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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

If you have sold or transferred all your shares in Pearl Oriental Oil Limited (the “Company”), you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of the Company.

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# 東方明珠石油有限公司\*

## Pearl Oriental Oil Limited

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 632)**

- (1) PROPOSED SUBSCRIPTION OF NEW SHARES BY XIN HUA PETROLEUM (HONG KONG) LIMITED;**
- (2) CONNECTED TRANSACTION – PROPOSED SUBSCRIPTION OF NEW SHARES BY NOBLE PIONEER LIMITED;**
- (3) PROPOSED CAPITAL REORGANISATION;**
- (4) PROPOSED CHANGE IN BOARD LOT SIZE; AND**
- (5) NOTICE OF SPECIAL GENERAL MEETING**

### Financial Adviser to the Company



YU MING INVESTMENT MANAGEMENT LIMITED

禹銘投資管理有限公司

### Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders



建泉融資有限公司

VBG Capital Limited

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Unless the context otherwise requires, capitalised terms used on this cover page shall have the same meanings as defined in this circular.

A letter from the Board is set out on pages 12 to 48 of this circular and a letter from the Independent Board Committee is set out on pages 49 to 50 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 51 to 70 of this circular.

A notice convening the SGM to be held at Suites 1905-07, 19th Floor, Tower 6, The Gateway, Harbour City, Kowloon, Hong Kong on Wednesday, 12 June 2019 at 11:00 a.m. is set out on pages SGM-1 to SGM-4 of this circular. A form of proxy for use at the SGM is enclosed with this circular. Such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.pearloriental.com](http://www.pearloriental.com)).

Whether or not you are able to attend the SGM, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return the completed form of proxy to the Company’s branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM if you so wish and in such event, the form of proxy shall be deemed to be revoked.

21 May 2019

\* For identification purpose only

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## DEFINITIONS

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

“acting in concert”	has the same meaning as ascribed to it under the Takeovers Code
“associate(s)”	has the same meaning as ascribed to it under the Takeovers Code, unless the context otherwise specifies
“Bermuda Companies Act”	the Companies Act 1981 of Bermuda
“Board”	the board of Director(s)
“Burberlon”	Burberlon Vantage Capital Limited 巴比倫資本有限公司, a former creditor of the Company
“Business Day(s)”	a day on which the Stock Exchange is open for the transaction of business
“Bye-law(s)”	the bye-law(s) of the Company, currently in force
“Capital Reduction”	the proposed reduction in the issued share capital of the Company by reducing the nominal value of each issued Share from HK\$0.10 to HK\$0.01 by way of cancellation of such amount of the paid-up capital on each issued Share so that each issued Share will be treated as one fully paid-up share of nominal value of HK\$0.01 each in the share capital of the Company
“Capital Reorganisation”	collectively, the Capital Reduction, the Share Subdivision and the Share Consolidation
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Change in Board Lot Size”	the change in board lot size of the shares in the Company for trading on the Stock Exchange from 1,000 New Shares to 2,000 Consolidated Shares
“close associate”	has the meaning as ascribed to it in the Listing Rules
“Company”	Pearl Oriental Oil Limited (stock code: 632), a company incorporated in Bermuda with limited liability and the issued shares of which are listed on the Main Board of the Stock Exchange

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## DEFINITIONS

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“Composite Document”	the composite offer document combining the offer document to be issued by Xin Hua and the offeree board response document to be issued by the Company (together with the form of acceptance) in respect of the Offers to be despatched to the Shareholders in accordance with the Takeovers Code
“Concert Group”	Xin Hua, Noble and their respective parties acting in concert
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Consolidated Share(s)”	share(s) of HK\$0.20 each in the share capital of the Company immediately after the Share Consolidation becoming effective
“controlling shareholder”	has the meaning as ascribed to it in the Listing Rules
“core connected person”	has the meaning as ascribed to it in the Listing Rules
“Daqing Lianyi”	Daqing Lianyi Petrochemical Co., Ltd* (大慶聯誼石化股份有限公司)
“Daqing Xinhua”	Daqing Xinhua Asphalt Co., Ltd* (大慶市新華瀝青有限責任公司), a company incorporated in the PRC with limited liability
“Debt Assignment”	the debts which were assigned to Mr. Cheung under the Deed of Settlement together with interest accrued thereon and all costs and expenses in relation to the assignment
“Deed of Settlement”	the deed of settlement entered into between the Company, Mr. Cheung and Mr. So on 21 December 2018, pursuant to which the Company settled, among other things, the Debt Assignment
“Director(s)”	the director(s) of the Company
“Excluded Shares”	the New Shares or Consolidated Shares (as the case may be) already owned or agreed to be acquired by Xin Hua, Noble and parties acting in concert with them (including the Subscription Shares which will be held by Xin Hua and Noble upon completion of Xin Hua Subscriptions or both Subscriptions (as the case may be))
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“First HK\$5M Loan”	the unsecured loan of HK\$5,000,000 made available to the Company under the First HK\$5M Loan Agreement

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## DEFINITIONS

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“First HK\$5M Loan Agreement”	the loan agreement entered into between the Company (as borrower) and Xin Hua (as lender) dated 10 January 2019 in respect of the First HK\$5M Loan
“First Loan Extension Agreement”	the loan extension agreement (貸款延期協議) dated 28 January 2019 and entered into between Xin Hua and the Company pursuant to which the parties agreed to extend the term of the HK\$50M Loan to 28 February 2019
“First Subscription Agreement”	the subscription agreement dated 13 February 2019 and entered into between the Company, Xin Hua and Noble in respect of, among other things, the Xin Hua Subscription
“Forwin”	Forwin Securities Group Limited 富榮證券集團有限公司, a licensed corporation permitted to carry on Type 1 (dealing in securities) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) which, inter alia, engages in securities margin financing
“Fourth Loan Extension Agreement”	the loan extension agreement (貸款延期協議) dated 28 March 2019 and entered into between Xin Hua and the Company pursuant to which the parties thereto agreed to extend the term of each of the HK\$50M Loan, the HK\$20M Loan, the First HK\$5M Loan and the Second HK\$5M Loan to 31 March 2020
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HK\$20M Loan”	the unsecured loan of HK\$20,000,000 made available to the Company under the HK\$20M Loan Agreement
“HK\$20M Loan Agreement”	the loan agreement entered into between the Company (as borrower) and Xin Hua (as lender) dated 6 December 2018 in respect of the HK\$20M Loan
“HK\$50M Loan”	the unsecured loan of HK\$50,000,000 made available to the Company under the HK\$50M Loan Agreement
“HK\$50M Loan Agreement”	the loan agreement entered into between the Company (as borrower) and Xin Hua (as lender) dated 29 November 2018 in respect of the HK\$50M Loan
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	Hong Kong Special Administrative Region of the PRC

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## DEFINITIONS

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“Independent Board Committee”	an independent committee of the Board, comprising the independent non-executive Directors, which was established by the Board to advise (i) the Independent Shareholders on the terms of the First Subscription Agreement (as amended and supplemented by the Supplemental Agreement), the Second Subscription Agreement and the granting of the Specific Mandates; and (ii) the Shareholders and the Optionholders as to whether the Offers are fair and reasonable and as to the acceptance of the Offers
“Independent Financial Adviser”	VBG Capital Limited, being the independent financial adviser appointed by the Independent Board Committee to advise (i) the Independent Board Committee and the Independent Shareholders in respect of the First Subscription Agreement (as amended and supplemented by the Supplemental Agreement), the Second Subscription Agreement and the granting of the Specific Mandates; and (ii) the Independent Board Committee in respect of the Offers, in particular, as to whether the Offers are fair and reasonable and as to the acceptance of the Offers
“Independent Shareholders”	for the purposes of the Subscriptions (including the granting of the Specific Mandates), the Shareholders other than (i) the Subscribers and their respective associates (as defined under the Listing Rules) and concert parties (as defined under the Takeovers Code); and (ii) Shareholders who are involved or interested in the Subscriptions, namely Mr. Cheung and Mr. So
“Joint Announcement”	the announcement dated 16 April 2019 jointly issued by the Company and Xin Hua, in relation to, among other things, the Subscriptions (including the granting of the Specific Mandates) and the Capital Reorganisation
“Last Trading Day”	13 February 2019, being the last trading day of the Shares immediately prior to the date of the First Subscription Agreement
“Latest Practicable Date”	15 May 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Agreements”	collectively, the HK\$50M Loan Agreement, the HK\$20M Loan Agreement, the First HK\$5M Loan Agreement and the Second HK\$5M Loan Agreement

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## DEFINITIONS

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“Loan Extension Agreements”	collectively, the First Loan Extension Agreement, the Second Loan Extension Agreement, the Third Loan Extension Agreement and the Fourth Loan Extension Agreement
“Loan Facility”	a loan facility of up to HK\$140,200,000 granted by Forwin to Xin Hua to finance the amount payable by Xin Hua upon acceptance of the Offers
“Long Stop Date”	30 June 2019 or such other date as the parties to the First Subscription Agreement (as amended and supplemented by the Supplemental Agreement) or the Second Subscription Agreement (as the case may be) may agree in writing
“Material Adverse Effect”	for the purposes of the conditions specified in the sections headed “Subscriptions – (A) First Subscription Agreement and Supplemental Agreement – Conditions of the Xin Hua Subscription” and “Subscriptions – (B) Second Subscription Agreement – Conditions of the Noble Subscription” in the letter from the Board of this circular, the occurrence of any matter or event (or series of matters or events) which is or reasonably likely to cause the net asset value of the Group as at 30 June 2018 (determined by reference to the 2018 interim results announcement of the Company) to decrease by 5% or more, save for any decrease in such net asset value resulting from any fluctuations of global oil prices
“Mr. Chen”	Mr. Chen Yaxin (陳亞新), a shareholder of Daqing Xinhua and a director of Xin Hua
“Mr. Cheung”	Mr. Cheung Wai Keung (張偉強), a Shareholder holding 68,859,000 Shares, representing approximately 2.12% of the issued share capital of the Company, as at the Latest Practicable Date
“Mr. So”	Mr. So Kuen Kwok (蘇權國), a Shareholder holding 325,211,000 Shares, representing approximately 10.02% of the issued share capital of the Company, as at the Latest Practicable Date
“Mr. Yu”	Mr. Yu Zhibo (于志波), a shareholder of Daqing Xinhua and a director of Xin Hua
“Ms. Chen”	Ms. Chen Junyan (陳俊妍), a shareholder and a director of Xin Hua
“Ms. Fan”	Ms. Fan Amy Lizhen (樊麗真), the vice chairlady of the Company and an executive Director

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## DEFINITIONS

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“New Share(s)”	the ordinary shares of HK\$0.01 each in the share capital of the Company immediately upon the Share Subdivision becoming effective
“Noble”	Noble Pioneer Limited, a company incorporated in the British Virgin Islands with limited liability and beneficially wholly owned by Ms. Fan
“Noble Completion Date”	the fifth Business Day after the satisfaction and/or waiver (where applicable) of all the conditions under the Second Subscription Agreement (or such other date as may be agreed by the Company and Noble in writing), being the date on which completion of the Noble Subscription shall take place
“Noble Subscription”	the subscription of 1,700,000,000 New Shares by Noble under the Second Subscription Agreement
“Noble Subscription Shares”	1,700,000,000 New Shares to be subscribed for by Noble pursuant to the Second Subscription Agreement
“NPCC”	NPCC (Hong Kong) Limited 北方石油有限公司
“NPCC Price”	HK\$0.02 per Share
“Offer Price”	HK\$0.844 per Offer Share (equivalent to HK\$0.0422 per Share prior to the Share Consolidation)
“Offer Share(s)”	the Consolidated Share(s) which are the subject of the Share Offer
“Offers”	collectively, the Share Offer and the Option Offer
“Option Offer”	subject to completion of the Xin Hua Subscription, the possible mandatory unconditional cash offer to be made by Forwin on behalf of Xin Hua to cancel all outstanding Share Options
“Optionholders”	the holders of the Share Option(s)
“Petition”	the petition presented by Burberlon to the Supreme Court of Bermuda for the winding-up of the Company, which was subsequently withdrawn pursuant to a consent order entered into on 27 December 2018. For further details, please refer to the section headed “Reasons for and benefits of the Subscriptions – Winding-up Petition” in the letter from the Board of this circular
“PRC” or “China”	the People’s Republic of China



