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**IDG Energy**  
**IDG ENERGY INVESTMENT GROUP LIMITED**  
**IDG 能源投資集團有限公司\***  
*(Incorporated in Bermuda with limited liability)*  
**(Stock Code: 650)**

**MAJOR TRANSACTION  
IN RELATION TO ENTERING INTO  
THE CREDIT AGREEMENT**

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A letter from the board of directors of the Company is set out on pages 6 to 23 of this circular.

\* *For identification purposes only*

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## DEFINITIONS

*In this circular, unless the context otherwise requires, the following terms shall have the following meanings:*

“Acquisition”	the acquisition of the Target Assets by Stonehold from Stonegate
“Acquisition Agreement”	the asset purchase agreement dated 14 August 2017 entered into between Stonegate and Stonehold in respect of the Acquisition
“Amendment Agreement”	the amendment agreement dated 26 September 2017 entered into by the Company, Think Excel and Stonehold in relation to the amendments to the Credit Agreement
“Annual Distribution Amount”	an annualized amount equal to 8% of the total Equity Contribution
“APA”	the Asset Purchase Agreement entered into by the Company and the Sellers on 21 November 2016 (local time in Houston, Texas) in respect of the Previous Transaction
“Available Cash Flow”	with respect to any date of determination, the gross cash receipts from Stonehold, insurance payments, warranty payments and cash previously reserved, in each case, during the period beginning on the date the last cash distribution was made to the equity holders and ending on such date of determination, less the portion thereof used to pay, or establish reserves for, any reserves necessary or appropriate for the operation of Stonehold
“Board”	the board of the Directors of the Company
“Breyer Capital”	Breyer Capital L.L.C., a limited liability company incorporated in Delaware
“Business Day”	any day that is not a Saturday, Sunday or other day on which commercial banks in Beijing, Hong Kong or New York City are authorized or required by law to remain closed
“CFIUS”	the Committee on Foreign Investment in the United States
“Company”	IDG Energy Investment Group Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 650)

## DEFINITIONS

“Controlling Shareholder” or “Titan Gas”	Titan Gas Technology Investment Limited, a company incorporated in the British Virgin Islands with limited liability, as the controlling shareholder of the Company, holding approximately 53.09% of the total issued share capital of the Company as at the Latest Practicable Date
“Credit Agreement”	the credit agreement dated 14 August 2017 entered into by the Company, Think Excel and Stonehold in relation to the grant of the Term Loan by the Company and Think Excel to Stonehold
“Dimmit”	Stonegate Dimmit Properties, LLC, a limited liability company incorporated in Texas
“Director(s)”	director(s) of the Company
“DisposalCo”	Dimmit/La Salle Saltwater Disposal Company, LLC, a limited liability company incorporated in Texas
“Disposal Proceeds”	the cash proceeds received or recovered by Stonehold in respect of any disposal of the Target Assets after deducting fees, costs and expenses reasonably incurred by Stonehold with respect to such disposal
“Effective Time”	7:00 a.m., central time, on 30 April 2017
“Equity Contribution”	the cash contribution in an aggregate amount of no less than US\$5 million (approximately HK\$39.12 million) by Breyer Capital by way of (x) subscription of 1,000 of fully paid ordinary shares in Stonehold or (y) a contribution to the capital of Stonehold
“Escrow Agent”	certain escrow agent that is a party to the deposit escrow agreement and the post-closing escrow agreement entered into by the Company, the Sellers and such escrow agent for the Previous Transaction
“Escrow Funds”	the escrow funds in relation to the Previous Transaction, the details of which were disclosed in the announcement of the Company dated 22 November 2016 and the circular of the Company dated 9 March 2017
“G&A Funds”	the G&A funds in relation to the Previous Transaction, the details of which were disclosed in the announcement of the Company dated 22 November 2016 and the circular of the Company dated 9 March 2017
“Group”	the Company and its subsidiaries

## DEFINITIONS

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Initial Utilization Date”	26 September 2017 (local time in Houston, Texas), the date on which the first borrowing was made by Stonehold under and pursuant to the terms of the Credit Agreement, being the same date as the closing date of the Acquisition
“Latest Practicable Date”	27 September 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	falling 10 years after the Initial Utilization Date
“Net Purchase Price”	the adjusted purchase price on closing of the Acquisition calculated pursuant to the terms of the Acquisition Agreement minus the total Equity Contribution (being US\$5 million (approximately HK\$39.1 million) as at the date of the Credit Agreement) and, if any amount of Senior Debt is funded on or before the closing of the Acquisition, the principal amount of such funded Senior Debt
“PRC Target”	錫林郭勒盟宏博礦業開發有限公司(Xilin Gol League Hongbo Mining Development Co., Ltd.*)
“Preferred Share(s)”	the restricted voting non-redeemable convertible preferred shares of HK\$0.01 each in the share capital of the Company
“Previous Reverse Takeover”	the Transfer and the Transactions (as defined in the RTO Circular), including but not limited to the acquisition of the entire equity interest of the PRC Target by the Company in accordance with the terms and conditions as detailed in the RTO Circular
“Rockgate”	Rockgate Production Company LLC, a limited liability company incorporated in Delaware, has been assigned all right, title and interest under the APA by the Company and has agreed to assume all the obligations and liabilities of the Company under the APA
“RTO Circular”	the circular of the Company dated 29 June 2016, in relation to, among other things, the Previous Reverse Takeover

## DEFINITIONS

“Sellers”	Stonegate, Dimmit and/or DisposalCo
“Senior Debt”	a senior debt to be borrowed either directly by Stonehold or by Rockgate, a wholly owned subsidiary of the Company, from any commercial bank(s) which takes priority to the Term Loan
“Share(s)”	the ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Stonegate”	Stonegate Production Company, LLC, a limited liability company incorporated in Delaware
“Stonehold”	Stonehold Energy Corporation, a Delaware corporation, as the borrower under the Credit Agreement, and is wholly owned by Breyer Capital as at the Latest Practicable Date
“Target Assets”	all of Stonegate’ right, title and interest in and to the non-operated oil and gas properties owned by Stonegate located in Dimmit and La Salle Counties, Texas as described under the Acquisition Agreement, effective as of the Effective Time, details of which are disclosed in the section of “7. Information on the Target Assets” in the Letter from the Board to this circular
“Term Loan”	the term loans granted by the Company and Think Excel to Stonehold pursuant to the terms of the Credit Agreement, in a principal amount not to exceed (i) on the Initial Utilization Date, the Net Purchase Price; (ii) thereafter, US\$10 million (approximately HK\$78.3 million); and (iii) any guarantee payment made by the Company and Think Excel to Stonehold in respect of the Senior Debt
“Term Note”	a promissory note issued by Stonehold and dated the date of the Term Loan (or such other date prior thereto as shall be satisfactory to the Company and Think Excel), payable to the Company and Think Excel in full on the Maturity Date
“Think Excel”	Think Excel Investments Limited, a limited liability company incorporated in the British Virgin Islands, as one of the lenders under the Credit Agreement, which is a direct wholly-owned subsidiary of the Company as at the Latest Practicable Date

## DEFINITIONS

“United States” or “U.S.”	the United States of America
“US\$”	United States dollars, the lawful currency of the United States
“%”	per cent

*For the purpose of this circular, unless otherwise indicated, the exchange rate of US\$1.00 = HK\$7.8250 has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged at such rate or any other rate or at all on the date or dates in question or any other date.*

# IDG Energy

## IDG ENERGY INVESTMENT GROUP LIMITED

### IDG 能源投資集團有限公司\*

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 650)**

*Executive Directors:*

Wang Jingbo (*Chairman and Chief Executive Officer*)  
Lee Khay Kok

*Non-executive Directors:*

Lin Dongliang  
Shong Hugo

*Independent Non-executive Directors:*

Chen Zhiwu  
Shi Cen  
Chau Shing Yim David

*Principal Place of Business*

*in Hong Kong:*  
Suite 2302  
Wing On Centre  
111 Connaught Road  
Central  
Hong Kong

*Registered Office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

29 September 2017

*To the Shareholders*

Dear Sir or Madam,

## MAJOR TRANSACTION IN RELATION TO ENTERING INTO THE CREDIT AGREEMENT

### 1. INTRODUCTION

References are made to (i) the announcements of the Company dated 22 November 2016 and 28 April 2017 and the circular of the Company dated 9 March 2017 in relation to the acquisition of certain oil and gas producing assets in the U.S. (the “**Previous Transaction**”); (ii) the announcements of the Company dated 3 August 2017, 11 August 2017 and 13 August 2017 in relation to, among others, the negotiation of a new transaction regarding assets of the Sellers by the Company and the Sellers; (iii) the announcements of the Company dated 15 August 2017 in relation to, among others, the entering into of the Credit Agreement by the Company, Think Excel (a wholly-owned subsidiary of the Company) and Stonehold; and (iv) the announcement of the Company dated 27 September 2017 in relation to, among others, the amendments to the Credit Agreement and the closing of the transaction under the Credit Agreement.

