mr. Wang, Kingsbury, Titan Gas Holdings and the Offeror will be the controlling shareholders of the Company (the “**Controlling Shareholders**”) under the Listing Rules immediately following the S&P Completion and completion of the Transactions.

### OVERVIEW OF THE EXCLUDED PROJECT

Directors of each of Standard Gas and Titan Gas Holdings include Mr. Wang and Mr. Lin.

As of the date hereof, 北京泰坦通源天然氣資源技術有限公司 (Beijing Tai Tan Tong Yuan Natural Gas Resources Technology Limited\*), (“**Beijing Tai Tan**”) has executed a Production Sharing Contract (“**PSC**”) with Yanchang, pursuant to which agreement Beijing Tai Tan will invest in and hold interest in a crude oil exploration project located in Alxa Right Banner/Darhan Muminggan Banner/Sonid Right Banner/Bordered Yellow Banner, Inner Mongolia, the PRC in respect of an area of 4,313 km<sup>2</sup> (the “**Excluded Project**”). Under the PSC, Beijing Tai Tan will be the operator and Yanchang will be the mineral right owner similar to the arrangements under the EPCC. Beijing Tai Tan is owned as to 94.05% by 廣州義數天企業管理諮詢有限公司 (Guangzhou Yishutian Enterprises Management Consulting Co., Ltd.\*) (“**Guangzhou Yishutian**”), 5% by Kingsbury and 0.95% by 廣州啓夏企業管理諮詢有

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限公司 (Guangzhou Qixia Enterprises Management Consulting Co., Ltd.\*) (“**Guangzhou Qixia**”, together with Beijing Tai Tan and Guangzhou Yishutian and Kingsbury, the “**Excluded Companies**”). Guangzhou Yishutian is owned as to 70% by Mr. Lin, 24% by Mr. Wang and 6% by Yang Fei. Guangzhou Qixia is owned as to 50% by Hou Langji (侯朗基), who is independent from the Offeror and the Company, and 50% by Yang Fei.

Save for the above Excluded Project, none of Mr. Wang, Mr. Lin, Lee Khay Kok, Luo Yuping, Guo Xihong, Standard Gas, Kingsbury, Titan Gas Holdings, and the Offeror has, directly or indirectly, invested in other crude oil exploration or production projects. Beijing Tai Tan is an investment company which has also invested in some other conventional and unconventional gas projects in the PRC.

### **Description of the business and management of the Excluded Project**

The Excluded Project is situated in Inner Mongolia, the PRC and no exploration work has been carried out up to the date of this circular. Beijing Tai Tan and Yanchang have been working together to apply for the exploration permit for the Excluded Project which has been granted to Yanchang. Under the PSC, Mr. Lin, Mr. Wang and Kingsbury will be interested in the Excluded Project through their respective shareholding interests in Beijing Tai Tan. None of the Directors, proposed Directors nominated to be appointed after completion of the Transactions and the other members of the existing or proposed senior management team of the PRC Target (as set out in the section headed “Directors and Senior Management of the Restructured Group” in this circular) will be involved in the Excluded Project.

### **No immediate competition between the Restructured Group and the Excluded Project**

The Directors consider that the Excluded Project will not be in direct competition with the Restructured Group after taking into account the following factors:

1. the Excluded Project is not located in close proximity to the PRC Target. These two projects are more than 550 km apart from each other. Given that no oil pipeline has been built in the area, the Company and the PRC Target consider that this distance is far enough to avoid any direct competition between the Excluded Project and the PRC Target, as it is not economically feasible to sell the crude oil by truck to a customer over such long distance;
2. the product of both the PRC Target and the Excluded Project is expected to be crude oil, which is a commodity whose selling price is mainly affected by the market. The Company and the PRC Target believe that the sale and distribution of commodities like crude oil will not, generally, be directly affected by the operation of one or two specific market players (like the PRC Target or Beijing Tai Tan). As mentioned in the section headed “Industry Overview” in this circular, the PRC is a net importer and this is expected to continue according to Wood MacKenzie. Domestic demand in the PRC is expected to exceed domestic supply of crude oil. Accordingly, the output level and sale of the PRC Target, as well as the price and distribution of its product, is not expected to be affected by the operation of the Excluded Project;

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3. it is not expected that there will be any material competition between the PRC Target and the Excluded Project for service providers; and
4. it is proposed that a deed of non-competition will be entered into by the Relevant Covenantors (which is defined the sub-section headed "Non-Competition Deed" in this section below) allowing the Company to choose to acquire the Excluded Project (directly or indirectly) at fair market value in future after completion of the Transactions. Please refer to the sub-section headed "Non-Competition Deed" for further details in this section below.

### Reasons for the exclusion of the Excluded Project from the Restructured Group

The Offeror has confirmed that no material exploration work has been carried out in respect of the Excluded Project. The Excluded Project is a very early stage investment without any proved reserves. Accordingly, the Offeror does not consider it in the interests of the Company and the Shareholders to invest in the Excluded Project now. The Board will evaluate the development of the Excluded Project from time to time and the Company will exercise its right under the Non-Competition Deed (which is defined and detailed in the sub-section headed "Non-Competition Deed" in this section below) to acquire (directly or indirectly) Beijing Tai Tan's interest in the Excluded Project as and when it considers appropriate.