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## DEFINITIONS

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“Requisition”	a requisition issued by Mr. So dated 3 September 2018 requesting the Directors to convene a SGM for the purpose of considering and, if thought fit, passing the resolutions proposed therein
“Second HK\$5M Loan”	the unsecured loan of HK\$5,000,000 made available to the Company under the Second HK\$5M Loan Agreement
“Second HK\$5M Loan Agreement”	the loan agreement entered into between the Company (as borrower) and Xin Hua (as lender) dated 16 January 2019 in respect of the Second HK\$5M Loan
“Second Loan Extension Agreement”	the loan extension agreement (貸款延期協議) dated 1 February 2019 and entered into between Xin Hua and the Company pursuant to which the parties agreed to extend the term of each of the HK\$20M Loan, the First HK\$5M Loan and the Second HK\$5M Loan to 28 February 2019
“Second Subscription Agreement”	the subscription agreement dated 3 April 2019 and entered into between the Company and Noble in respect of the Noble Subscription
“SFC”	the Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be held at Suites 1905-07, 19th Floor, Tower 6, The Gateway, Harbour City, Kowloon, Hong Kong on Wednesday, 12 June 2019 at 11:00 a.m. to approve, among other things, the Subscriptions and the granting of the Specific Mandates
“Share Consolidation”	the proposed consolidation of every 20 issued and unissued New Shares into one Consolidated Share of nominal value of HK\$0.20 each in the share capital of the Company
“Share Offer”	subject to completion of the Xin Hua Subscription, the possible mandatory unconditional cash offer to be made by Forwin on behalf of Xin Hua to acquire all the Offer Shares at the Offer Price
“Share Option Scheme”	the share option scheme adopted by the Company on 15 July 2009
“Share Option(s)”	the share option(s) to subscribe for Share(s) under the Share Option Scheme

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## DEFINITIONS

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“Share Subdivision”	the proposed subdivision of each of the authorised but unissued Shares of nominal value of HK\$0.1 each into 10 shares of nominal value of HK\$0.01 each
“Share(s)”	the ordinary share(s) of HK\$0.10 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Specific Mandate(s)”	the specific mandate(s) to be granted by the Independent Shareholders to the Board at the SGM for the allotment and issue of the Subscription Shares under each of the Xin Hua Subscription and the Noble Subscription
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscribers”	collectively, Xin Hua and Noble
“Subscription Price”	HK\$0.02 per Subscription Share
“Subscription Shares”	the New Shares to be subscribed for under the Xin Hua Subscription and the Noble Subscription
“Subscriptions”	collectively, the Xin Hua Subscription and the Noble Subscription
“substantial shareholder”	has the meaning as ascribed to it under the Listing Rules
“Summons”	the summons filed by Burberlon at the Supreme Court of Bermuda seeking an order for the appointment of provisional liquidators to assist the Board in restructuring the debts and liabilities of the Company
“Supplemental Agreement”	the supplemental agreement to the First Subscription Agreement dated 29 March 2019 and entered into between the Company and the Subscribers amending and supplementing the terms of the First Subscription Agreement
“Supplemental Deed”	the supplemental deed to the Deed of Settlement entered into between the Company, Mr. Cheung and Mr. So on 3 January 2019
“Takeovers Code”	the Code on Takeovers and Mergers issued by the SFC as amended from time to time

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## DEFINITIONS

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“Third Loan Extension Agreement”	the loan extension agreement (貸款延期協議) dated 28 February 2019 and entered into between Xin Hua and the Company pursuant to which the parties thereto agreed to extend the term of each of the HK\$50M Loan, the HK\$20M Loan, the First HK\$5M Loan and the Second HK\$5M Loan to 31 March 2019
“Titan”	Titan Financial Services Limited 天泰金融服務有限公司, a licensed corporation permitted to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and the financial adviser to Xin Hua
“US” or “United States”	the United States of America
“US\$”	United States dollars, the lawful currency of the United States
“Utah Oil and Gas Field”	the oil and gas field covering an area of approximately 3,692 acres located in Uintah Basin, Uintah County, Utah, the United States where the Company has 100% record title
“WTI”	West Texas Intermediate, a grade of crude oil used as a benchmark in oil pricing
“Xin Hua”	Xin Hua Petroleum (Hong Kong) Limited 新華石油(香港)有限公司, a company incorporated in Hong Kong with limited liability which is held as to 53.72% by Daqing Xinhua and 46.28% by Ms. Chen
“Xin Hua Completion Date”	the fifth Business Day after the satisfaction and/or waiver (where applicable) of all the conditions under the First Subscription Agreement (as amended and supplemented by the Supplemental Agreement) (or such other date as may be agreed by the Company and Xin Hua in writing), being the date on which completion of the Xin Hua Subscription shall take place
“Xin Hua Subscription”	the subscription of 7,300,000,000 New Shares by Xin Hua under the First Subscription Agreement (as amended and supplemented by the Supplemental Agreement)
“Xin Hua Subscription Shares”	7,300,000,000 New Shares to be subscribed for by Xin Hua pursuant to the First Subscription Agreement (as amended and supplemented by the Supplemental Agreement)
“%”	per cent.

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## EXPECTED TIMETABLE

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*The expected timetable for implementation of the Capital Reorganisation and the Change in Board Lot Size is set out below:*

Latest date and time for lodging transfer documents in order to qualify for attending and voting at the SGM . . . . . 4:30 p.m. on  
Wednesday, 5 June 2019

Closure of register of members for the entitlement to attend and vote at the SGM . . . . . Thursday, 6 June 2019 to  
Wednesday, 12 June 2019  
(both days inclusive)

Latest date and time for lodging forms of proxy for the SGM (not less than 48 hours prior to the time of SGM) . . . . . 11:00 a.m. on  
Monday, 10 June 2019

Date and time of the SGM . . . . . 11:00 a.m. on  
Wednesday, 12 June 2019

Announcement of poll results of the SGM . . . . . Wednesday, 12 June 2019

*The following events are conditional on the fulfilment of the conditions for the implementation of the Capital Reorganisation:*

Effective date of the Capital Reduction . . . . . Thursday, 13 June 2019

Effective date of the Share Subdivision . . . . . Thursday, 13 June 2019

Commencement of dealings in New Shares . . . . . 9:00 a.m. on  
Thursday, 13 June 2019

Effective date of the Share Consolidation . . . . . Monday, 17 June 2019

Commencement of dealings in Consolidated Shares . . . . . 9:00 a.m. on  
Monday, 17 June 2019

First day and time for free exchange of certificates of New Shares (in the form of existing share certificates) into new certificates for Consolidated Shares . . . . . 9:00 a.m. on  
Monday, 17 June 2019

Original counter for trading in New Shares in board lots of 1,000 New Shares (in the form of existing share certificates) temporarily closes . . . . . 9:00 a.m. on  
Monday, 17 June 2019

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## EXPECTED TIMETABLE

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Temporary counter for trading in Consolidated Shares in board lots of  
50 Consolidated Shares (in the form of existing share certificates) opens . . . . . 9:00 a.m. on  
Monday, 17 June 2019

Original counter for trading in Consolidated Shares in board lots of 2,000  
Consolidated Shares (in the form of new share certificates) re-opens . . . . . 9:00 a.m. on  
Tuesday, 2 July 2019

Parallel trading (in the form of both existing share certificates  
in board lots of 50 Consolidated Shares and new share certificates  
in board lots of 2,000 Consolidated Shares) commences . . . . . 9:00 a.m. on  
Tuesday, 2 July 2019

Designated broker starts to stand in the market to provide  
matching services for odd lots of Consolidated Shares . . . . . 9:00 a.m. on  
Tuesday, 2 July 2019

Temporary counter for trading in Consolidated Shares in board lots of  
50 Consolidated Share (in the form of existing share certificates) closes . . . . . 4:00 p.m. on  
Monday, 22 July 2019

Parallel trading (in the form of both existing share certificates in board  
lots of 50 Consolidated Shares and new share certificates in board lots  
of 2,000 Consolidated Shares) ends . . . . . 4:00 p.m. on  
Monday, 22 July 2019

Designated broker ceases to provide matching services  
for odd lots of Consolidated Shares . . . . . 4:00 p.m. on  
Monday, 22 July 2019

Last day and time for free exchange of certificates of New Shares  
into new certificates for Consolidated Shares . . . . . 4:30 p.m. on Wednesday, 24 July 2019

The expected effective date for implementation of the Capital Reorganisation is conditional upon the passing of the necessary resolutions by the Shareholders by way of poll at the SGM to approve the Capital Reorganisation and the Independent Shareholders by way of poll at the SGM to approve the Subscription(s).

All times and dates specified in the timetable above refer to Hong Kong times and dates unless otherwise specified. **Dates and deadlines specified in the expected timetable above are subject to the results of the SGM and are therefore for indicative only and may be extended or varied. Any changes to the expected timetable will be announced by the Company as and when appropriate.**

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LETTER FROM THE BOARD

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東方明珠石油有限公司\*  
**Pearl Oriental Oil Limited**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 632)**

*Executive Directors:*

Ms. Liu Gui Feng (*Chairlady*)  
Ms. Fan Amy Lizhen (*Vice chairlady*)  
Ms. Xiao Li  
Mr. Cheung Kam Shing, Terry  
Mr. Tang Yau Sing  
Mr. Lin Qing Yu

*Independent Non-executive Directors:*

Mr. Xing Yong  
Mr. Shi Wen Jiang  
Mr. Chen Zhong Min  
Mr. Jiang Cai Yi  
Mr. Zhang Yue Yang  
Mr. He Jun  
Ms. Chen Xue Hui  
Ms. Hu Jing  
Ms. Lyu Jia Lian

*Registered Office:*

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

*Head office and principal place of  
business in Hong Kong:*

Suites 1905-07, 19th Floor  
Tower 6, The Gateway  
Harbour City  
Kowloon  
Hong Kong

21 May 2019

*To the Shareholders,*

Dear Sir or Madam,

- (1) PROPOSED SUBSCRIPTION OF NEW SHARES BY  
XIN HUA PETROLEUM (HONG KONG) LIMITED;**  
**(2) CONNECTED TRANSACTION – PROPOSED SUBSCRIPTION OF NEW  
SHARES BY NOBLE PIONEER LIMITED;**  
**(3) PROPOSED CAPITAL REORGANISATION;**  
**AND**  
**(4) PROPOSED CHANGE IN BOARD LOT SIZE**

**INTRODUCTION**

Reference is made to the Joint Announcement.

\* *For identification purpose only*

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with, among other things, (i) details of the Subscriptions, the granting of the Specific Mandates, the Capital Reorganisation and the Change in Board Lot Size; (ii) the recommendations of the Independent Board Committee to the Independent Shareholders on the Noble Subscription; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee in relation to the Noble Subscription; (iv) other information prescribed by the Listing Rules; and (v) the notice of the SGM.