\* *For identification purposes only*

## LETTER FROM THE BOARD

On 14 August 2017 (local time in Houston, Texas), Stonehold entered into the Acquisition Agreement with Stonegate, pursuant to which, Stonegate has conditionally agreed to sell and Stonehold has conditionally agreed to purchase the Target Assets. The Target Assets form part of the assets of the Sellers originally agreed to be purchased by the Company under the Previous Transaction. All Target Assets are non-operated oil and gas assets of Stonegate.

On 14 August 2017 (local time in Houston, Texas), the Company and Think Excel (a wholly-owned subsidiary of the Company) entered into the Credit Agreement with Stonehold, pursuant to which, the Company and Think Excel have conditionally agreed to grant the Term Loan to Stonehold. Stonehold is a company wholly owned and solely controlled by Breyer Capital, which is a globally renowned venture capital and private equity investor whose portfolio investments include, among others, Facebook, Legendary, Etsy, and Marvel Entertainment. On 26 September 2017 (local time in Houston, Texas), the Company and Think Excel entered into the Amendment Agreement with Stonehold to amend certain terms of the Credit Agreement.

### 2. THE CREDIT AGREEMENT

The principal terms of the Credit Agreement are summarized as follows:

**Date:** 14 August 2017 (local time in Houston, Texas)

**Parties:** (i) Stonehold, as borrower; and  
(ii) the Company and Think Excel, as lenders

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Stonehold and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons.

**Purpose of the Term Loan:** Stonehold shall apply all amounts borrowed by it under the Term Loan towards:

- (i) payment of the Net Purchase Price of the Acquisition; and
- (ii) funding of future working capital and capital expenditure requirement of the Target Assets subject to a maximum amount of up to US\$10 million (approximately HK\$78.3 million).

## LETTER FROM THE BOARD

**Commitment:**

Subject to the terms and conditions of the Credit Agreement, the Company and Think Excel have agreed on a joint and several basis to advance the Term Loan to Stonehold in a principal amount not to exceed (i) on the Initial Utilization Date, the Net Purchase Price; (ii) thereafter, US\$10 million (approximately HK\$78.3 million); and (iii) any guarantee payment made by the Company and Think Excel to Stonehold in respect of the Senior Debt.

The Net Purchase Price is the adjusted purchase price on closing of the Acquisition calculated pursuant to the terms of the Acquisition Agreement minus the total Equity Contribution and, if any amount of Senior Debt is funded on or before the closing of the Acquisition, the principal amount of such funded Senior Debt. The Company will be required to act as a guarantor in respect of the Senior Debt. If the Company is required to make any guarantee payments in respect of the Senior Debt, such Term Loan shall not accrue any interest under the Credit Agreement.

The Senior Debt will be of an amount up to US\$100 million (approximately HK\$782.5 million), taking up approximately 40% to 60% of the adjusted purchase price on closing of the Acquisition. Based on the negotiation progress of the Senior Debt, the Company expects that the Senior Debt will be entered into by the end of 2017. Before the Senior Debt is entered into, the Company expects to pay the Term Loan of a maximum amount of approximately US\$169.9 million<sup>1</sup> (approximately HK\$1,329.5 million), which is estimated based on (i) the estimated Net Purchase Price of approximately US\$159.9 million (approximately HK\$1,251.2 million); and (ii) a maximum amount of up to US\$10 million for funding of future working capital and capital expenditure requirement of the Target Assets.

<sup>1</sup> This maximum amount of Term Loan was calculated based on the adjusted purchase price on closing of the Acquisition when the Senior Debt had not been entered into. Considering that approximately 40% to 60% of such amount will be refinanced by the Senior Debt and paid back to the Company soon after closing of the Acquisition and taking into account other arrangements under the Term Loan as a whole, the Board believes that such maximum amount of the Term Loan payable by the Company on or after closing of the Acquisition is fair and reasonable.

## LETTER FROM THE BOARD

Details of the latest status of the Senior Debt are disclosed in section “11. Senior Debt” in the Letter from the Board to this circular.

**Interest on the Term Loan:** The unpaid principal amount from time to time outstanding of the Term Loan shall bear interest at the rate of 8.00% per annum (after the making of or the allocation of any applicable withholding tax) (the “**Annual Interest**”), provided that an amount equal to 92.5% of the Disposal Proceeds, if applicable, as contemplated under the paragraph “Mandatory prepayment” in this section shall constitute additional interest to the Term Loan (the “**Additional Interest**”).

Accrued interest on the Term Loan shall be computed for the actual number of days elapsed on the basis of a year consisting of 360 days and paid on the last day of each 90-calendar-day after the Initial Utilization Date and on the Maturity Date. After the Maturity Date, whether by acceleration or otherwise, accrued interest shall be payable upon demand.

Any failure to pay interest pursuant to the terms of the Credit Agreement in a given year will not trigger an event of default thereunder if such failure is due to insufficient Available Cash Flow of Stonehold. The amount of such accrued but unpaid interest will be automatically capitalized and deferred to the next year, and no additional interest shall accrue on the unpaid interest amount<sup>2</sup>.

<sup>2</sup> Based on the current assessment of the market and operating data of the Target Assets, the Company considers that the risk of delay in payment of interest due to insufficient Available Cash Flow of Stonehold is not substantial, but the Company has considered such potential risk when considering the required Annual Interest and thus the rate of return. Considering the factors above, the Company accepted such term proposed by Stonehold under the Credit Agreement.

## LETTER FROM THE BOARD

**Events of default:**

The events of default under the Credit Agreement include, among others: (i) default in the payment of any principal of or interest on the Term Note when due as provided for under the Credit Agreement; (ii) bankruptcy or insolvency of Stonehold; (iii) failure of Stonehold to comply with or perform any provision of the agreements or documents in relation to the Term Loan; (iv) default of the Senior Debt; (v) cessation of business of Stonehold, or disposal or expropriation of the business or the assets of Stonehold; and (vi) change of ownership of Stonehold. If any of such events of default occurs, the commitment to provide the Term Loan by the Company and Think Excel shall immediately terminate and the Term Note shall become immediately due and payable, all without notice, protest, presentment or demand of any kind. The Company and Think Excel may choose to enforce Stonehold to dispose of the Target Assets to repay the outstanding principal and interest under the Term Loan or to waive the default depending on the severity of the impact that the relevant event of default causes to the solvency of Stonehold.

**Security:**

A second ranking security in respect of all the assets subject to the Senior Debt, if applicable, will be created and perfected in favour of the Company and Think Excel, provided that the security interest created in favour of the Company and Think Excel shall constitute a first ranking security over all the assets and equity interests of Stonehold until the incurrence of the Senior Debt.

**Repayment:**

The Term Loan shall be evidenced by the Term Note, payable to the Company and Think Excel in full on the Maturity Date, which falls 10 years after the Initial Utilization Date<sup>3</sup>.

The repayment of interest is disclosed under the paragraph “Interest on the Term Loan” in this section.

<sup>3</sup> The cash flows of the Target Assets are expected to be generated mainly in the next 10 years and the Term Loan is expected to be fully repaid by such accrued cash flows on the Maturity Date. In light of the nature of Term Loan as junior debt subordinated to the Senior Debt and the prepayment options as described below, such Maturity Date and repayment schedule are reasonable and conform with the market practice of similar junior debts.

## LETTER FROM THE BOARD

### **Prepayment:**

#### *Optional prepayment*

Stonehold may from time to time, upon at least two Business Days' prior written notice received by the Company and Think Excel, prepay the Term Loan in whole or in part without premium or penalty; provided, however, that any partial prepayment of the Term Loan shall be in an aggregate principal amount of US\$1 million (approximately HK\$7.8 million) or an integral multiple thereof.

#### *Mandatory prepayment*

Upon the disposal of substantially all of the Target Assets as agreed by Stonehold, the Company and Think Excel, and the Senior Debt lender(s) (if any), Stonehold shall apply such Disposal Proceeds in the following order:

- (i) in prepayment of the outstanding principal and interests of the Senior Debt;
- (ii) in prepayment of the outstanding principal and interests of the Term Loan;
- (iii) in repayment of the Equity Contribution and the Annual Distribution Amount;
- (iv) an amount equal to 92.5% of the remainder of such Disposal Proceeds be distributed to the Company and Think Excel, as Additional Interest to the Term Loan; and
- (v) the rest of such Disposal Assets may be distributed, in the manner at Stonehold's election.

Any prepayment (optional or mandatory) of principal of the Term Loan shall include accrued interest to the date of prepayment on the principal amount being prepaid.