### NON-COMPETITION DEED

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

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

- (a) holding interests in the shares of a company which is listed on a recognised stock exchange provided that:

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- (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 5% of that company's consolidated turnover or consolidated assets, as shown in that company's latest audited accounts; or
  - (ii) the total number of the shares held by the Covenantors and/or their respective close associates in aggregate does not exceed 5% of the issued shares of that class of the company in question and such Covenantors and/or their respective close associates are not entitled to appoint a majority of the directors of that company and/or at any time, there should exist at least another shareholder of the company; and
- (b) holding any direct or indirect interests in the Excluded Project.

### Option/rights of first refusal

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

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

Any decision on whether to exercise such option or rights of first refusal will be made by the independent non-executive Directors only (as agreed by the majority of them). In the event that the Company decides to exercise or not to exercise such option or rights of first refusal,

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the Company will have to comply with the relevant requirements under the Listing Rules including disclosing such decision in announcements setting out the details as required under the Listing Rules and/or seeking approval from the independent Shareholders at the Company's general meeting. Each of the Covenantors has undertaken to provide such information as may be reasonably required by the Company to consider properly whether the Excluded Project has become competing with the business of the Restructured Group or whether to exercise the said option or rights of first refusal.

The obligations of a Covenantor under the Non-Competition Deed will cease (i) upon the cessation of listing of the Ordinary Shares on the Stock Exchange (except suspension of listing of the Ordinary Shares pursuant to the Listing Rules); or (ii) regarding such Covenantor, when he/it (or his/its close associates) ceases to hold any equity interest, whether directly or indirectly, in the Company; or (iii) when the Covenantors become jointly entitled to exercise or control the exercise of less than 30% (or such other percentage of shareholdings as stipulated in the Listing Rules to constitute a controlling Shareholder) of the voting power at general meetings of the Company.

The undertakings contained in the Non-Competition Deed are conditional upon the completion of the Transfer and the Transactions.

The Company will adopt the following procedures to ensure the Non-Competition Deed is being observed:

- a. the Company will organise semi-annual working meetings with the Covenantors to review their business portfolios and to enable the Company to consider whether there is any opportunity to operate a Restricted Business which shall be offered to the Company; and
- b. each of the Covenantors has undertaken to provide and use reasonable endeavours to procure the provision to the Company such information as may be reasonably required by the Company to consider properly whether any business constitutes a Restricted Business, whether the Excluded Project has become competing with the business of the Restructured Group or whether to exercise the said option or rights of first refusal.

Each of the Covenantors has undertaken to provide an annual confirmation for inclusion in the Company's annual report whether he/it and his/its close associates has complied with the Non-Competition Deed and provide all information necessary for the independent non-executive Directors to review the compliance with the Non-Competition Deed. The independent non-executive Directors will report their findings in the Company's annual reports.

The independent non-executive Directors may appoint an independent financial advisor to provide advice in the exercise/non-exercise of the option or the first rights of refusal under the Non-Competition Deed.

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### **INDEPENDENCE OF THE RESTRUCTURED GROUP**

The Offeror and the Board (after consultation with the Offeror) believe that the Restructured Group is capable of carrying on its business independent of the Controlling Shareholders and their respective close associates after completion of the Transactions based on the following reasons:

#### **Management Independence**

The Board, after completion of the Transactions (and as soon as the appointment of the Directors nominated by the Offeror is permitted under the Takeovers Code), will consist of seven Directors, comprising two executive Directors, two non-executive Directors and three independent non-executive Directors. The day-to-day management of the business of the Restructured Group will primarily lie with the executive Directors as well as the senior management team. For more details on the Directors and senior management of the Restructured Group, please refer to the section headed "Directors and Senior Management of the Restructured Group" in this circular.

Each of the proposed Directors is aware of his fiduciary duties as a director which require, among other things, that he acts for the benefit and in the best interests of the Company, and does not allow any conflict between his duties as a director and his personal interest to exist. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between the Restructured Group and the proposed Directors or their respective close associates after completion of the Transactions, the interested Director(s) shall abstain from voting at the relevant Board meeting in respect of such transaction and shall not be counted in the quorum. The independent non-executive Directors will also bring independent judgment to the decision-making process of the Board. In addition, the Restructured Group will have an independent senior management team with the relevant industry expertise and experience to implement the Restructured Group's policies and strategies.

Based on the above, the Offeror and the Board (after consultation with the Offeror) are of the view that the Board as a whole together with the senior management team are able to manage the Restructured Group independently from the Controlling Shareholders and their respective close associates after completion of the Transactions.

#### **Operational Independence**

The Restructured Group will establish its own organisational structure comprising individual departments, each with specific areas of responsibilities. The Restructured Group will not share its operational resources, such as suppliers, customers, marketing sales and general administration resources with the Controlling Shareholders and their respective close associates.

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The Restructured Group will not rely on the Controlling Shareholders for any licences necessary for carrying on its businesses and have sufficient capital (subject to further capital to be raised from the Subscription and/or CN Subscription), equipment and employees to operate its business independently of the Controlling Shareholders. It will also establish and implement various internal control procedures to ensure that its business operations are being run effectively and efficiently. Based on the above, the Offeror and the Board (after consultation with the Offeror) consider that the operation of the Restructured Group does not rely on the Controlling Shareholders and their respective close associates.

### **Financial Independence**

The Restructured Group will have its own independent financial system and it will make financial decisions according to its business needs. The Restructured Group will also have its own internal control and accounting systems and accounting and finance department to perform independent treasury function for cash receipts and payments and independent accounting and reporting functions. The Restructured Group will be able to obtain financing from third parties or from its internally generated funds without reliance on the Controlling Shareholders. Based on the above, the Offeror and the Board (after consultation with the Offeror) believe that the Restructured Group is able to maintain financial independence from the Controlling Shareholders or any of their respective close associates after completion of the Transactions.