### SUBSCRIPTIONS

#### (A) First Subscription Agreement and Supplemental Agreement

On 13 February 2019 (after trading hours), the Company, Xin Hua and Noble entered into the First Subscription Agreement, pursuant to which the Company conditionally agreed to allot and issue and each of Xin Hua and Noble conditionally agreed to subscribe for 7,300,000,000 Subscription Shares and 1,700,000,000 Subscription Shares respectively, constituting an aggregate of 9,000,000,000 Subscription Shares, in each case at an issue price of HK\$0.02 per Subscription Share.

On 29 March 2019, the Company, Xin Hua and Noble entered into the Supplemental Agreement, pursuant to which the parties thereto agreed to cancel Noble's subscription of New Shares under the First Subscription Agreement, while the subscription by Xin Hua of 7,300,000,000 Subscription Shares remained unchanged.

Xin Hua and its ultimate beneficial owners are (i) third parties independent of the Company and its connected persons; and (ii) not related to or acting in concert with any Shareholder of the Company, save that Xin Hua is acting in concert with Noble which is beneficially wholly owned by Ms. Fan, a connected person of the Company. Please refer to the section headed "Information on the Subscribers – Xin Hua" in the letter from the Board of this circular for more information on Xin Hua.

#### *Subscription Shares*

The Xin Hua Subscription Shares represent approximately 69.22% of the issued share capital of the Company as enlarged by the allotment and issue of the Xin Hua Subscription Shares (assuming that the Noble Subscription does not complete, no Share Options are converted and no further Shares or New Shares (as the case may be) are issued).

#### *Subscription Price*

The Subscription Price for the Xin Hua Subscription Shares of HK\$0.02 per Subscription Share represents:

- (a) a discount of approximately 83.61% to the closing price of HK\$0.122 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 83.05% to the average closing price of approximately HK\$0.118 per Share for the last five consecutive trading days up to and including the Last Trading Day;

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## LETTER FROM THE BOARD

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- (c) a discount of approximately 81.13% to the average closing price of approximately HK\$0.106 per Share for the last ten consecutive trading days up to and including the Last Trading Day; and
- (d) a discount of approximately 53.49% to the audited consolidated net asset value of the Company of approximately HK\$0.043 per Share as at 31 December 2018 (based on the audited consolidated equity attributable to owners of the Company as at 31 December 2018 and the number of issued Shares as at the Latest Practicable Date).

The Subscription Price was arrived at after arm's length negotiations between the Company and Xin Hua after taking into account the trading and financial position of the Group.

As mentioned in the announcement of the Company dated 2 May 2018, on 4 April 2018, the Company entered into a subscription agreement with NPCC and Noble in respect of a conditional subscription of a total of 9,693,439,000 Shares at the NPCC Price, being HK\$0.02 per Share. Notwithstanding that the subscription agreement was subsequently terminated on 28 April 2018, such terms were the best available terms that the Company was able to obtain at the time given its serious financial difficulties and since then, the financial difficulties and position of the Group have only deteriorated.

The Group recorded a net loss attributable to the owners of the Company of approximately HK\$58.4 million for the year ended 31 December 2018 and net current liabilities of approximately HK\$121.5 million as at 31 December 2018. Moreover, the negative publicity surrounding the Company has hindered the business prospects of the Company and any ability of the Company to secure external financing.

With regard to the NPCC Price as mentioned in the announcement of the Company dated 2 May 2018, when the Company approached Xin Hua for financing and in respect of a possible subscription of Shares of the Company, Xin Hua considered the NPCC Price should be the only starting point for discussing any proposed equity financing given the financial status of the Company had deteriorated since then.

In addition, the Group has encountered exceptional trading and financial difficulties, including (i) the lack of necessary working capital to revitalise and reactivate its existing core oil assets, namely the Utah Oil and Gas Field or any means of repaying its debt obligations; (ii) winding-up petition filed by Burberlon for an outstanding loan in the principal amount of HK\$32 million which the Company failed to repay, and the subsequent settlement of loan from Burberlon along with other debts owed by the Company to certain creditors by way of loan assignment to Mr. Cheung; and (iii) the inability of the Company to secure other alternative means of fund raising, including equity fund raising and debt financing, details of which are detailed in the section headed "Reasons for and benefits of the Subscriptions" in the letter from the Board of this circular.

In view of the aforementioned, and taking into consideration the synergy effects of having Xin Hua as a strategic Shareholder, the Directors (excluding the independent non-executive Directors, whose views will be provided after taking into account the opinion and advice from the Independent



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## LETTER FROM THE BOARD

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Financial Adviser, and excluding Ms. Fan, who is the vice chairlady of the Company and an executive Director, and is interested in the Noble Subscription) consider that the Subscription Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Upon the Independent Shareholders approving the Xin Hua Subscription and the granting of the Specific Mandate to allot and issue the Xin Hua Subscription Shares to Xin Hua, the aggregate consideration for the Xin Hua Subscription Shares of HK\$146 million shall be payable in cash by Xin Hua in the following manner:

- (a) each of the Loan Agreements and the Loan Extension Agreements shall automatically terminate and immediately cease to take effect, and the consideration for the Xin Hua Subscription Shares will be offset by HK\$80 million from the HK\$50M Loan, the HK\$20M Loan, the First HK\$5M Loan and the Second HK\$5M Loan; and
- (b) the remaining balance of the consideration, being HK\$66 million, shall be payable by Xin Hua at completion of the Xin Hua Subscription.

Upon completion of the Xin Hua Subscription, the Xin Hua Subscription Shares shall be issued and credited as fully paid.

### *Conditions of the Xin Hua Subscription*

The Xin Hua Subscription is conditional upon the fulfillment (or waiver, if applicable) of the following conditions:

- (a) as required by the Listing Rules, the approval by a majority of the Independent Shareholders by way of poll at the SGM of the First Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the granting of the Specific Mandate to allot and issue the Xin Hua Subscription Shares to Xin Hua;
- (b) the passing of special resolutions by the Shareholders at the SGM approving:
  - (i) the Capital Reduction with immediate effect;
  - (ii) (immediately following the Capital Reduction) the Share Subdivision with immediate effect; and
  - (iii) the Share Consolidation subject to and with effect following completion of the Xin Hua Subscription;
- (c) the Listing Committee of the Stock Exchange granting approval for the allotment, issue, listing and trading of the New Shares arising from the Share Subdivision and the Xin Hua Subscription Shares on the Stock Exchange (which shall not be revoked prior to completion of the Xin Hua Subscription);

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## LETTER FROM THE BOARD

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- (d) compliance by the Company with the relevant procedures and requirements under the laws of Bermuda and the Listing Rules to effect the Capital Reorganisation, and Xin Hua having received a legal opinion issued by the Company's Bermuda legal advisers in respect of compliance with the laws of Bermuda by the Company (including the legality of the Capital Reorganisation) to the satisfaction of Xin Hua;
- (e) the obtaining of all necessary approvals from the regulatory authorities or otherwise as may be required in respect of the Capital Reorganisation;
- (f) all actions by or in respect of or filings with, consents or approvals from any governmental or regulatory authority (including but not limited to the Stock Exchange) or other third parties required to permit the consummation of the transactions contemplated by the First Subscription Agreement (as amended and supplemented by the Supplemental Agreement) having been taken, made or obtained and all applicable requirements under the Listing Rules and all other relevant regulatory requirements having been complied with by the Company;
- (g) all the representations, warranties and undertakings given by the Company and Xin Hua in the First Subscription Agreement (as amended and supplemented by the Supplemental Agreement) remaining true, accurate and not misleading in all material respects;
- (h) the Shares or New Shares (as the case may be) remaining listed and traded on the Main Board of the Stock Exchange, and no notification or indication being received from the Stock Exchange or the SFC prior to completion of the Xin Hua Subscription that the listing of the Shares or New Shares (as the case may be) on the Stock Exchange will or may be, for whatever reason, withdrawn or suspended for more than seven consecutive Business Days (excluding any suspension for the purpose of obtaining clearance from the SFC or the Stock Exchange for any notices, announcements or circulars relating to the transactions contemplated under the First Subscription Agreement (as amended and supplemented by the Supplemental Agreement));
- (i) Xin Hua being satisfied with the results of its due diligence on the Company in Hong Kong and the United States; and
- (j) no event with any Material Adverse Effect occurring from the date of the First Subscription Agreement (as amended and supplemented by the Supplemental Agreement).

Xin Hua has the right to waive conditions (i) and (j) in part or in full. Each of the Company and Xin Hua has the right to waive paragraph (g) in respect of the other party. However, in order for completion of the Xin Hua Subscription to take place, the conditions precedent relating to (1) the obtaining of consents or approvals from the Stock Exchange; and (2) compliance by the Company with all relevant requirements under the Listing Rules (including but not limited to paragraph (f)) cannot be waived by any party to the First Subscription Agreement (as amended and supplemented by the Supplemental Agreement).

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## LETTER FROM THE BOARD

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If any of the conditions precedent set out above have not been fulfilled (or waived, if applicable) on or before 5:00 p.m. on the Long Stop Date, the First Subscription Agreement (as amended and supplemented by the Supplemental Agreement) shall cease and determine (save for certain provisions such as the confidentiality provision which shall survive termination) and none of the parties thereto shall have any obligations and liabilities towards one another, save for any antecedent breaches of the First Subscription Agreement (as amended and supplemented by the Supplemental Agreement).

As at the Latest Practicable Date, none of the conditions precedent has been fulfilled. In relation to condition (i), the Company is given to understand from Xin Hua that Xin Hua may conduct further due diligence on the Company based on the development of the financial conditions of the Company.

No consents, approvals, authorisations, waivers or grant required from the Executive in respect of the Xin Hua Subscription were contemplated as at the Latest Practicable Date.

### ***Completion***

Completion of the Xin Hua Subscription shall take place on the Xin Hua Completion Date after all the conditions precedent set out above have been fulfilled (or waived, if applicable) on or before 5:00 p.m. on the Long Stop Date. Completion of the Xin Hua Subscription is independent of and not conditional upon completion of the Noble Subscription.

At completion of the Xin Hua Subscription, Xin Hua shall subscribe for, and the Company shall allot and issue to Xin Hua, the Xin Hua Subscription Shares. On the Xin Hua Completion Date, among other things, Xin Hua shall effect payment of the balance of the consideration for the Xin Hua Subscription Shares payable in full and the Company shall allot and issue the Xin Hua Subscription Shares to Xin Hua.

### ***Ranking***

The Xin Hua Subscription Shares will rank pari passu in all respects with the New Shares then in issue as at the date of allotment and issue of the Xin Hua Subscription Shares.

### ***Mandates for the issue of the Xin Hua Subscription Shares***

The Xin Hua Subscription Shares will be allotted and issued pursuant to the Specific Mandates to be sought from the Independent Shareholders at the SGM.

### ***Listing application***

An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Xin Hua Subscription Shares.

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### **(B) Second Subscription Agreement**

On 3 April 2019 (after trading hours), the Company and Noble entered into the Second Subscription Agreement, pursuant to which the Company conditionally agreed to allot and issue and Noble conditionally agreed to subscribe for 1,700,000,000 Subscription Shares at an issue price of HK\$0.02 per Subscription Share.

Noble, a company beneficially wholly owned by Ms. Fan (the vice chairlady of the Company and an executive Director), is (i) an associate of Ms. Fan and a connected person of the Company; and (ii) not related to or acting in concert with any Shareholder of the Company, save that Noble is acting in concert with Xin Hua. Please refer to the section headed “Information on the Subscribers – Noble” in the letter from the Board of this circular for more information on Noble.

#### ***Subscription Shares***

The Noble Subscription Shares represent approximately 13.88% of the issued share capital of the Company as enlarged by the allotment and issue of the Xin Hua Subscription Shares and the Noble Subscription Shares (assuming that no Share Options are converted and no further Shares or New Shares (as the case may be) are issued).