## LETTER FROM THE BOARD

### **Conditions precedent of the Term Loan:**

The obligation of the Company and Think Excel to make the Term Loan is subject to the following conditions precedent:

- (i) the Company and Think Excel shall have received the Credit Agreement, the Term Note and all other related documents, each duly executed and in form and substance satisfactory to the Company and Think Excel;
- (ii) Stonehold shall provide the Company and Think Excel with written confirmation, among other things, (a) that no event of default has occurred and is continuing or will result from the making of such Term Loan, (b) that the Acquisition has been or will be consummated in accordance with the terms of the Acquisition Agreement, (c) that the relevant security arrangements have been created and perfected in favour of the Company and Think Excel and (d) that all necessary government approvals for the Acquisition, if any, have been obtained; and
- (iii) the Company and Think Excel shall have complied with all the necessary requirements under the applicable rules and regulations (including but not limited to the Listing Rules) for making the Term Loan under the Credit Agreement.

### **Negative Undertakings of Stonehold:**

Stonehold undertakes and agrees with the Company and Think Excel that throughout the continuance of the Credit Agreement and/or so long as any sum remains owing thereunder, unless otherwise permitted in the Credit Agreement or expressly agreed by the Company and Think Excel in writing, Stonehold will not implement, including but not limited to, merger, acquisition, reduction of capital, payment of dividends, material change of business, disposal of assets (including the Target Assets), lending or guarantees, other indebtedness or creation of encumbrances over its property (including the Target Assets), etc., which are subject to the specific provisions of the Credit Agreement.

## LETTER FROM THE BOARD

When negotiating and determining the Annual Interest, the Company has taken into account, among other things, such factors as (i) an average yield to worst rate of around 6% for similar debts in the market; (ii) the expected return rate of 10% broadly adopted by the market for estimating the return of equity investment in oil and gas exploration and production assets similar to the Target Assets; (iii) good quality of the Target Assets with a decent production history and promising prospect; (iv) the provision of guarantee by the Company in respect of the Senior Debt and the related guarantee fee arrangement; and (iv) the risk of delay in payment of interest due to insufficient Available Cash Flow of Stonehold.

The Additional Interest not only aims to serve as an additional reward to the Company for providing the guarantee in respect of the Senior Debt, but also provides an opportunity for the Company to enjoy a possible economic upside of the Target Assets in the case that the Target Assets are disposed of in a favorable future market condition for a higher Disposal Proceeds, although they are currently not expected to be material based on the assumptions adopted by the Company and Breyer Capital for calculating the return of the Target Assets under the prevailing market conditions.

The Company and Think Excel are merely lenders, i.e., creditors to Stonehold. They will not be involved in the management and operation of or exercise management and operational control over Stonehold or the Target Assets. The Company and Think Excel have not entered into nor will they enter into any profit sharing arrangement with Breyer Capital for the profits generated by Stonehold. Moreover, the Company and Think Excel have not been granted any right to acquire the Target Assets for a nominal price or a pre-paid amount.

Stonehold, a wholly-owned subsidiary of Breyer Capital, is under the sole control of Breyer Capital. Its management and operation are in the charge of the director(s) appointed by Breyer Capital and other senior management members appointed by the director(s). After closing of the Acquisition, the director(s) will be responsible for decision making on the operation and material events of the Target Assets, including the disposal of the Target Assets as provided for under the Credit Agreement. The Company and Think Excel are entitled to share the Disposal Proceeds as described above under the mandatory prepayment arrangement.

Stonehold is a special purpose vehicle established for acquiring and holding the Target Assets under the Acquisition. The Target Assets form substantially all of the assets of Stonehold. Therefore, the repayment of the Term Loan (including interest) by Stonehold will be contingent on the performance of the Target Assets and/or the amount of the Disposal Proceeds, as the case may be, for which arrangements are not uncommon in similar transactions and are considered on normal commercial terms. On one hand, from a commercial point of view, Stonehold will be incentivised to dispose of the Target Assets only when it will benefit from the economic upside of the Target Assets, in which case, (i) the Term Loan and the Senior Debt, if any, will have to be repaid in full; and (ii) Stonehold will recoup its equity contribution together with certain return on the equity contribution. On the other hand, the Company and Think Excel will enjoy customary protections for creditors under the Credit Agreement such as certain negative undertakings given by Stonehold and have the ability to share the return from the operation of the Target Assets in priority to the shareholder of Stonehold in case of such disposal through interest payment. Stonehold has undertaken that it will not dispose any assets (including the Target Assets) throughout the continuance of the

## LETTER FROM THE BOARD

Credit Agreement and/or so long as any amount of the Term Loan remains outstanding unless expressly agreed by the Company and Think Excel in writing, except for where the disposal is undertaken for regulatory reasons. In a word, any disposal of the Target Assets would only happen when there is consensus among Stonehold, the Company and Think Excel, and the Senior Debt lender(s), if any, for such disposal of the Target Assets.

The Term Loan was and will be further funded by internal resources of the Group, details of which are disclosed in section “5. Financing Arrangements for Provision of the Term Loan” in the Letter from the Board to this circular. The terms of the Credit Agreement (including the interest) were arrived at after arm’s length negotiations among the Company, Think Excel and Stonehold, and were determined with reference to (i) the current market norm in relation to similar transactions; (ii) the costs of providing the Term Loan to Stonehold; and (iii) the quality and performance of the Target Assets.

### 3. THE AMENDMENT AGREEMENT

On 26 September 2017 (local time in Houston, Texas), the Company and Think Excel entered into the Amendment Agreement with Stonehold to amend the Credit Agreement, pursuant to which, prior to the second anniversary of the closing date of the transaction under the Credit Agreement (26 September 2017, local time in Texas) (the “**Closing Date**”), all prepayments of the Term Loan, other than those made in connection with the incurrence of Senior Debt, shall be accompanied by a premium in an amount equal to (i) prior to the first anniversary of the Closing Date, the product of 100% of the principal amount of the loans prepaid times 2.00% and (ii) on and after the first anniversary of the Closing Date and prior to the second anniversary of the Closing Date, the product of 100% of the principal amount of the loans prepaid times 1.00%.

### 4. REASONS FOR AND BENEFITS OF THE CREDIT AGREEMENT

The Group is principally engaged in the exploration, development and production of crude oil. The Company has been actively looking for all sorts of investment opportunities, equity or debt like, in connection with crude oil exploration and production business, in furtherance of the Group’s business strategy to broaden its income stream and to strengthen its investment portfolio of oil and gas assets.

The ultimate purpose of both the Previous Transaction and the new transaction contemplated under the Credit Agreement and others (the “**New Transaction**”) is for the Company to benefit from the Target Assets, either by way of equity investment or debt arrangement. The Company believes that the Target Assets can provide a good return. The Previous Transaction was unable to be consummated as a result of a failure to receive the necessary approval from CFIUS. As advised by the legal advisers advising the Company on regulatory compliance matters in the United States, the New Transaction involves (i) an acquisition by a U.S. party, i.e., Stonehold, of non-operated working interests in the Target Assets, of which another U.S. party is the operator and the party responsible for the development of the Target Assets and (ii) provision of the Term Loan as contemplated under the Credit Agreement, and as such, the New Transaction, if materialised, will not be a covered transaction subject to CFIUS’s approval. Taking into account the previous efforts made and costs generated by the Company, the Company decides to undertake the New Transaction. The

## LETTER FROM THE BOARD

Company and Think Excel are not obliged to provide the Term Loan pursuant to the Credit Agreement until and unless the conditions precedent of the Credit Agreement are fulfilled which include, among others, the Acquisition Agreement can proceed to completion and is not otherwise terminated due to reasons such as the failure to fulfil any other conditions thereunder.

Breyer Capital is a business partner of one of the Company's affiliates which has experiences in the investment of oil and gas assets in North America with high credibility. As United States persons, Breyer Capital and Stonehold are not subject to the same regulatory requirements in the United States as the Company did in connection with the Previous Transaction. In anticipation of the failure of consummating the Previous Transaction, the Company has approached Breyer Capital to explore a new transaction to invest in the Target Assets. Breyer Capital has conducted an internal analysis and valuation of the Target Assets and their estimation of the prospect of the Target Assets is in line with that of the Company. Also, Breyer Capital retained external advisors to engage in negotiations with Stonegate and the Company as well as analysing various regulatory issues. Based on the common understanding on prospect of the Target Assets, the Company and Breyer Capital have agreed on the terms and conditions, and rights and obligations under the Credit Agreement after careful consideration of returns and risks under the New Transaction.

The major stakeholders of Stonehold can be categorized as (a) commercial bank(s) providing the Senior Debt as creditor(s), (b) the Company and Think Excel providing the Term Loan as creditors, and (c) Breyer Capital providing the Equity Contribution as equity investor and shareholder. The risks to be assumed by the above stakeholders align to the returns to be received by each of them under the New Transaction. The commercial bank(s) will have the lowest yield (lower than the 8% Annual Interest of the Term Loan) and bear the lowest risk as the Senior Debt takes priority over the Term Loan and the Equity Contribution in terms of mandatory repayment upon disposal of the Target Assets and liquidation or bankruptcy events. The Company and Think Excel will enjoy a higher yield (8% Annual Interest plus the Additional Interest of 92.5% of the net Disposal Proceeds) and also bear a higher risk as the Term Loan is subordinated to the Senior Debt. Breyer Capital will enjoy the highest yield (the expected return rate as broadly adopted by the market for estimating the return of equity investment in oil and gas exploration and production assets being around 10%) and also bear the highest risk as the equity holder. The Company understands that the investment by a foreign entity through high leveraged debt investments similar to the structure of the New Transaction is common in the U.S. market and conforms with market norm in the U.S. and the Board believes that major terms of the Credit Agreement, including the proportion of senior debt and junior debt, the applicable interest rates as well as the repayment schedules are on normal commercial terms after having considered, among other factors, oil market factors, production history and prospect of the Target Assets and similar high leveraged debt transactions in the U.S. market.

As disclosed in section "11. Senior Debt", a substantial part of the funding for the Acquisition will come from the Senior Debt to be provided by a commercial bank. Based on the negotiation progress with commercial bank(s), the Company expects that the Senior Debt will be entered into by the end of 2017. To facilitate the raising of the Senior Debt and taking into account the arrangements under the New Transaction as a whole, the Company considers

## LETTER FROM THE BOARD

it necessary and reasonable to act as the guarantor of the Senior Debt. Soon after the closing of the Acquisition, a substantial part of the Term Loan paid by the Company through reallocation of unutilised Previous Proceeds will be refinanced by the Senior Debt. The provision of the Term Loan will not negatively affect the liquidity of the Company.

The Directors believe that the Target Assets are good quality producing assets. By way of providing the Term Loan to Stonehold, the Company will benefit from an overall decent interest income and return. The Board believes that entering into of the Credit Agreement is in line with the Group's business strategy, is consistent with the nature of the Group's current business and is expected to bring long-term and attractive returns for the Shareholders.

On the basis of the reasons and benefits above, the Directors (including the independent non-executive Directors) consider that the transactions contemplated under the Credit Agreement are on normal commercial terms and the terms of the Credit Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

### **5. FINANCING ARRANGEMENTS FOR PROVISION OF THE TERM LOAN AND TEMPORARY REALLOCATION OF THE PREVIOUS PROCEEDS**

As disclosed in section "11. Senior Debt" in the Letter from the Board to this circular, the Company and Stonehold are in the process of negotiating the Senior Debt with certain commercial bank(s). The Senior Debt will be of an amount up to US\$100 million (approximately HK\$782.5 million), and will be borrowed either directly by Stonehold or by Rockgate, a wholly owned subsidiary of the Company, which will then lend the money to Stonehold. Based on the negotiation progress, the Company expects that the Senior Debt will be entered into by the end of 2017. On the closing of the Acquisition, the Company and Think Excel had made the initial payment under the Term Loan of US\$165 million (approximately HK\$1,291.1 million). After the closing of the Acquisition, the Company and Think Excel expect to pay a maximum amount of US\$4.9 million (approximately HK\$38.4 million) to Stonehold under the Term Loan. The substantial part of the Term Loan will be refinanced by the Senior Debt after it is entered into. Set out in the table below are details of the total maximum amount of approximately US\$169.9 million (approximately HK\$1,329.5 million) under the Term Loan and its relevant financing arrangements.

## LETTER FROM THE BOARD

### Payment made or to be made by the Company and Think Excel under the Term Loan on or after closing of the Acquisition

US\$169.9 million (approximately HK\$1,329.5 million), which represents:

- (a) the adjusted purchase price on the closing of the Acquisition of approximately US\$164.9 million (approximately HK\$1,290.3 million), *minus*
- (b) the total Equity Contribution of US\$5 million (approximately HK\$39.1 million), *plus*
- (c) up to US\$10 million (approximately HK\$78.3 million) for funding of future working capital and capital expenditure requirement of the Target Assets

### Financing Arrangements

The payment was and will be financed by:

- (a) Continuing Escrow Fund of the amount of HK\$204.9 million (*Note 1*), and
- (b) unutilized Previous Proceeds of HK\$1,124.6 million (*Note 2*).

#### Notes:

1. The closing of the Acquisition took place on 26 September 2017 (local time in Houston, Texas). Contemporaneous with the closing, all of the Continuing Escrow Fund had been released to the Company and had been used by the Company for payment under the Term Loan. Details of the arrangements on the Continuing Escrow Fund are disclosed in section “10. Update on the Acquisition and Distribution of Escrow Funds and G&A Funds under the Previous Transaction” in the Letter from the Board to this circular.
2. The Term Loan was and will also be financed by the proceeds from previous share subscription and convertible note subscription completed by the Company in July 2016 (the “**Previous Proceeds**”). Details of such previous fund raising transactions and the proposed use of the Previous Proceeds (the “**Original Use of Proceeds**”) have been disclosed in the RTO Circular and the subsequent changes in the Original Use of Proceeds (the “**Adjusted Use of Proceeds**”) as approved by the Board have been disclosed in the Company’s announcement dated 8 March 2017 and the Company’s circular dated 9 March 2017. As mentioned in the Company’s announcement dated 27 September 2017, the Company has made the following arrangements in respect of the Adjusted Use of Proceeds:
  - (1) enrich the contents of the use (the “**Use**”) of “Acquisition and development of other oil and gas companies or projects” in the Adjusted Use of Proceeds to “Investment in other oil and gas companies or projects, including but not limited to acquisition and development, equity or debt investment and other forms of investment that the Company considers appropriate and in line with the Group’s business strategy”. The amount of the Previous Proceeds for the Use under the Adjusted Use of Proceeds is HK\$861 million. Right before the release of the initial payment under the Term Loan, the actual utilization under the Use amounted to approximately HK\$328.9 million (including an amount of approximately HK\$204.9 million deposited to the Escrow Agent as the Continuing Escrow Fund), leaving a balance of approximately HK\$532.1 million; and

## LETTER FROM THE BOARD

- (2) temporarily use the unutilized Previous Proceeds of (i) an amount of HK\$532 million planned to be used for development of Unit 2 and Unit 19 of Block 212 which are not in immediate use and (ii) an amount of HK\$60.5 million planned to be used for working capital which are not in immediate use for making the payment under the Term Loan on closing of the Acquisition and replenish them with repayment from Stonehold after its obtaining of the Senior Debt or, as the case may be, from loan to be obtained by Rockgate, which is expected to take place by the end of 2017.

The Board is of the view that the above temporary reallocation of the Previous Proceeds will not have any adverse impact on the business plans and operations of the Group. Right before the release of the initial payment under the Term Loan, the unutilized Previous Proceeds for development of Unit 2 and Unit 19 of Block 212 under the Adjusted Use of Proceeds amounted to HK\$780 million. In view of the development plan of Unit 2 and Unit 19 of Block 212 and the funding requirement for its underlying capital and operating expenditures, the Company considers that, notwithstanding that HK\$532 million was temporarily reallocated, the remaining balance of HK\$248 million is sufficient for the underlying capital and operating expenditure of the development of Unit 2 and Unit 19 of Block 212 for at least the next twelve months from the date of this circular. Right before the release of the initial payment under the Term Loan, the unutilized Previous Proceeds for working capital under the Adjusted Use of Proceeds amounted to HK\$125.5 million. The Company considers that, notwithstanding that HK\$60.5 million was temporarily reallocated, the remaining balance of HK\$65 million is sufficient for the Group's working capital requirement for at least the next twelve months from the date of this circular.

The Company considers that the financing arrangements for the provision of Term Loan stated above is fair and reasonable, and best fits the needs of the Group and is in the best interests of the Company and the Shareholders as a whole. The Company confirms that it will have sufficient working capital for its present requirement for at least the twelve months from the date of this circular.

The Company has published an announcement in relation to the above arrangements of the Adjusted Use of Proceeds on 27 September 2017.

## 6. INFORMATION ON THE PARTIES

The principal activity of the Company is investment holding. The principal activities of the Group consisted of upstream crude oil exploration, development and production.

Think Excel is a special purpose vehicle established for providing the Term Loan and is a wholly-owned subsidiary of the Company as at the Latest Practicable Date.

Stonehold is a special purpose vehicle established for acquiring and holding the Target Assets under the Acquisition, and is wholly owned by Breyer Capital as at the Latest Practicable Date. Breyer Capital is a globally renowned venture capital and private equity investor founded in 2006 and based in Menlo Park, California, whose portfolio investments include, among others, Facebook, Legendary, Etsy, and Marvel Entertainment. The management and operation of Stonehold are solely controlled by Breyer Capital.