#### ***Subscription Price***

The Subscription Price for the Noble Subscription Shares is HK\$0.02 per Subscription Share. The Subscription Price was arrived at after arm’s length negotiations between the Company and Noble after taking into account the Subscription Price for the Xin Hua Subscription Shares and the trading and financial position of the Group. For further details of the financial and operating difficulties encountered by the Group, please refer to the sections headed “Reasons for and benefits of the Subscriptions” and “Subscriptions – (A) First Subscription Agreement and Supplemental Agreement – Subscription Price” in the letter from the Board of this circular.

In addition, Ms. Fan, vice-chairlady of the Company (who was previously the chairlady of the Company) and is an existing Director, was involved with negotiating the terms of the Subscription, the HK\$50M Loan and the HK\$20M Loan with Xin Hua. In assessing whether to provide the HK\$50M Loan and the HK\$20M Loan to the Company and proceed with the Xin Hua Subscription, Xin Hua’s decision to do so was based on Ms. Fan’s representations and the available public information regarding the Group. Xin Hua requested Ms. Fan to participate in the Subscriptions to demonstrate her confidence in the current situation and prospects of the Company, especially the status of the Utah Oil and Gas Field as a major asset of the Company.

Based on the above, Directors (excluding the independent non-executive Directors, whose views will be provided after taking into account the opinion and advice from the Independent Financial Adviser, and excluding Ms. Fan and is interested in the Noble Subscription) consider that the Subscription Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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The aggregate consideration for the Noble Subscription Shares amounts to HK\$34 million, which shall be payable in cash by Noble at completion of the Noble Subscription.

Upon completion of the Noble Subscription, the Noble Subscription Shares shall be issued and credited as fully paid.

### *Conditions of the Noble Subscription*

The Noble Subscription is conditional upon the fulfillment (or waiver, if applicable) of the following conditions:

- (a) as required by the Listing Rules, the approval by a majority of the Independent Shareholders by way of poll at the SGM of the Second Subscription Agreement and the granting of the Specific Mandate to allot and issue the Noble Subscription Shares to Noble;
- (b) the passing of special resolutions by the Shareholders at the SGM approving:
  - (i) the Capital Reduction with immediate effect;
  - (ii) (immediately following the Capital Reduction) the Share Subdivision with immediate effect; and
  - (iii) the Share Consolidation subject to and with effect following completion of the Noble Subscription;
- (c) the Listing Committee of the Stock Exchange granting approval for the allotment, issue, listing and trading of the New Shares arising from the Share Subdivision and the Noble Subscription Shares on the Stock Exchange (which shall not be revoked prior to completion of the Noble Subscription);
- (d) compliance by the Company with the relevant procedures and requirements under the laws of Bermuda and the Listing Rules to effect the Capital Reorganisation, and Noble having received a legal opinion issued by the Company's Bermuda legal advisers in respect of compliance with the laws of Bermuda by the Company (including the legality of the Capital Reorganisation) to the satisfaction of Noble;
- (e) the obtaining of all necessary approvals from the regulatory authorities or otherwise as may be required in respect of the Capital Reorganisation;
- (f) all actions by or in respect of or filings with, consents or approvals from any governmental or regulatory authority (including but not limited to the Stock Exchange) or other third parties required to permit the consummation of the transactions contemplated by the Second Subscription Agreement having been taken, made or obtained and all applicable requirements under the Listing Rules and all other relevant regulatory requirements having been complied with by the Company;

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## LETTER FROM THE BOARD

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- (g) all the representations, warranties and undertakings given by the Company and Noble in the Second Subscription Agreement remaining true, accurate and not misleading in all material respects;
- (h) the Shares or New Shares (as the case may be) remaining listed and traded on the Main Board of the Stock Exchange, and no notification or indication being received from the Stock Exchange or the SFC prior to completion of the Noble Subscription that the listing of the Shares or New Shares (as the case may be) on the Stock Exchange will or may be, for whatever reason, withdrawn or suspended for more than seven consecutive Business Days (excluding any suspension for the purpose of obtaining clearance from the SFC or the Stock Exchange for any notices, announcements or circulars relating to the transactions contemplated under the Second Subscription Agreement);
- (i) no event with any Material Adverse Effect occurring from the date of the Second Subscription Agreement; and
- (j) completion of the Xin Hua Subscription.

Noble has the right to waive condition (i). Each of the Company and Noble has the right to waive condition (g) in respect of the other party. However, in order for completion of the Noble Subscription to take place, the conditions precedent relating to (1) the obtaining of consents or approvals from the Stock Exchange; and (2) compliance by the Company with all relevant requirements under the Listing Rules (including but not limited to paragraph (f)) cannot be waived by any party to the Second Subscription Agreement.

If any of the conditions precedent set out above have not been fulfilled (or waived, if applicable) on or before 5:00 p.m. on the Long Stop Date, the Second Subscription Agreement shall cease and terminate (save for certain provisions such as the confidentiality provision which shall survive termination) and none of the parties thereto shall have any obligations and liabilities towards one another, save for any antecedent breaches of the Second Subscription Agreement.

As at the Latest Practicable Date, none of the conditions precedent has been fulfilled.

No consents, approvals, authorisations, waivers or grant required from the Executive in respect of the Noble Subscription were contemplated as at the Latest Practicable Date.

### ***Completion***

Noble intends to finance the consideration payable under the Noble Subscription with financing obtained from Mr. Gao Wanjun (高萬軍) (“**Mr. Gao**”), who is not a Shareholder and is a third party individual independent from the Company and its Shareholders. Mr. Gao provided an unsecured loan in the principal amount of HK\$34 million to Noble at an interest rate of 8% per annum for a term of one year from the date of payment of the Subscription Price for the Noble Subscription Shares. During the term of the loan, Noble may repay the loan prior to its maturity date

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by giving seven days' notice to Mr. Gao. To the best knowledge of each of Noble and Xin Hua, Mr. Gao is a third party individual independent from (i) Noble; (ii) Ms. Fan; and (iii) Xin Hua and its associates. As at the Latest Practicable Date, Mr. Gao does not hold any interest in the Company.

Completion of the Noble Subscription shall take place on the Noble Completion Date after all the conditions precedent set out above have been fulfilled (or waived, if applicable) on or before 5:00 pm on the Long Stop Date.

At completion of the Noble Subscription, Noble shall subscribe for, and the Company shall allot and issue to Noble, the Noble Subscription Shares. On the Noble Completion Date, among other things, Noble shall effect payment of the aggregate consideration for the Noble Subscription Shares payable in full and the Company shall allot and issue to the Noble Subscription Shares to Noble.

### ***Ranking***

The Noble Subscription Shares will rank pari passu in all respects with the New Shares then in issue as at the date of allotment and issue of the Noble Subscription Shares.

### ***Mandates for the issue of the Noble Subscription Shares***

The Noble Subscription Shares will be allotted and issued pursuant to the Specific Mandates to be sought from the Independent Shareholders at the SGM.

### ***Listing application***

An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Noble Subscription Shares.

## **LOAN AGREEMENTS AND LOAN EXTENSION AGREEMENTS**

### **HK\$50M Loan Agreement**

On 29 November 2018, the Company (as borrower) and Xin Hua (as lender) entered into the HK\$50M Loan Agreement, pursuant to which Xin Hua agreed to make available to the Company the HK\$50M Loan at an interest rate of 12% per annum for a term of two months from the date of drawdown, which was 29 November 2018.

### **HK\$20M Loan Agreement**

On 6 December 2018, the Company (as borrower) and Xin Hua (as lender) entered into the HK\$20M Loan Agreement, pursuant to which Xin Hua agreed to make available to the Company the HK\$20M Loan at an interest rate of 12% per annum for a term of two months from the date of drawdown, which was 7 December 2018.

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Both the HK\$50M Loan and the HK\$20M Loan have been used up by the Company, mainly for settling, among other things, the outstanding amount owed by the Company to Burberlon (which was assigned to Mr. Cheung) pursuant to the Deed of Settlement and as general working capital of the Company. Please refer to the sections headed “Special benefit conferred on Shareholders” and “Reasons for and benefits of the Subscriptions – Winding-up Petition” in the letter from the Board of this circular for details of the Deed of Settlement.

### **First HK\$5M Loan Agreement**

On 10 January 2019, the Company (as borrower) and Xin Hua (as lender) entered into the First HK\$5M Loan Agreement, pursuant to which Xin Hua agreed to make available to the Company the First HK\$5M Loan at an interest rate of 12% per annum for a term of less than one month from the date of drawdown, which was 11 January 2019. The entire amount of the First HK\$5M Loan has been used to settle amounts payable by the Company to Mr. Cheung and Mr. So pursuant to the Deed of Settlement and general working capital of the Company.

### **Second HK\$5M Loan Agreement**

On 16 January 2019, the Company (as borrower) and Xin Hua (as lender) entered into the Second HK\$5M Loan Agreement, pursuant to which Xin Hua agreed to make available to the Company the Second HK\$5M Loan at an interest rate of 12% per annum for a term of less than one month from the date of drawdown, which was 16 January 2019. Part of the Second HK\$5M Loan has been used for general working capital of the Company and the remaining balance has been used for the trading business of the Group. As at the Latest Practicable Date, the remaining balance available from the Second HK\$5M Loan for the trading business of the Group is approximately HK\$1,000,000.

### **Loan Extension Agreements**

On 28 January 2019, Xin Hua and the Company entered into the First Loan Extension Agreement pursuant to which the maturity date of the HK\$50M Loan was extended to 28 February 2019.

On 1 February 2019, Xin Hua and the Company entered into the Second Loan Extension Agreement pursuant to which the maturity date of the each of the HK\$20M Loan, the First HK\$5M Loan and the Second HK\$5M Loan was extended to 28 February 2019.

On 28 February 2019, Xin Hua and the Company entered into the Third Loan Extension Agreement, pursuant to which the maturity date of each of the HK\$50M Loan, the HK\$20M Loan, the First HK\$5M Loan and the Second HK\$5M Loan was extended to 31 March 2019.

On 28 March 2019, Xin Hua and the Company entered into the Fourth Loan Extension Agreement, pursuant to which the maturity date of each of the HK\$50M Loan, the HK\$20M Loan, the First HK\$5M Loan and the Second HK\$5M Loan was extended to 31 March 2020. Pursuant to the Fourth Loan Extension Agreement, in the event that the Xin Hua Subscription proceeds, each of the Loan Agreements and the Loan Extension Agreements shall automatically terminate and immediately cease to take effect, and in such case, the aggregate outstanding principal amount of HK\$80 million will be applied to offset the consideration for the Xin Hua Subscription and the accrued but unpaid interest under the Loan Agreements and the Loan



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Extension Agreements shall be waived. In the event that the Xin Hua Subscription does not proceed, Xin Hua as the lender is entitled to the accrued interest and default interest (as the case may be) as stipulated in the Loan Agreements.

As at the Latest Practicable Date, the accrued interest under the Loan Agreements is approximately HK\$3.5 million.

Pursuant to the First Subscription Agreement (as amended and supplemented by the Supplemental Agreement), Xin Hua may apply the outstanding principal amounts under the Loan Agreements for the Xin Hua Subscription. Please refer to the section headed “Subscriptions – (A) First Subscription Agreement and Supplemental Agreement – Subscription Price” in the letter from the Board of this circular for details.