## LETTER FROM THE BOARD

### 7. INFORMATION ON THE TARGET ASSETS

The Target Assets are located in the State of Texas in the United States, including approximately 25,366 gross acres (9,735 net acres) across Dimmit and La Salle counties in the Eagle Ford region of South Texas. The area of the Target Assets is liquid-rich, and the majority of the reserves are crude oil and natural gas liquid. Based on the information provided by Stonegate, the Target Assets have proved reserve (1P) of about 23.5 MMboe and proved plus probable reserve (2P) of about 24.3 MMboe as of 1 March 2017. Pursuant to a valuation report prepared by a third party evaluator, the fair market value of the Target Assets amounts to approximately US\$220 million (approximately HK\$1,721.5 million), with various potential risk factors, cost of capital, the current market demand in the region for the resources and etc. being considered. Given the relatively low risk of the Target Assets in the United States, the current normal demand for United States shale oil, gas and natural gas liquids, and the high proportion of value deriving from producing reserves, a 10% discount rate has been used for the estimation of cash flow.

The Target Assets mainly includes (i) the oil and gas assets, (ii) all wells located on the oil and gas assets, including 173 wells producing marketable quantities of Hydrocarbons and 2 wells uneconomic to produce which are currently shut-in, (iii) all equipment used primarily in connection with the ownership or operation of the oil and gas assets, such as oil tanks, compressors, liner, pumping units, sucker rods, separator, gas lift equipment, metering equipment and etc., (iv) all hydrocarbons produced from the oil and gas assets that are in storage or existing at the Effective Time and not past a sales measuring point at the Effective Time and all hydrocarbons produced from the oil and gas assets on or after the Effective Time and all proceeds attributable thereto, and (v) the relevant surface rights, permits and contracts that relate solely to the abovementioned assets.

Based on the information provided by Stonegate, as at 28 February 2017, approximately 91% of the Target Assets' carrying value (approximately US\$107.1 million) comprised oil and gas properties (the carrying value of the oil and gas properties as of 28 February 2017 is approximately US\$97.1 million).

The underlying oil and gas properties of the Target Assets are jointly operated by multiple "working interest" owners (including one named operator and certain non-operators) under joint operating agreements to which Stonegate is a party as non-operator. The named operator is responsible for executing the joint operations. After closing of the Acquisition, the named operator, who has advanced expertise and abundant experience, will continue controlling the operation of the underlying oil and gas properties, including formulating and implementing the development plan, selling products and paying the royalty, etc. Stonehold, as a working interest owner, will manage the Target Assets mainly through financial budgeting and controlling, assessing the development plan of the named operator, monitoring the reserve regularly and maintaining the leases.

Breyer Capital has experiences with investment in oil and gas assets in North America. After closing of the New Transaction, Stonehold will engage the management personnel of Stonegate or hire from the market, where appropriate, to manage the Target Assets.

## LETTER FROM THE BOARD

Based on the information disclosed above and the estimation of future market demand, the Company is reasonably confident about the prospects of the performance of the Target Assets.

### 8. IMPLICATION UNDER THE LISTING RULES

As the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) in respect of the Credit Agreement exceeds 25%, the transaction contemplated under the Credit Agreement constitutes a major transaction of the Company and is subject to the reporting, announcement, circular and Shareholders' approval requirements under the Listing Rules.

In addition, as the maximum commitment amount of the Company and Think Excel of the Term Loan under the Credit Agreement exceeds 8% under the assets ratio as defined under Rule 14.07 of the Listing Rules, pursuant to Rule 13.13 of the Listing Rules, the grant of the Term Loan is subject to the general disclosure obligation of the Company under Rule 13.15 of the Listing Rules.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder has a material interest in the Credit Agreement and accordingly, no Shareholder is required to abstain from voting if the Company were to convene a Shareholders' meeting for approving the Credit Agreement and the transactions contemplated thereby. The Controlling Shareholder, holding 2,241,147,200 Shares (representing approximately 53.09% of the total issued share capital of the Company as at the Latest Practicable Date), has given its written approval for the Credit Agreement and the transactions contemplated thereunder and such written approval is accepted in lieu of holding a general meeting pursuant to Rule 14.44 of the Listing Rules. As at the date of the written approval, the Controlling Shareholder held 829,641,578 Shares (representing approximately 51.32% of the total issued share capital of the Company). Accordingly, no Shareholders' meeting will be held by the Company for approving the Credit Agreement and the transactions contemplated thereunder.

### 9. FINANCIAL EFFECT OF THE TRANSACTION

The Company elects to early adopt Hong Kong Financial Reporting Standard 9, *Financial instruments* (the "HKFRS9"). Based on the current documents, facts and circumstances, the Term Loan should be classified into financial assets measured at fair value through profit or loss under HKFRS9. As a result of provision of the Term Loan, financial assets and guarantee related liabilities will increase and the bank and cash balances of the Group will decrease by the same amount. The net assets of the Group on the date of grant of the Term Loan will not be materially impacted. As to the subsequent measurement, the fair value gain or loss arising from the Term Loan will be charged into profit or loss in future accounting periods. Accounting treatment for guarantee related liabilities in future accounting period is subject to further negotiation with certain commercial bank(s) regarding the Senior Debt, which might also affect the accounting treatment for the transaction. The Company has discussed with its auditors regarding the aforementioned accounting treatment.

## LETTER FROM THE BOARD

### 10. UPDATE ON THE ACQUISITION AND DISTRIBUTION OF ESCROW FUNDS AND G&A FUNDS UNDER THE PREVIOUS TRANSACTION

On 26 September 2017 (local time in Houston, Texas), all the conditions precedent of the Term Loan had been satisfied, and the initial payment of the Term Loan with an amount of US\$165 million (approximately HK\$1,291.1 million) under the Credit Agreement was released to Stonehold. Substantially concurrently with the utilization of the initial payment of the Term Loan, the acquisition of Target Assets by Stonehold from Stonegate also completed in accordance with the terms of the Acquisition Agreement on 26 September 2017 (local time in Houston, Texas).

References are made to the announcements of the Company dated 3 August 2017, 11 August 2017 and 13 August 2017 in relation to, among others, arrangements on distribution of the Escrow Funds and the G&A Funds.

On 14 August 2017 (local time in Houston, Texas), the Company entered into a letter agreement with the Sellers, agreeing on the further delay of distribution of the Escrow Funds and the G&A Funds (including any accrued interests) (the “**Continuing Escrow Fund**”) from 15 August 2017 (local time in Houston, Texas) to 29 September 2017 (local time in Houston, Texas). As mentioned in the Company’s announcement dated 27 September 2017, contemporaneous with the closing of the Acquisition on 26 September 2017 (local time in Houston, Texas), all of the Continuing Escrow Fund of the amount of US\$26.4 million (approximately HK\$204.9 million) was released to the Company.

### 11. SENIOR DEBT

The Company and Stonehold have been considering and negotiating with certain commercial bank(s) for obtaining of the Senior Debt. The Senior Debt will be of an amount up to US\$100 million (approximately HK\$782.5 million) that may take up approximately 40% to 60% of the adjusted purchase price on closing of the Acquisition, and will be borrowed either directly by Stonehold or by Rockgate, a wholly owned subsidiary of the Company, which will then lend the money to Stonehold. Based on the negotiation progress, the Company expects that the Senior Debt will be entered into by the end of 2017.

A loan agreement is proposed to be entered into by Rockgate or Stonehold as the borrower (the “**Borrower**”) with a commercial bank (the “**Lender**”) for the Lender to provide and underwrite a loan of up to US\$100 million (approximately HK\$782.5 million) (the “**Loan**”), and in each scenario, the Company will provide guarantee for the Loan as requested by the Lender. The specific amount of the Loan and the identity of the Borrower under the Loan will be determined at the request of the Lender. The amount of the Loan, which will take up approximately 40% to 60% of the adjusted purchase price on closing of the Acquisition, conforms to the financing structure of similar transactions in the market.

The Loan is expected to be self-amortizing with a term of five to seven years at an annual interest rate lower than the Annual Interest under the Term Loan. A first ranking security over all the assets and equity interests of Stonehold will be created in favour of the Lender. The Loan is expected to be subject to customary events of default provisions such as non-payment, non-compliance, breach of undertakings, insolvency and analogous events and material adverse

## LETTER FROM THE BOARD

change of the Borrower. The default of the Loan may trigger an event of default of the Term Loan and upon agreement of the creditors, the assets of Stonehold, substantially the Target Assets, will be disposed, of which the proceeds will be applied in the same order as set out in the paragraph “Mandatory prepayment” under the above section “2. The Credit Agreement”.