### **SPECIAL BENEFIT CONFERRED ON SHAREHOLDERS**

The Company entered into the Deed of Settlement with Mr. Cheung and Mr. So on 21 December 2018 to settle all claims arising out of or in connection with, inter alia, debts owed by the Company to certain creditors (which were assigned to Mr. Cheung), the Requisition and the Petition. As a result of the Deed of Settlement, the special benefit conferred on Mr. Cheung and Mr. So (both being Shareholders who are interested in an aggregate of 394,070,000 Shares) amounts to HK\$8,753,591, which is calculated as follows:

- (a) the Company agreed to pay to Mr. Cheung an aggregate amount of HK\$58,345,187 in full discharge of the Debt Assignment upon execution of the Deed of Settlement pursuant to the terms thereof. The purchase price of the Debt Assignment paid by Mr. Cheung was HK\$56,501,596; and
- (b) the Company agreed to pay an agreed aggregate amount of HK\$8,100,000 (which was subsequently amended to HK\$6,910,000 pursuant to the Supplemental Deed) to Mr. Cheung and Mr. So as full and final settlement of all charges, costs, fees and expenses (including legal fees) incurred (and to be incurred) by Mr. Cheung and Mr. So in respect of, inter alia, the Requisition, the Petition, the Debt Assignment, and the preparation, execution and completion of a deed of undertaking pursuant to the terms thereof.

### **INTENDED USE OF PROCEEDS FROM THE SUBSCRIPTIONS**

Following completion of the Xin Hua Subscription only, the gross proceeds from the Xin Hua Subscription will amount to HK\$146 million. Having taken into account (i) the offsetting of the HK\$80 million from the HK\$50M Loan, the HK\$20M Loan, the First HK\$5M Loan and the Second HK\$5M Loan; and (ii) the professional fees and other related expenses of approximately HK\$5 million, the net proceeds will be approximately HK\$61 million. The Company intends to apply the net proceeds from the Xin Hua Subscription as follows:

- (a) as to approximately HK\$28 million for the repayment of the loan owed by the Company to NPCC, comprising a principal amount of HK\$25 million plus interest;

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- (b) as to approximately HK\$26 million for the reactivation and expansion of the Group's oil and gas business from the Utah Oil and Gas Field and expansion of the trading business of the Group; and
- (c) as to approximately HK\$7 million for general working capital of the Group.

Following completion of the Xin Hua Subscription and the Noble Subscription, the gross proceeds from the Subscriptions will amount to HK\$180 million. Having taken into account (i) the offsetting of the HK\$80 million from the HK\$50M Loan, the HK\$20M Loan, the First HK\$5M Loan and the Second HK\$5M Loan; and (ii) the professional fees and other related expenses of approximately HK\$5 million, the net proceeds will be approximately HK\$95 million. The Company intends to use the net proceeds to be raised from the Subscriptions as follows:

- (a) as to approximately HK\$28 million for the repayment of the loan owed by the Company to NPCC, comprising a principal amount of HK\$25 million plus interest;
- (b) as to approximately HK\$57 million for the reactivation and expansion of the Group's oil and gas business from the Utah Oil and Gas Field and expansion of the trading business of the Group; and
- (c) as to approximately HK\$10 million for general working capital of the Group.

The proposed use of proceeds from the Subscriptions was arrived at after discussions among the Group and the Subscribers as to the existing and proposed business strategy of the Group after completion of the Subscriptions.

The Company will disclose in its annual report(s) and interim report to be issued how it has applied the proceeds raised from the Xin Hua Subscription or both Subscriptions (as the case may be).

### **EFFECT ON SHAREHOLDING STRUCTURE**

As at the Latest Practicable Date, the relevant securities of the Company (as defined in the Takeovers Code) in issue comprise (i) 3,245,519,752 Shares; and (ii) 74,890,000 Share Options, the exercise of which in full will result in the issue of 74,890,000 Shares. Save for the aforesaid, the Company does not have other classes of securities, derivatives, warrants or other securities which are convertible or exchangeable into Shares.

The table below sets out the effect of the Subscriptions on the shareholding structure of the Company (i) as at the Latest Practicable Date and also immediately following implementation of the Capital Reduction and the Share Subdivision; (ii) immediately upon completion of both Subscriptions, assuming no Share Options are converted and no further Shares or New Shares (as the case may be) are issued; (iii) immediately upon completion of both Subscriptions, assuming exercise of all outstanding Shares Options in full; (iv) immediately upon completion of the Xin Hua Subscription only, assuming that the Noble Subscription does not complete, no Share Options are converted and no further Shares or New Shares (as the case may be) are issued; and (v) immediately upon completion of the Xin Hua Subscription only, assuming that the Noble Subscription does not complete and exercise of all outstanding Share Options in full.

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	As at the Latest Practicable Date/Immediately following implementation of the Capital Reduction and the Share Subdivision		Immediately upon completion of both Subscriptions, assuming no Share Options are converted and no further Shares are issued		Immediately upon completion of both Subscriptions, assuming exercise of all outstanding Share Options in full		Immediately upon completion of the Xin Hua Subscription only, assuming that the Noble Subscription does not complete, no Share Options are converted and no further Shares are issued		Immediately upon completion of the Xin Hua Subscription only, assuming that the Noble Subscription does not complete and exercise of all outstanding Share Options in full	
	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>
<b>Non-public Shareholders</b>										
Pearl Oriental Sino Logistics Limited <sup>(1)</sup>	4,872,000	0.15%	4,872,000	0.05%	4,872,000	0.05%	4,872,000	0.05%	4,872,000	0.05%
The Company <sup>(2)</sup>	4	0.00%	4	0.00%	4	0.00%	4	0.00%	4	0.00%
<b>Subtotal</b>	<b>4,872,004</b>	<b>0.15%</b>	<b>4,872,004</b>	<b>0.05%</b>	<b>4,872,004</b>	<b>0.05%</b>	<b>4,872,004</b>	<b>0.05%</b>	<b>4,872,004</b>	<b>0.05%</b>
<b>The Subscribers</b>										
Xin Hua	—	—	7,300,000,000	59.61%	7,300,000,000	59.25%	7,300,000,000	69.22%	7,300,000,000	68.74%
Noble <sup>(3)</sup>	—	—	1,700,000,000	13.88%	1,700,000,000	13.80%	—	—	—	—
<b>Subtotal of the Concert Group</b>	<b>—</b>	<b>—</b>	<b>9,000,000,000</b>	<b>73.49%</b>	<b>9,000,000,000</b>	<b>73.05%</b>	<b>7,300,000,000</b>	<b>69.22%</b>	<b>7,300,000,000</b>	<b>68.74%</b>
<b>Public Shareholders</b>										
Charcon Assets Limited <sup>(4)</sup>	704,530,000	21.71%	704,530,000	5.75%	704,530,000	5.72%	704,530,000	6.68%	704,530,000	6.63%
Mid-East Petroleum Group Ltd <sup>(5)</sup>	400,000,000	12.33%	400,000,000	3.26%	400,000,000	3.25%	400,000,000	3.79%	400,000,000	3.77%
Mr. So	325,211,000	10.02%	325,211,000	2.66%	325,211,000	2.64%	325,211,000	3.08%	325,211,000	3.06%
Chung Keng	150,000,000	4.62%	150,000,000	1.23%	150,000,000	1.22%	150,000,000	1.42%	150,000,000	1.41%
Mr. Cheung	68,859,000	2.12%	68,859,000	0.56%	68,859,000	0.55%	68,859,000	0.66%	68,859,000	0.64%
Optionholders	—	—	—	—	74,890,000	0.60%	—	—	74,890,000	0.71%
Other public Shareholders	1,592,047,748	49.05%	1,592,047,748	13.00%	1,592,047,748	12.92%	1,592,047,748	15.10%	1,592,047,748	14.99%
<b>Subtotal</b>	<b>3,240,647,748</b>	<b>99.85%</b>	<b>3,240,647,748</b>	<b>26.46%</b>	<b>3,315,537,748</b>	<b>26.90%</b>	<b>3,240,647,748</b>	<b>30.73%</b>	<b>3,315,537,748</b>	<b>31.21%</b>
<b>Total number of issued Shares</b>	<b>3,245,519,752</b>	<b>100.00%</b>	<b>12,245,519,752</b>	<b>100.00%</b>	<b>12,320,409,752</b>	<b>100.00%</b>	<b>10,545,519,752</b>	<b>100.00%</b>	<b>10,620,409,752</b>	<b>100.00%</b>

*Notes:*

- On 4 April 2007, the Company issued consideration Shares in relation to its acquisition of 60% of the issued share capital of Pearl Oriental Sino Logistics Limited. Please refer to the Company's announcement dated 26 September 2006 and the Company's circular dated 18 October 2006 in relation to the acquisition of Pearl Oriental Sino Logistics Limited for more details. The 4,872,000 Shares held by Pearl Oriental Sino Logistics Limited (which is a subsidiary of the Company) consist of part of these consideration Shares and 812,000 bonus Shares which were issued to Pearl Oriental Sino Logistics Limited in May 2011.
- The four Shares are held by the Company of which two Shares represent the aggregate fractional entitlements of Shares which arose from the Company's Share consolidation in May 2006 and two Shares represent the aggregate fractional entitlements of Shares which arose from the Company's bonus issue in May 2011.

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## LETTER FROM THE BOARD

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3. Ms. Fan, the vice chairlady of the Company and an executive Director, wholly owns Noble. Given Ms. Fan introduced Xin Hua to the Company and was involved in the negotiation process in respect of the Xin Hua Subscription, and Xin Hua requested Ms. Fan to participate in the Noble Subscription, Xin Hua and Ms. Fan are parties acting in concert. As such, each of Noble and Ms. Fan is a de facto party acting in concert with Xin Hua under the Takeovers Code.
4. Charcon Assets Limited is a company wholly owned by Mr. Wong Yuk Kwan. Based on the latest filing made on 18 July 2017, Charcon Assets Limited held 704,530,000 Shares and is a substantial shareholder of the Company as at the Latest Practicable Date. It shall be regarded as a public Shareholder upon completion of the Xin Hua Subscription and/or both Subscriptions.
5. According to the annual return of Mid-East Petroleum Group Ltd made up to 16 November 2018, the sole shareholder of Mid-East Petroleum Group Ltd is Wong Ching Chung (黃清松). The Subscribers confirm that Mid-East Petroleum Group Ltd is not related to them and is not a party acting in concert with them. Mid-East Petroleum Group Ltd shall be regarded as a public Shareholder upon completion of the Xin Hua Subscription and/or both Subscriptions.

Xin Hua confirms that (i) it was not a core connected person of the Company as at the Latest Practicable Date; (ii) the Xin Hua Subscription is not financed by any core connected person of the Company; and (iii) it is not accustomed to take instructions from any core connected persons of the Company in relation to the acquisition, disposal, voting or other disposition of the Xin Hua Subscription Shares or any Shares registered in its name or otherwise held by it. Xin Hua will become a controlling shareholder of the Company following the completion of the Xin Hua Subscription and thus become a core connected person of the Company.

As at the Latest Practicable Date, Noble does not own any Shares. Noble will become a substantial shareholder of the Company following the completion of the Noble Subscription. As at the Latest Practicable Date, Ms. Fan, the vice chairlady of the Company and an executive Director, is a core connected person of the Company, and Noble, which is beneficially wholly owned by Ms. Fan, is a close associate of Ms. Fan and a core connected person of the Company.

### REASONS FOR AND BENEFITS OF THE SUBSCRIPTIONS

The Group is engaged in the (i) exploring, exploiting and sale of oil and natural gas; and (ii) trading of oil-related products.

### The Group's financial position

As disclosed in the 2017 annual report of the Company, the auditors of the Company, Cheng & Cheng Limited, issued a disclaimer of opinion on the consolidated financial statements of the Group for the year ended 31 December 2017 due to the existence of multiple uncertainties as set out below, which may cast doubt on the Group's ability to continue as a going concern:

1. the Group recorded a net loss attributable to the owners of the Company of approximately HK\$351.7 million for the year ended 31 December 2017, and as at 31 December 2017, the Group had net current liabilities of approximately HK\$58.7 million. Such loss-making situation and the Company's continued use of short term loans to repay its other short term loans may continue to exist for the year ending 31 December 2018; and

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## LETTER FROM THE BOARD

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2. as at the date of issue of the 2017 annual report of the Company, there was uncertainty as to whether the proposed subscription of Shares by NPCC (which was subsequently terminated on 28 April 2018 after the issue of the disclaimer of opinion) for the purpose of providing new capital to the Group would materialise.