The Company considers that the risk and reward of being a guarantor of the Loan is balanced and justifiable based on the following aspects:

- (i) the risk of making guarantee payment for the Loan is quite low given that (a) a first ranking security over all the assets and equity interests of Stonehold, substantially the Target Assets (with a fair market value of approximately US\$220 million, far more valuable than the Loan of up to US\$100 million, and with a solid production history and continuing development prospect), will be created in favour of the Lender; and (b) the default of the Loan will trigger the default of the Term Loan under the Credit Agreement such that it is in its commercial interest that Stonehold will make every effort to perform its obligations under the Loan; and
- (ii) the making of the guarantee payment, though it is reasonably believed unlikely to occur, has been priced into the Annual Interest, which will accrue on the Term Loan (being approximately HK\$547 million after the refinancing by the Loan). The level of the Annual Interest is above that of similar junior loans in the market, the average of which is normally around 6%.

The Senior Debt had not been entered into on or before the closing of the Acquisition and the Initial Utilization Date. Under the scenario that Stonehold acts as the Borrower, Stonehold will repay the Company with the amount of the Loan it receives. Under the other scenario that Rockgate acts as the Borrower, Rockgate will enter into a separate loan agreement with Stonehold and lend the money it receives under the Loan to Stonehold (the “**Rockgate Loan**”). Stonehold will then repay the Company for the junior debt under the Term Loan with such money it receives from Rockgate. Stonehold will need to repay the Rockgate Loan and the repayment schedule will be identical with that of the Loan. The interest of the Rockgate Loan will be no lower than that of the Loan. It has always been the parties’ commercial intention that the obligations of the Company and Think Excel under the Term Loan is net of the Senior Debt, which shall be undertaken by Stonehold, either directly or indirectly through the Rockgate Loan. The same intention is reflected in the definition of the Term Loan under the Credit Agreement. The Credit Agreement has provided for the prepayment of the Term Loan by Stonehold through which Stonehold could repay the Term Loan relating to its replacement by the Senior Debt before its maturity. The Company understands that Stonehold will repay the Term Loan upon receiving such Loan proceeds (either directly from the Borrower or indirectly through Rockgate) pursuant to the terms of the Credit Agreement. Also, the Credit Agreement has provided for restrictive covenants essentially prohibiting Stonehold from putting such money into other uses. Based on the above arrangements, both scenarios in respect of the Senior Debt will have similar implications in terms of risk and returns to the Company and will not negatively affect the liquidity of the Company.

## LETTER FROM THE BOARD

As of the Latest Practicable Date, the definitive agreement(s) for the Loan and the Rockgate Loan (if any) is/are still being negotiated by the parties. The Company will re-comply with the announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules, where applicable, for the transactions under the Loan and the Rockgate Loan (if any) when the relevant definitive agreement(s) is/are entered into.

### 12. RECOMMENDATION

The Board considers that the terms of the Credit Agreement and the Amendment Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors would recommend the Shareholders to vote in favour of a resolution approving the Credit Agreement and the Amendment Agreement and the transactions contemplated thereunder if the Company were to convene a general meeting to approve such resolution.

### 13. ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendices to this circular.

Yours faithfully,  
By Order of the Board  
**WANG Jingbo**  
*Chairman and Chief Executive Officer*

## 1. FINANCIAL INFORMATION

The audited consolidated financial information of the Group for each of the three years ended 31 March 2015, 2016 and 2017 are disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.irasia.com/listco/hk/idgenergy>) respectively:

- annual report of the Company for the year ended 31 March 2015 published on 20 July 2015 (pages 18 to 84);
- annual report of the Company for the year ended 31 March 2016 published on 26 July 2016 (pages 25 to 92); and
- annual report of the Company for the year ended 31 March 2017 published on 11 July 2017 (pages 77 to 134).

## 2. INDEBTEDNESS

As at 31 August 2017, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the total amount of the liability component of the convertible bonds and convertible notes of the Group was approximately HK\$118.05 million and HK\$224.59 million respectively. All of the abovementioned convertible bonds and convertible notes are unguaranteed.

Save as disclosed above and apart from intra-group liabilities and normal trade payables, as at 31 August 2017, the Group did not have any outstanding loans, mortgages, charges, debentures, other loan capital, bank overdrafts, loans, debt securities, other similar indebtedness, liabilities under acceptances or acceptances credits or hire purchase commitments, guarantees or other material contingent liabilities.

The Directors confirmed there was no material adverse change in the indebtedness and contingent liabilities of the Group since 31 August 2017 and being the date for determining the Group's indebtedness.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the rate of exchange prevailing at the close of business on 31 August 2017.

## 3. FINANCIAL AND TRADING PROSPECTS

For the year ended 31 March 2017, the Group achieved a major breakthrough on the newly drilled Y9-1 well, which is one of the highest daily production wells in Block 212. Its high production volume reflects a large scale of underground reserves. The Group will first study the production statistics of the Y9-1 well and evaluate its impact on the whole development plan of new wells drilling. This has temporarily affected the drilling plan of the Group in 2016, but the Group will follow up, expedite and adhere to the general development

plan in 2017. The Group will adopt a stable output strategy and is prepared to invest a large amount of capital expenditure for further drilling and fracturing plan, based on the international oil market trend.

During the year ended 31 March 2017, as one of its existing strategies, the Group has aimed to widen its global footprint and develop a more diversified and balanced oil and gas business portfolio through selective acquisition of overseas upstream oil assets. In view of the continuous macro-control measures and the ever-changing market condition in the oil and gas industry, on the basis of the Group's existing overall strategic development premise, the Group has made reasonable planning to expand its business development model and consider engaging in investment and management of oil and gas assets. The Board believes this business expansion model will continue to demonstrate the Group's commitment in oil and gas industry, drive the growth of the Group's oil and gas asset base, and enhance shareholder value.

The Board is of the view that the investment and management of oil and gas assets is a favourable option for the Group to achieve sustainable long-term growth and prosperity in the cyclic oil and gas industry. The Board expects that the Group can continue to capture investment opportunities globally by best leveraging its industry and business development expertise, establishing an investment platform, and adopting contrarian investment strategy. To satisfy the capital needs for assets investment and management, subject to the market condition, the Group will look for the most suitable fund raising methods which may include leveraging both equity and/or debt markets, as well as any other alternative fund raising methods. The Board believes that the Group is well positioned to develop quickly when attractive assets become available, and outperform crude oil benchmarks.

#### **4. WORKING CAPITAL**

The Directors are of the opinion that, taking into account the business prospects and the internal resources of the Group, the Group has sufficient working capital for its requirements for at least 12 months from the date of this circular.

#### **5. MATERIAL ADVERSE CHANGE**

As at the latest practicable date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2017, the date to which the latest published audited financial statements of the Group were made up.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes the particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DIRECTORS' INTERESTS

### (1) Interests in the shares, underlying shares and debentures of the Company or any associated corporation

As at the Latest Practicable Date, the interests and/or short positions (as applicable) of the Directors in the shares, underlying shares and debentures of the Company or any of the Company's associated corporations (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions (as applicable) which they are taken or deemed to have under such provisions of the SFO); or (ii) required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") to be notified to the Company and the Stock Exchange, are as follows:

#### (A) Long positions in the Shares

Name of Director	Nature of interest	Number of Ordinary Shares	Percentage of the Company's issued shares
Wang Jingbo	Corporate	2,241,147,200 (Note 1)	53.09%
Shong Hugo	Corporate	2,241,147,200	53.09%
Lin Dongliang	Corporate Beneficial	2,241,147,200 12,910,000 (Notes 1 and 3)	53.09% 0.31%

#### Notes:

- These shares are held by Titan Gas, a company which is controlled as to 84.22% by Titan Gas Technology Holdings Limited ("**Titan Gas Holdings**"), which is in turn owned as to 35.13% by Standard Gas Capital Limited ("**Standard Gas**"), 49.14% by IDG-Accel China Capital II L.P. ("**IDG-Accel Capital II**") and IDG-Accel China Capital II Associates L.P. ("**IDG Funds**"), 8.05% by Mr. Wang Jingbo ("**Mr. Wang**"), 6.87% by 金世旗國際控股股份有限公司(Kingsbury International Holdings Co., Ltd.\*) ("**Kingsbury**"), 0.73% by Zhang

Weiwei and 0.08% by Bryce Wayne Lee. Under the SFO, Titan Gas Holdings, Standard Gas and IDG Funds are deemed to have interest in the shares in which Titan Gas has beneficial interest.

Standard Gas, Mr. Wang and Kingsbury have entered into an acting in concert arrangement for the purpose of facilitating a more efficient decision-making process in connection with the exercise of their shareholders' rights in Titan Gas Holdings pursuant to which, Standard Gas, Kingsbury and Mr. Wang agree to align with each other in respect of the voting of major actions in respect of Titan Gas Holdings' business and each of Standard Gas, Mr. Wang and Kingsbury will consult with each other and reach agreement on material matters of Titan Gas Holdings before it/he exercises its/his respective voting rights in Titan Gas Holdings, provided that Mr. Wang will have a casting vote and will have the final decision making power in the event that a consensus cannot be reached among Standard Gas, Mr. Wang and Kingsbury. Under the SFO, Mr. Wang is deemed to have interests in the shares in which Titan Gas has interest.