As disclosed in the 2018 annual report of the Company, the Group recorded a net loss attributable to the owners of the Company of approximately HK\$58.4 million for the year ended 31 December 2018 and as at 31 December 2018, the Group had net current liabilities of approximately HK\$121.5 million and with balance of cash and cash equivalents amounting to only approximately HK\$1.0 million. Unsecured loans of approximately HK\$27.0 million were overdue as at 31 December 2018. These loans were still outstanding up to the Latest Practicable Date.

The auditors of the Company are of the view that these conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

The management of the Company has taken the following steps to improve the Group's financial position:

**(1) *Share subscription***

As per the Company's announcement dated 13 February 2019, funds will be raised pending the release of the Joint Announcement relating to the Subscriptions.

**(2) *Additional loans and borrowings and renewal of unsecured loans***

Out of the unsecured loans at 31 December 2018, the HK\$50M Loan and the HK\$20M Loan from Xin Hua were due on 28 January 2019 and 7 February 2019 respectively. These loans were further extended to 28 February 2019 and 31 March 2019 by the First Loan Extension Agreement, the Second Loan Extension Agreement and the Third Loan Extension Agreement.

On 10 January 2019 and 16 January 2019, the Company entered into the First HK\$5M Loan Agreement and the Second HK\$5M Loan Agreement respectively with Xin Hua. The First HK\$5M Loan and the Second HK\$5M Loan which were both due on 7 February 2019 were further extended to 28 February 2019 and 31 March 2019 by the Second Loan Extension Agreement and the Third Loan Extension Agreement respectively to finance the Company's daily operation.

On 28 March 2019, the Company further entered into the Fourth Loan Extension Agreement with Xin Hua to extend the maturity date of each of the HK\$50M Loan, the HK\$20M Loan, the First HK\$5M Loan and the Second HK\$5M Loan to 31 March 2020.

**(3) *Monitoring of the Group's operating cash flows***

The Group has taken various measures to tighten cost controls over operating costs and expenses with the aim to attain profitable and positive cash flow operations. The Directors are taking steps to improve the Group's liquidity and financial performance including active cost-saving and other measures to improve the Group's operating cash flows and financial position.

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## LETTER FROM THE BOARD

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### *(4) Financial support from a director of the Company*

In addition, a Director has confirmed that he/she will provide financial support to the Group to meet its financial obligations as they fall due, if required.

The Directors have reviewed the Group's cash flow projections prepared by management. The cash flow projections covered a period of not less than 12 months from the end of the reporting period. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group would have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the Directors are of the opinion that it is appropriate to prepare the consolidated financial statements for the year ended 31 December 2018 on a going concern basis.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in the Group's consolidated financial statements for the year ended 31 December 2018.

For the year ended 31 December 2018, the Group recorded a revenue of approximately HK\$74.0 million as compared to HK\$35.6 million for the year ended 31 December 2017, mainly contributed from the Group's trading of oil-related products business. Gross loss for the year ended 31 December 2018 amounted to approximately HK\$1.7 million as compared to HK\$1.2 million for the year ended 31 December 2017, which was mainly due to relatively low crude oil and gas prices over a long term.

The loss attributable to the owners of the Company for the year ended 31 December 2018 was approximately HK\$58.4 million, due to the administrative expenses amounting to approximately HK\$38.4 million and interest expenses on unsecured loans and debts settlement expenses amounting to approximately HK\$19.6 million.

As at 31 December 2018, the Group's net current liabilities increased to approximately HK\$121.5 million which was mainly due to an increase in unsecured loans from approximately HK\$58.3 million to HK\$102.1 million and other payables and accruals from approximately HK\$7.1 million to HK\$39.6 million.

As at the Latest Practicable Date, the total outstanding borrowings of the Group amounted to approximately HK\$111.0 million which are all unsecured and repayable within 12 months of this circular bearing interest ranging from 8% to 16% per annum.

The Group's cash and bank balances as at 31 December 2017 amounted to approximately HK\$4.5 million, decreased to approximately HK\$1.0 million as at 31 December 2018. With regard to cash flow, the Group recorded a net cash outflow from operating activities of approximately HK\$21.2 million for the year ended 31 December 2017.

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## LETTER FROM THE BOARD

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The Group's net cash outflow from operating activities increased from approximately HK\$21.2 million for the year ended 31 December 2017 to approximately HK\$30.3 million for the year ended 31 December 2018, mainly because the Group had a gross loss but with huge finance costs, and legal and professional fees of approximately HK\$19.7 million and HK\$7.8 million respectively.

As disclosed in the 2018 annual report of the Company, the auditors of the Company considered that the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **Business outlook**

The Group's oil and gas business consists of domestic sales of gas and crude oil produced from the Utah Oil and Gas Field. Trading by the Group of oil and related products commenced in 2017 and this extend its business to down-stream of the production chain. For the year ended 31 December 2018, the Group recorded revenue of approximately HK\$73.8 million generated from oil-related products trading business, which increased by approximately 109.7% as compared to approximately HK\$35.2 million for the year ended 31 December 2017.

In addition, WTI oil prices hit bottom at around US\$40 per barrel in early 2017 but rebounded gradually to around US\$65 per barrel in the first half of 2018. International oil prices have gradually recovered to above US\$50 per barrel since 2019 and have been stabilising at over US\$60 per barrel despite the recent China-US trade war. Given the China-US trade war is pending to be resolved, the global demand/supply of oil has been adjusting to the market factors and it is expected that international oil prices are likely to stabilise in the future. The consumption and import of oil into China has been growing. The importation of gas was approximately 90 million tonnes, a 32% year-on-year increase in 2018 compared with that of the previous year. The Directors thus believe that the current low oil prices provide an opportunity for the Company to reactivate the Utah Oil and Gas Field at reasonable costs. Further, the recent easing of trade war tensions between the US and China may subsequently lead to a recovery in oil prices.

The Company has focused its business on oil and gas exploration, production and field operations in the Utah Gas and Oil Field, which is mainly a gas field. The Utah Gas and Oil Field is located in Uintah Basin of Utah, Midwestern United States which has a very long history and good location for oil and gas business with mature infrastructure and oilfield service facilities including water, electricity, roads, pipeline network and other logistic facilities around. Currently the Group's operations in Utah are mainly outsourced to local service providers/contractors (e.g. accounting, pumping, maintenance, and oil and gas collection) to maintain a minimum level of oil and gas production in the Utah Oil and Gas Field due to lack of capital. With the new capital from the Subscriptions, the Company will reactivate its existing oil and gas producing wells to enhance and increase production and thereby enable them to become profit-generating. Drilling of new oil and gas producing wells will be needed in order to expand the scale of the Group's oil and gas production. Following the workover of the Group's existing oil and gas producing wells and the drilling of new oil producing wells, it is expected that the Company shall have a total of 15 operating oil and gas producing wells.

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## LETTER FROM THE BOARD

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The reactivation of the Company's oil/gas drilling business is expected to turn around the Company's financial status. Therefore, the Company is in need of financial resources to develop the Utah Oil and Gas Field in order to reduce its losses and generate stable income. However, given the Group's continual severe financial difficulties, unless the Subscriptions are completed, the Company does not have the necessary working capital to revitalise and reactivate its existing core oil assets, namely the Utah Oil and Gas Field, or any means of repaying its debt obligations.

As at the Latest Practicable Date, the Group has a total of 11 existing oil and gas producing wells, including three oil producing wells and eight natural gas producing wells. Following the completion of the Subscriptions, the Company plans to carry out workover on the 11 existing oil and gas producing wells and drill four new oil producing wells.

The total re-development cost of the Utah Oil and Gas Field is expected to be approximately HK\$57 million, of which approximately HK\$26 million will be utilised for the reactivation of the Group's 11 existing oil and gas producing wells and approximately HK\$31 million for the drilling of four new oil producing wells. The existing oil and gas producing wells are expected to start production gradually and bring in revenue from September 2019. Unutilised cash during the year 2019 will be applied to the Group's oil trading business.

A proposed timeline of the implementation of the Company's reactivation and expansion plan for its oil and gas business and trading business (the "**Development Plan**") is as follows:

<b>Time</b>	<b>Event</b>
June 2019	Completion of the Subscriptions.
July to November 2019	Prior to the implementation of the Development Plan, the Company will carry out analyses and research work, as well as planning of the implementation of the Development Plan. The Company will engage LandOcean International Corporation (a consultant with whom the Company has been engaged in close communications with in preparing for the surveying and consulting services to be rendered in relation to the implementation of the Development Plan upon the proceeds from the Subscription being available) to carry out analysis and research. The cost of such works is estimated to be approximately HK\$2.0 million.
September to December 2019	Workover of the Group's 11 existing oil and gas producing wells completed and the existing wells will start producing oil and gas gradually starting from September 2019.



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## LETTER FROM THE BOARD

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Workover costs for each of the oil and gas producing wells is estimated to be approximately HK\$2.3 million (including maintenance works such as piping, leakage prevention, valve fixing and wall restoration, etc.) with two to three wells will be worked on at each time. The Company's office in Utah, the United States (the "**Utah Office**") will be responsible for coordinating and managing the works to be carried out by local qualified contractors in the United States.

December 2019 to March 2020

Based on the Company's experience, there is usually a four-month downtime for workover and drilling works in Utah, the United States due to the Thanksgiving and Christmas holidays and weather factors during the period from December to March.

April to May 2020

Completion of the drilling of two new oil producing wells.

It is expected that testing of the two new oil producing wells will take approximately 20 days. Following completion of the drilling, the two new oil producing wells can be put into production immediately. The drilling and completion costs of each new oil producing well is estimated to be approximately HK\$7.7 million.

The Utah Office has already reached out to and discussed with local drilling companies in respect of the works to be carried out pending financial resources.

November to December 2020

Drilling of additional new oil producing wells completed. Drilling and completion costs for each new oil producing well is estimated to be approximately HK\$7.7 million.

As confirmed by the Directors, as at the Latest Practicable Date, the Company held all necessary licences and permits to conduct its operations in respect of the Utah Oil and Gas Field, and such licences and permits were valid and in full force and effect as of the Latest Practicable Date.

Upon completion of the Development Plan, the Company will have a total of 15 active oil and gas producing wells for production.

Following implementation of the Development Plan, oil and gas production is predicted to be as follows:

- daily production of oil producing wells: 2,576 barrels; and
- daily production of natural gas producing wells: 330,518,000 cubic feet.

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## LETTER FROM THE BOARD

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The abovementioned projected daily production output pertain to the exploration of the Utah Oil and Gas Field only. Following implementation of the Development Plan, the reactivated and revitalised Utah Oil and Gas Field is expected to bring opportunities for further exploitation. According to the licences granted by the Bureau of Land Management of the US Department of the Interior and the Utah Division of Oil, Gas and Mining of the Utah Department of Natural Resources in the US, the Company is permitted to drill a maximum of approximately 370 wells on the Utah Oil and Gas Field as a result of the revised rules on the drilling of wells to achieve the equivalent of an approximate 10-acre well density pattern as stipulated and resolved by the Board of Oil, Gas and Mining of the Utah Department of Natural Resources of the US under 'Docket No. 2008-012, Cause No. 179-15'. Given the Utah Gas and Oil Field covers an area of around 3,692 acres, the competent person's report (CPR) dated 31 December 2015 issued by Gustavson Associates, LLC, an independent technical report on the Company's oil and gas assets, recommended the Company to drill a maximum of an additional 149 wells. As such, the Company believes that there is a potential to increase the Company's scale of oil and gas production (after implementation of the Development Plan) by at least 10 times.