2. All the issued voting shares in Standard Gas are held by Blazing Success Limited (“**Blazing Success**”) which in turn is wholly owned by Lee Khay Kok. Blazing Success has granted a power of attorney to the board of directors of Standard Gas which comprises Mr. Wang, Lin Dongliang and Shong Hugo. Under the SFO, Shong Hugo is deemed to have interest in the shares in which Standard Gas has interest.
3. All the issued voting shares in Standard Gas are held by Blazing Success which in turn is wholly owned by Lee Khay Kok. Blazing Success has granted a power of attorney to the board of directors of Standard Gas which comprises Mr. Wang, Lin Dongliang and Shong Hugo. Under the SFO, Lin Dongliang is deemed to have interest in the shares in which Standard Gas has interest.

The 12,910,000 Shares are held by Lin Dongliang beneficially.

**(B) Long positions in the underlying shares of the Company**

Name of Director	Nature of interest	Number of underlying Shares
Wang Jingbo	Corporate	1,440,960,208 (Note 1)
Shong Hugo	Corporate	1,440,960,208 (Notes 1 and 2)
Lin Dongliang	Corporate	1,440,960,208 (Notes 1 and 3)

*Notes:*

1. The 1,440,960,208 underlying shares represented the new Shares to be issued upon full conversion of the convertible bonds with an aggregate principal amount of HK\$96,832,526 (“**Convertible Bonds**”) held by Titan Gas at a Conversion Price of HK\$0.0672 per Shares issued by the Company. As explained in Note 1 of Section (A) above, under the SFO, Mr. Wang is deemed to have interests in the Convertible Bond in which Titan Gas has interest.
2. As explained in Notes 1 and 2 of Section (A) above, under the SFO, Shong Hugo is deemed to have interest in the shares in which Standard Gas has interest.

3. As explained in Notes 1 and 3 of Section (A) above, under the SFO, Lin Dongliang is deemed to have interest in the shares in which Standard Gas has interest.

**(C) Interest in associated corporations of the Company**

**(i) Titan Gas Technology Holdings Limited**

Name of Director	Long/short position	Capacity	Number of Shares	Percentage of the associated corporation's issued voting shares
<b>Ordinary Shares: Other than pursuant to equity derivatives</b>				
Wang Jingbo	Long position	Corporate	13,000,000 (Note 1)	65.00%
		Beneficial	6,418,675	32.09%
Shong Hugo	Long position	Corporate	13,000,000 (Notes 1 and 2)	65.00%
Lin Dongliang	Long position	Corporate	13,000,000 (Notes 1 and 3)	65.00%
<b>Series A-1 Preferred Shares: Unlisted derivatives — Physically settled options</b>				
Wang Jingbo	Long position	Corporate	15,000,000 (Note 1)	75.00%
Shong Hugo	Long position	Corporate	15,000,000 (Notes 1 and 2)	75.00%
Lin Dongliang	Long position	Corporate	15,000,000 (Notes 1 and 3)	75.00%

*Notes:*

- These shares are held by Standard Gas. All the issued voting shares in Standard Gas are held by Blazing Success which in turn is wholly owned by Lee Khay Kok. Blazing Success has granted a power of attorney to the board of directors of Standard Gas which comprises Mr. Wang, Lin Dongliang and Shong Hugo. Under the SFO, Mr. Wang is deemed to have interest in the shares in which Standard Gas has interest. Mr. Wang, Lin Dongliang and Shong Hugo are also directors of Titan Gas Holdings.
- Please see Note 2 of Section (A) above.
- Please see Note 3 of Section (A) above.

## (ii) Titan Gas Technology Investment Limited

Name of Director	Long/short position	Capacity	Number of Shares	Percentage of the associated corporation's issued voting shares
<b>Ordinary Shares</b>				
Wang Jingbo	Long position	Corporate	150,000 (Note 1)	84.22%
Shong Hugo	Long position	Corporate	150,000 (Notes 1 and 2)	84.22%
Lin Dongliang	Long position	Corporate	150,000 (Notes 1 and 3)	84.22%

*Notes:*

1. These shares are held by Titan Gas Holdings, which is in turn controlled as to 35.13% by Standard Gas. Under the SFO, Standard Gas is deemed to have interest in the shares in which Titan Gas Holdings has beneficial interest.

Standard Gas, Mr. Wang and Kingsbury have entered into an acting in concert arrangement for the purpose of facilitating a more efficient decision-making process in connection with the exercise of their shareholders' rights in Titan Gas Holdings pursuant to which, Standard Gas, Kingsbury and Mr. Wang agree to align with each other in respect of the voting of major actions in respect of Titan Gas Holdings' business and each of Standard Gas, Mr. Wang and Kingsbury will consult with each other and reach agreement on material matters of Titan Gas Holdings before it/he exercises its/his respective voting rights in Titan Gas Holdings, provided that Mr. Wang will have a casting vote and will have the final decision-making power in the event that a consensus cannot be reached among Standard Gas, Mr. Wang and Kingsbury. Under the SFO, Mr. Wang is deemed to have interests in the shares in which Titan Gas Holdings has interest.

2. Please see Note 2 of Section (A) above.
3. Please see Note 3 of Section (A) above.

**(2) Directors' service contracts**

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into any service agreement with the Company or any member of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

### (3) Competing interest of Directors

As disclosed in the RTO Circular, in order to protect the interest of the Company, the Offeror (as defined in the RTO Circular), Mr. Wang Jingbo (an executive Director), Mr. Lin Dongliang (a non-executive Director) and certain other parties (collectively, the “**Covenantors**”) has entered into a non-competition deed in favour of the Company (for itself and for the benefit of its subsidiaries) (the “**Non-Competition Deed**”). With reference to the RTO Circular, the Company organised a working meeting with the Covenantors in which the Company reviewed their business portfolios and considered that there was no opportunity to operate a Restricted Business (as defined in the RTO Circular).

As disclosed in the annual report of the Company for the year ended 31 March 2017, the Company has received confirmations from each of the Covenantors on full compliance with the Non-Competition Deed for the year ended 31 March 2017. The independent non-executive Directors have reviewed the confirmations provided by the Covenantors, and concluded that each of the Covenantors complied with the relevant terms of the Non-Competition Deed for the year ended 31 March 2017.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and their respective associates (as defined in the Listing Rules) had an interest in a business which competes or may compete with the business of the Group (which would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling shareholder of the Company).

### (4) Other interests

As at the Latest Practicable Date, saved as disclosed in this circular,

- (a) none of the Directors is aware of any other Director who has any interests or short positions in any shares and underlying shares in, and debentures of, the Company or any associated corporation (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, under section 352 of the SFO, to be entered in the register referred to in that section, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code as at the Latest Practicable Date;
- (b) none of the Directors had any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2017, the date to which the latest published audited financial statement of the Group was made up;

- (c) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which was significant in relation to the business of the Group; and
- (d) none of the Directors and their respective associates had any interest in a business which competes or may compete with the business of the Group or had any other conflict of interest with the Company.

### 3. SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as it is known to the Directors, as at the Latest Practicable Date, the following persons (not being a Director or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which were required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Capacity/nature of interest	Number of Shares or underlying Shares (Note 1)	Percentage of the Company's issued share capital
Tanisca Investments Limited	Beneficial owner	344,754,077 (L)	8.17%
MO Tian Quan (Note 2)	Interest of a controlled corporation	379,507,486(L) (Note 2)	8.99%
Aquarius Growth Investment Limited (Note 4)	Beneficial owner	443,369,176 (L) (Note 3)	10.50%
ZHAO Ming (Note 4)	Interest of a controlled corporation	443,369,176 (L) (Note 3)	10.50%
League Way Ltd. (Note 5)	Beneficial owner	373,357,228 (L) (Note 5)	8.85%
SHI Jianji (Note 5)	Interest of a controlled corporation	373,357,228 (L) (Note 5)	8.85%
New Fast Investments Limited (Note 6)	Beneficial owner	241,437,675 (L) (Note 6)	5.72%

Name	Capacity/nature of interest	Number of Shares or underlying Shares (Note 1)	Percentage of the Company's issued share capital
Gate Success Investments Limited (Note 6)	Interest of a controlled corporation	241,437,675 (L) (Note 6)	5.72%
YU Nan (Note 6)	Interest of controlled corporations	241,437,675 (L) (Note 6)	5.72%
Sonic Gain Limited (Note 7)	Beneficial owner	319,820,786 (L) (Note 7)	7.58%
KO Chun Shun, Johnson (Note 7)	Interest of a controlled corporation	319,820,786 (L) (Note 7)	7.58%
Titan Gas Technology Investment Limited (Note 8)	Beneficial owner	3,682,107,408 (L)	87.23%
Titan Gas Technology Holdings Limited (Note 8)	Interest of a controlled corporation	3,682,107,408 (L)	87.23%
Standard Gas Capital Limited (Note 8)	Interest of controlled corporations	3,682,107,408 (L)	87.23%
金世旗國際控股股份有限公司 (Kingsbury International Holdings Co., Ltd.) (Note 8)	Interest of controlled corporations	3,682,107,408 (L)	87.23%
IDG-Accel China Capital GP II Associates Ltd. (Note 10)	Interest of controlled corporations	3,682,107,408 (L) (Notes 8, 10)	87.23%
IDG-Accel China Capital II Associates L.P. (Note 11)	Interest of controlled corporations	3,682,107,408 (L) (Notes 8, 11)	87.23%

Name	Capacity/nature of interest	Number of Shares or underlying Shares (Note 1)	Percentage of the Company's issued share capital
IDG-Accel China Capital II L.P. (Note 11)	Interest of controlled corporations	3,682,107,408 (L) (Notes 8, 11)	87.23%
Ho Chi Sing (Note 12)	Interest of controlled corporations	3,693,607,408 (L) (Notes 8, 10, 12)	87.50%
ZHOU Quan (Note 12)	Interest of a controlled corporation	3,693,607,408 (L) (Notes 8, 10, 12)	87.50%
LUO Yuping	Interest of controlled corporations	3,682,107,408 (L) (Notes 8, 9, 13)	87.50%
TENG Rongsong	Interest of controlled corporations	213,810,100 (L) (Note 14)	5.07%
Timeness Vision Limited	Interest of a controlled corporation	213,810,100 (L) (Note 14)	5.07%
Trinity Gate Limited	Beneficial owner	213,810,100 (L) (Note 14)	5.07%

## Notes:

1. The letter "L" represents the individual's long position in the shares and the letter "S" represents the individual's short position in the shares.
2. Mr. Mo Tian Quan ("Mr. Mo") has control over 100% interests of Tanisca Investments Limited and Upsky Enterprises Limited. Upsky Enterprises Limited has interest in 34,753,409 Shares of the Company. Under the SFO, Mr. Mo is deemed to have interest in the shares in which Tanisca Investments Limited and Upsky Enterprises Limited have interest.
3. Aquarius Investment has interests in respect of 443,369,176 underlying Shares through the derivative interests under 443,369,176 Preferred Shares.
4. Aquarius Investment is controlled as to 91% by Zhao Ming and as to 9% by Mr. Wang. Under the SFO, Zhao Ming is deemed to have interest in the Shares in which Aquarius Investment has interest.
5. League Way Ltd. is controlled as to 70% by Shi Jianji. Under the SFO, Shi Jianji is deemed to have interest in the shares in which League Way Ltd. has interest. It has interest in 373,357,228 underlying Shares through derivative interests in the Convertible Note (as defined in the RTO Circular).

6. New Fast Investments Limited is controlled as to 100% by Gate Success Investments Limited. Gate Success Investments Limited is controlled as to 100% by Yu Nan. Under the SFO, Yu Nan and Gate Success Investments Limited are deemed to have interest in the shares in which New Fast Investments Limited has interest.
7. Sonic Gain Limited is owned as to 100% by Ko Chun Shun, Johnson. Under the SFO, Ko Chun Shun, Johnson is deemed to have interest in the shares in which Sonic Gain Limited has interest.
8. Titan Gas is controlled as to 84.22% by Titan Gas Holdings, which is in turn controlled as to 35.13% by Standard Gas, 49.14% by the IDG Funds, 8.05% by Mr. Wang, 6.87% by Kingsbury, 0.73% by Zhang Weiwei and 0.08% by Bryce Wayne Lee. Under the SFO, Titan Gas Holdings, Standard Gas, IDG Funds are deemed to have interest in 3,682,107,408 Shares in which Titan Gas has beneficial interest. Interest in such Shares include interest in 2,146,713,019 underlying Shares through derivative interests in the Convertible Bonds in the principal amount of HK\$96,832,526. As at the Latest Practicable Date, Mr. Wang, Mr. Lin Dongliang and Mr. Shong Hugo are directors of Titan Gas Holdings.
9. Standard Gas, Mr. Wang and Kingsbury have entered into an acting in concert arrangement for the purpose of facilitating a more efficient decision making process in connection with the exercise of their shareholders' rights in Titan Gas Holdings pursuant to which, Standard Gas, Kingsbury and Mr. Wang agree to align with each other in respect of the voting of major actions in respect of Titan Gas Holdings' business and each of Standard Gas, Mr. Wang and Kingsbury will consult with each other and reach agreement on material matters of Titan Gas Holdings before it/he exercises its/his respective voting rights in Titan Gas Holdings, provided that Mr. Wang will have a casting vote and will have the final decision making power in the event that a consensus cannot be reached among Standard Gas, Mr. Wang and Kingsbury. The Shares and underlying Shares in which Mr. Wang has interest comprise 3,682,107,408 Shares in which Titan Gas has beneficial interest (including derivative interest in 1,440,960,208 underlying Shares).
10. The IDG Funds is under the control of its ultimate general partner, IDG-Accel China Capital GP II Associates Ltd ("**IDG-Accel Ultimate GP**"). Under the SFO, IDG-Accel Ultimate GP is deemed to have interest in the shares in which the IDG Funds have interest.
11. IDG-Accel China Capital II Associates L.P. has control over IDG-Accel Capital II. Under the SFO, IDG-Accel China Capital II Associates L.P. is deemed to have interest in the shares in which IDG-Accel Capital II has beneficial interest.
12. Ho Chi Shing and Zhou Quan are directors of IDG-Accel Ultimate GP and are responsible for decision-making matters relating to the IDG Funds and their investments, and hence controls the exercise of voting rights to the shares that the IDG Funds hold in Titan Gas Holdings. Therefore they are deemed to have interest in the shares in which IDG-Accel Ultimate GP has interest.
13. Kingsbury is controlled as to 74.8% by Luo Yuping. By virtue of the acting in concert arrangement referred to in Note 9, Luo Yuping is deemed to have interest in the shares in which Titan Gas Holdings has interest.
14. Trinity Gate Limited is controlled as to 100% by Timeness Vision Limited and Timeness Vision Limited is controlled as to 100% by Teng Rongsong. Under the SFO, Teng Rongsong and Timeness Vision Limited are deemed to have interests in the shares in which Trinity Gate Limited has interest.

#### 4. MATERIAL CONTRACTS

Save as the APA, the Letter Agreement agreeing on the termination of the APA and the Credit Agreement (details of which have been disclosed in the Letter from the Board to this circular) and those disclosed in the section headed "Summary of Material Contracts" under Appendix XII — to the RTO Circular, there are no other contracts (not being contracts entered

into in the ordinary course of business) entered into by the Company or any member of the Group (including the PRC Target) within the two years preceding the date of this circular which are or may be material.

## 5. LITIGATION

As at the Latest Practicable Date, no litigation or claims of material importance (including any litigation or claims that may have any material influence on rights to explore or mine) was known to the Directors to be pending or threatened against any member of the Group.

## 6. GENERAL

- (1) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.
- (2) The Company's Hong Kong branch share registrar and transfer office is maintained by Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (3) Mr. Tan Jue (“**Mr. Tan**”) and Mr. Ku Sau Shan Lawrence James (“**Mr. Ku**”) are the joint company secretaries of the Company. Mr. Tan also serves as Chief Financial Officer of the Company. He is a graduate of Renmin University of China and has been a member and a fellow of the Association of Chartered Certified Accountants (ACCA) since 2011 and 2016 respectively. Mr. Ku Sau Shan Lawrence James is a graduate of the University of Toronto and York University, and has also obtained master's degrees in corporate finance and corporate governance from The Hong Kong Polytechnic University. Mr. Ku is a member of both The Institute of Chartered Secretaries & Administrators (ICSA) in the United Kingdom and The Hong Kong Institute of Chartered Secretaries (HKICS).
- (4) The English text of this circular shall prevail over the Chinese text, in case of any inconsistency.

## 7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the office of the Company at Suite 2302, Wing On Centre, 111 Connaught Road Central, Hong Kong during normal business hours on any business day for a period of 14 days from the date hereof:

- (a) the memorandum of association and the by-laws of the Company;
- (b) the letter from the Board, the text of which is set out in the section headed “Letter from the Board” in this circular;
- (c) the annual reports of the Company for each of the three years ended 31 March 2017;
- (d) the APA;
- (e) the Letter Agreement agreeing on the termination of the APA;

- (f) the Credit Agreement;
- (g) the Amendment Agreement;
- (h) the material contracts referred to in the sub-section headed “Material Contracts” in Appendix II to this circular;
- (i) the circular of the Company dated 15 August 2017 in relation to the proposed amendments to the terms and conditions of the Company’s convertible bonds in the principal amount of HK\$120,000,000; and
- (j) this circular.