Separately, the Company's trading business can be further developed by utilising the unused capital from the remaining available capital after deducting current loans, operating costs and capital expenditure for the Utah Oil and Gas Field. The Company utilises its market expertise and business contacts to source lower priced oil and gas, while lining up potential buyers at the same time, since sales contracts are always entered into with buyers before or simultaneously with contracts entered into with suppliers. Therefore, the trading business is relatively low risk and results in low margins (around 3%). As such, a larger scale of trading business will increase the Company's profitability. However, given the Company's current poor financial state and the seriousness of its financial difficulties, the Company has limited resources to develop both businesses. The proceeds generated from completion of the Subscriptions is expected to allow the Company to do so, and together with the commencement of operations and further development of the oil and gas production business and trading business, the Company expects to be able to recognise substantial revenue in the future.

Based on reports on oil and gas prices forecasts from independent consultants (namely, Insite Petroleum Consultants Ltd., Gas Processing Management Inc. and Chapman Petroleum Engineering Ltd.), oil prices are estimated to be between between HK\$60 per barrel to HK\$65 per barrel in 2019 with year-on-year increases. As such, the senior management of the Company has taken a pragmatic approach in adopting the prevailing oil prices in its assumptions when preparing the Company's financial forecasts. Any further adjustments will be continuously monitored by the Company to ensure that the Company makes reasonable and profitable returns on its capital expenditure. Moreover, given that oil prices are stabilising at over US\$60 per barrel, the cost of procurement and drilling expenses for the Company is expected to be lower, which will be beneficial for the Group in the reactivation of the Utah Oil and Gas Field.

### **Winding-up Petition**

On 29 August 2018, the Company received a statutory demand from Burberlon, a creditor of the Company, demanding the repayment of a total sum of approximately HK\$32 million. The Company subsequently failed to repay such amount within the specified time.

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## LETTER FROM THE BOARD

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On 19 October 2018 (Hong Kong time), the Company was served with a legal notice in which Burberlon sought a winding-up order against the Company (i.e. the Petition) and an order for the appointment of provisional liquidators to assist the Board in restructuring the debts and liabilities of the Company (i.e. the Summons) from the Supreme Court of Bermuda. Both the Petition and the Summons were listed to be heard in the Bermuda Court on 19 October 2018 at 9:30 a.m. (Bermuda time) and was later adjourned to 22 February 2019 (Bermuda time). On 14 December 2018, the Company confirmed to the Supreme Court of Bermuda that it has sufficient financial resources to settle the entire amount in relation to the Petition in full.

In order to protect Shareholders' interests and attract new investors, and as mentioned in the announcement of the Company dated 24 December 2018, the Company entered into the Deed of Settlement with Mr. Cheung and Mr. So on 21 December 2018 to settle all claims arising out of or in connection with, inter alia, debts owed by the Company to certain creditors which were assigned to Mr. Cheung. Please see the section headed "Special benefit conferred on Shareholders" in the letter from the Board of this circular for further details. As mentioned in the announcement of the Company dated 22 January 2019, following the entering into of the Deed of Settlement, a consent order, which was received by the Company on 22 January 2019, was entered into by, among others Burberlon, Mr. So, Mr. Cheung and the Company on 27 December 2018. Pursuant to the consent order, it was ordered by consent that, among other things, the Petition and the Summons be withdrawn and discontinued and there be no order as to costs.

### **The Group's fund-raising ability**

The Company has encountered difficulties in recent years which have adversely affected the Group's financials, liquidity, operations and prospects, as well as the negative publicity surrounding the Company, all of which hinder the ability of the Company to secure financing from banks and procure underwriting offers for a rights issue or open offer from securities firms in order to improve its financial condition and develop its business. The Company understands that the above developments cast a major concern for many financiers, lenders and potential financial investors. During the past two years, the Company had only been able to raise unsecured short term loans with relatively high interest rates (ranging from 8% to 20% per annum) to maintain the Group's liquidity.

### **Other fund raising methods**

Given the adverse business environment and the Group's difficulties in securing long term financing, the Group had no choice but to use new short term loans to refinance its repayment obligations. This has resulted in a sharp increase in the gearing ratio of the Company from approximately 6.3% as at 31 December 2016 to approximately 29.6% as at 31 December 2017 and approximately 73.8% as at 31 December 2018. The interest expenses and finance costs arising from the short term borrowing has placed great financial burden on the Company.

The Group has considered alternative fund raising methods including a rights issue. However, considering (i) the required time and significant costs of preparing a rights issue; (ii) the uncertain responses from Shareholders; and (iii) the imminent funding needs of the Company, the Directors are of the view that a rights issue may not serve its purpose of raising adequate funds for the Company.

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## LETTER FROM THE BOARD

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The management of the Group has also approached various financial institutions in an effort to obtain further financing for the Company. However, the responses were tepid. Given the (i) adverse market conditions, in particular the volatility of crude oil prices; (ii) poor financial conditions of the Group; and (iii) the impaired reputation of the Group as a result of negative publicity surrounding the Group as mentioned above, no other investors were interested except Xin Hua and Noble.

The Board is of the view that the proceeds from the Subscriptions are sufficient for the repayment of the Group's loans and the development of the Group's business, having taken into consideration the following:

- (a) downward adjustment of international oil and gas prices;
- (b) lower than expected daily output; and
- (c) rising costs of new well drilling.

Furthermore, a sensitivity analysis of 5% variance on each of the key underlying assumptions (namely oil and gas prices, expected production volume and the drilling costs of the new oil producing wells) has been accounted for, the results of which the Company considers satisfactory. The below sensitivity analysis illustrates the impact of hypothetical fluctuations of gains arising from changes in timing of commencement of the drilling of the 14th and 15th oil producing wells, assuming all other variables remain constant. Fluctuations in gains arising from changes in each of the variables is assumed to be 5%.

		<b>Oil and gas prices</b>	<b>Production volume</b>	<b>Capital expenditure</b>
	<b>Base case</b>	<b>-5%</b>	<b>-5%</b>	<b>-5%</b>
Commencement of the drilling of the 14th and 15th oil producing wells	November 2020	December 2020	January 2021	February 2021

After utilising the proceeds from the Subscriptions for the repayment of loans and capital expenditure of the re-development of the Utah Oil and Gas Field, and on the assumption that the Company will assume no further borrowings within the 12 months following the completion of the Subscriptions, the Company will have sufficient working capital and does not need or have any intention to carry out further fund raising activity(ies) in the next 12 months. This is on the basis that the Company will incur reasonable operating costs in the normal course of its business and incur reasonable capital expenditure on the Utah Oil and Gas Field, with respective cash flow ploughed back from revenue generated after the workover of its 11 existing oil and gas producing wells and drilling of two new oil producing wells in 2020. The remaining available cash to be used for the Company's trading business is expected to generate positive cash flow.

The Company plans to allocate approximately HK\$26 million for the workover of its 11 existing oil and gas producing wells. Once the proceeds from the Subscription are ready, the management of the Company plans to allocate approximately HK\$2 million to engage LandOcean International Corporation to survey and recommend suitable areas of workover for all the 11 existing oil and gas producing wells. Workover will commence after LandOcean International Corporation's survey report is obtained with each

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## LETTER FROM THE BOARD

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workover budgeted at approximately US\$300,000 (equivalent to approximately HK\$2.3 million), which is expected to be sufficient to revive the currently inactive wells in order to begin producing oil and gas. As such, the reactivation of the Company's 11 existing oil and gas producing wells forms the basis for the Company's projected revenue forecast for 2019. A further HK\$15.4 million will be utilised for the development of two new oil producing wells, which would utilise the proceeds from Subscription that is allocated for reactivating of the Company's oil and gas business. As the two new oil producing wells are scheduled to be completed in early to mid 2020, additional revenue will be recognised thereafter. Should there be any shortfall of output or deviation from the expected capital expenditure as demonstrated in the sensitivity analysis above, the subsequent drilling of the 14th and 15th new oil producing wells will be postponed, but no other impact on profitability is expected on the 11 existing wells and the 12th and 13th new oil producing wells. Overall, the Board is confident that by aligning its cash flow with the Development Plan, the Company will not need to incur further borrowings to exploit the Utah Oil and Gas Field in the coming 24 months.

As mentioned above, the Company will utilise spare liquidity to operate its trading business. With the increasing capital which oil and gas production brings in and Xin Hua's extensive experience and resources, the Company will be able to expand its trading business.

As such, the Subscriptions are essential for providing the Company with a viable fundraising means for the operation and development of the Group's business in order to improve its financial position and liquidity.

### **Conclusion**

By bringing in Xin Hua as a suitable strategic shareholder, the Company will be optimally placed to leverage on the business opportunities and resources available to Xin Hua. Given such cooperation is expected to create synergies which the Company would not otherwise be able to achieve through other financing means (e.g. financing from banks, open offer and rights issue), the Board is of the view that the Subscriptions are in the interests of the Company and the Shareholders as a whole considering that:

- (a) the Group will be able to raise the necessary funds through the Subscriptions which will improve the financial position and liquidity of the Group and provide the Company with funds for, among others, the operation and development of the Group's existing business which has been adversely affected by volatile oil and gas prices;
- (b) the Subscriptions provide a viable fund-raising means for the Company given the reputational damage caused by former Directors and the Company's financial position as mentioned above, and the Subscriptions will allow the Company to bring in Xin Hua as a strategic partner of the Company to help the Group develop its existing business.
- (c) Daqing Xinhua is a petroleum and petrochemical processing enterprise using crude oil as the raw material. It is principally engaged in production, storage and sales of asphalt and trading of oil-related products in the PRC. Asphalt is refined from crude oil and the sale of asphalt is a midstream business in the petrochemical industry, while the trading of fuel oil is a downstream business. In this regard, the trading business of Daqing Xinhua, which is engaged in

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## LETTER FROM THE BOARD

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transportation, production and sale of road asphalt and fuel oil as the downstream business in the oil industry, will be able to facilitate the development and expansion of the Group, having taken into consideration the following:

- (i) Daqing Xinhua and the Company are both engaged in the oil industry (with Daqing Xinhua being engaged in the downstream business and the Company being engaged in the upstream business) and there can be synergies to the upstream and downstream business chain by broadening the Group's product offering and complementing the Group's product base;
- (ii) the shareholders of Daqing Xinhua, Mr. Yu and Mr. Chen, have 10 years of experience in the oil and petrochemical industry. From October 2009 to March 2019, Mr. Yu was a director of Daqing Lianyi, which is traded on National Equities Exchange and Quotations (全國中小企業股份轉讓系統) in the PRC. For details of their biographies, please refer to section headed "Information on the Subscribers – Xin Hua" in the letter from the Board of this circular;
- (iii) with Mr. Yu and Mr. Chen's exposure, management experience and expertise in the petrochemical and oil field industry in the PRC, Daqing Xinhua can facilitate and explore the business opportunities to the Group in the oil field industry; and
- (iv) the trading of oil-related products business of the Group can be enhanced and expanded by cooperation with the customer base referred by Daqing Xinhua. Daqing Xinhua is headquartered in Xinhuatun, Datong District, Daqing City in the PRC and its main products are road asphalt and fuel oil with distribution networks covering various cities in the Heilongjiang Province and neighbouring provinces in the PRC.

Based on the closing price of approximately HK\$0.122 per Share on the Last Trading Day, the theoretical diluted price of the Shares will be HK\$0.0470 per Share and the theoretical value dilution is approximately 61.45%. With reference to Rule 7.27B of the Listing Rules, the Subscriptions would result in a theoretical dilution effect of 25% or more within a 12-month period. However, given:

- (i) the Company has net current liabilities of approximately HK\$121.5 million as at 31 December 2018 and net loss attributable to the owners of the Company of approximately HK\$58.4 million for the year ended 31 December 2018;
- (ii) the Company had approximately HK\$111.0 million in short term borrowings due within twelve months from the Latest Practicable Date;
- (iii) the adverse market conditions of the oil and gas business; and
- (iv) the Company's lack of ability to secure long-term financing,

there is no doubt that the Company is in serious financial distress.

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## LETTER FROM THE BOARD

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In such circumstance, it is inconceivable that any sensible investor would invest in such a financially distressed company and finance the Company's debt restructuring without a material dilution of the shareholdings of existing Shareholders. Upon completion of the Xin Hua Subscription (or both Subscriptions, as the case may be), all of the indebtedness of the Company will be settled. The Subscriptions will help the Group to stabilise its operations, financial status and create synergies for the current and future development of the Group. Accordingly, despite the material dilution, the Subscriptions are manifestly in the interests of the Company and its Shareholders as a whole and will prevent the Company from being wound up, causing more severe loss to Shareholders and investors of the Company.

The financial condition of the Company falls under Rule 7.27B of the Listing Rules, being exceptional circumstances and financial difficulties, and the Subscriptions form part of the rescue proposal. Accordingly, the Directors (excluding the independent non-executive Directors, whose views will be provided after taking into account the opinion and advice from the Independent Financial Adviser, and excluding Ms. Fan, who is the vice chairlady of the Company and an executive Director, and is interested in the Noble Subscription) consider that the Subscriptions are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. As Ms. Fan is considered to have a material interest in the Subscriptions, she will abstain from voting on the relevant resolutions of the Board. Other than Ms. Fan, none of the Directors have a material interest in the Subscriptions.

### INFORMATION ON THE GROUP

The Group is principally focused on the (i) exploring, exploiting and sale of oil and natural gas; and (ii) trading of oil-related products.

### INFORMATION ON THE SUBSCRIBERS

#### **Xin Hua**

Xin Hua is a limited liability company incorporated in Hong Kong on 29 October 2018 and is principally engaged in investment holding. It is owned as to approximately 46.28% and 53.72% by Ms. Chen and Daqing Xinhua, respectively.

Daqing Xinhua, formerly known as 大慶聯誼石化股份有限公司新華瀝青廠 (Asphalt Factory of Daqing Lianyi Petrochemical Co., Ltd\*), changed its name to 大慶市新華瀝青有限責任公司 (Daqing Xinhua Asphalt Company Limited) in August 2005. Through its development in the last 10 years, Daqing Xinhua has evolved to cover areas including transportation, production and sale of road asphalt and fuel oil. Daqing Xinhua is headquartered in Xinhuatun, Datong District, Daqing City in the PRC and its main products are road asphalt and fuel oil with distribution networks covering various cities in the Heilongjiang Province and neighbouring provinces in the PRC.

As at the Latest Practicable Date, (i) Daqing Xinhua is held as to 65% by Mr. Yu and 35% by Mr. Chen; and (ii) Mr. Wang Zhiming (王志民) is the sole director of Daqing Xinhua.

As at the Latest Practicable Date, the board of directors of Xin Hua comprises Ms. Chen, Mr. Yu and Mr. Chen.

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## LETTER FROM THE BOARD

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Mr. Yu, an existing shareholder of Daqing Xinhua and a director of Xin Hua, finished his legal professional studies (法律專科) in July 1989 and law studies (法律本科) in January 1998 at 黑龍江省政法管理幹部學院 (Heilongjiang Administrative Cadre Institute of Politics and Law). Mr. Yu obtained his master in Executive MBA (高級管理人員工商管理碩士) at Tsinghua University (清華大學) in January 2019. Mr. Yu has 10 years of experience in the petrochemical industry. From January 2007 to January 2009, Mr. Yu was the chairman and the general manager of 大慶錦聯石油化工有限公司 (Daqing Jinlian Petrochemical Co., Ltd\*). From October 2009 to March 2019, Mr. Yu was the director of Daqing Lianyi and from August 2012 to October 2016, Mr. Yu was also acting as the chairman of Daqing Lianyi. From October 2016 to March 2019, Mr. Yu was the vice general manager of Daqing Lianyi. Daqing Lianyi is a petrochemical company engaging in, among others, sale of crude oil, petroleum processing and distribution of oil-related products business.

Mr. Chen, an existing shareholder of Daqing Xinhua and a director of Xin Hua, has almost 10 years of experience in petrochemical industry. Mr. Chen graduated from petroleum engineering studies (石油工程專科) at 中國石油大學 (China University of Petroleum) in July 2014. He was the vice general manager of the branch sale office of Daqing Lianyi from October 2009 to September 2018. Mr. Chen has been the vice general manager of Daqing Xinhua since October 2018.

Mr. Wang Zhiming (王志民) completed the economics and management studies (經管專業專科) from 中共黑龍江省委黨校 (The Party School of HLJ P.P.C.of The C.P.C.) in January 2000. He was working for 北京諾輝世紀國際珠寶股份有限公司 (Beijing NuoHui Century International Jewelry Co., Ltd\*) from April 2012 to December 2016 and he is mainly responsible for the acquisition and exploration of the mining business in Indonesia and Canada. Mr. Wang coordinated the incorporation of NuoHui Mining Ltd. (諾輝礦業有限公司) in Province of British Columbia, Canada in 2014 and Mr. Wang was the director and general manager of NuoHui Mining Ltd. (諾輝礦業有限公司) until December 2016. Since December 2016, Mr. Wang has been the director and the general manager of Daqing Xinhua.

Ms. Chen was a business manager and promoted to business director (業務總監) and the general manager assistant at 上海大華國化企業管理有限公司 (Shanghai Dahua Nationalization Business Management Co. Ltd.\*) from September 2011 to September 2018.

### **Noble**

Noble is an investment holding company incorporated in the British Virgin Islands with limited liability, and is beneficially wholly owned by Ms. Fan. As at the Latest Practicable Date, Ms. Fan is the sole director of Noble.

Ms. Fan is currently the vice chairlady of the Company, an executive Director and the sole director of Noble. She served as an executive director of Chevalier Pacific Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 508) from 2 October 2009 to 5 November 2010. In 2005, Ms. Fan co-founded Flying Eagle Aviation Limited and has served as its chairperson since then. She assisted Flying Eagle Aviation Limited in obtaining an Aircraft General Terms Agreement (AGTA) licence from Boeing, which permits licensees to operate aircraft businesses worldwide. In 2005, Ms. Fan also founded Great Dragon Petroleum Limited, a company engaged in the trading of oil related products. Ms. Fan also previously served as a senior consultant in China affairs at Nomura (Hong Kong) Limited.



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## **LETTER FROM THE BOARD**

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Save as disclosed in this circular, the Company and the Subscribers have not entered into any agreement or arrangement (either explicit or implicit) or understanding (whether formal or informal) in connection with the Subscriptions (other than those set out in the First Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Second Subscription Agreement).

There is no understanding or agreement among the Subscribers and the Company in relation to the injection of business interests into the Group. If the Group acquires any assets/business interests from either Subscriber or any of their respective associates (for the purpose of the Listing Rules) in future, the Company will comply with all applicable requirements under the Listing Rules.

### **FUTURE INTENTIONS OF XIN HUA REGARDING THE GROUP**

Upon completion of the Xin Hua Subscription, Xin Hua will become the controlling shareholder of the Company. As confirmed by Xin Hua, having considered the current financial position of the Company and the proposed application of the net proceeds from the Subscriptions as disclosed in the section headed “Intended use of proceeds from the Subscriptions” in the letter from the Board of this circular, it is the current intention of Xin Hua for the Group to continue the principal oil and gas businesses of the Group. As at the Latest Practicable Date, no agreement, definitive proposals, terms or timetable have been reached or determined. Xin Hua has neither identified any investment or business opportunities nor entered into any related agreements, arrangements, understandings or negotiations, and there is no plan on any injection or disposal of any assets or businesses into/of the Group as at the Latest Practicable Date. Save as aforesaid, Xin Hua currently has no intention to make any substantial change to the existing business of the Group and the employment of the Group’s employees. The Company will comply with all applicable requirements of the Listing Rules and/or the Takeovers Code as and when appropriate.

### **FUNDRAISING ACTIVITIES IN THE PAST TWELVE MONTHS**

The Company has not conducted any equity fund raising activities in the past 12 months immediately prior to the Latest Practicable Date.

### **IMPLICATIONS OF THE SUBSCRIPTIONS UNDER THE LISTING RULES**

Ms. Fan is an executive Director and is therefore a connected person of the Company under Chapter 14A of the Listing Rules. Noble, which is beneficially wholly owned by Ms. Fan, is an associate of Ms. Fan and a connected person of the Company. As a result, the Noble Subscription constitutes a non-exempt connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the announcement, reporting and Independent Shareholders’ approval requirements pursuant to the Listing Rules.

The issue of the Subscription Shares will also be subject to, among other things, the approval of the Independent Shareholders for the granting of the Specific Mandates at the SGM in accordance with the requirements of Rule 13.36 of the Listing Rules.

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## LETTER FROM THE BOARD

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### IMPLICATIONS OF THE SUBSCRIPTIONS UNDER THE TAKEOVERS CODE

Subject to fulfillment (or waiver, if applicable) of the conditions precedent under the Subscriptions and assuming there is no change in the issued share capital of the Company:

- (a) following completion of the Xin Hua Subscription only, Xin Hua and parties acting in concert with it will in aggregate be interested in 7,300,000,000 New Shares, representing approximately 69.22% of the issued share capital of the Company as enlarged by the allotment and issue of the Xin Hua Subscription Shares; and
- (b) following completion of the Xin Hua Subscription and the Noble Subscription, the Concert Group will in aggregate be interested in 9,000,000,000 New Shares, representing approximately 73.49% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares, and Xin Hua and parties acting in concert with it (other than Noble) will in aggregate be interested in 7,300,000,000 New Shares, representing approximately 59.61% of the issued share capital of the Company.

As such, Xin Hua is required to make a mandatory unconditional cash offer to the Shareholders for all the issued New Shares and other securities of the Company (other than the Excluded Shares) under Rule 26.1 of the Takeovers Code. Xin Hua would also be obliged to make an appropriate offer to all Optionholders in accordance with Rule 13 of the Takeovers Code to cancel all outstanding Share Options. As at the Latest Practicable Date, Xin Hua and parties acting in concert with it do not own any Shares or relevant securities in the Company. The Offers will be made to all Shareholders (excluding holders of the Excluded Shares) and Optionholders.

Xin Hua and the Company intend to combine the offer document and the offeree board circular into the Composite Document which contains, amongst others, details of the Offers, accompanied by the relevant forms of acceptance, and incorporating the recommendation from the Independent Board Committee and the letter from the Independent Financial Adviser in respect of the Offers. Pursuant to Rule 8.2 of the Takeovers Code, the Composite Document is required to be despatched within 21 days of the date of the Joint Announcement. As the making of the Offers is conditional upon completion of the Xin Hua Subscription, which in turn is conditional on, among others, the Independent Shareholders' approval, an application has been made to seek the Executive's consent under Note 2 to Rule 8.2 of the Takeovers Code to extend the deadline for the despatch of the Composite Document to be within seven days after completion of the Xin Hua Subscription or 8 July 2019, whichever is earlier. The Executive has granted such consent on 7 May 2019.

### CAPITAL REORGANISATION

The existing authorised share capital of the Company as of the Latest Practicable Date is HK\$20,000,000,000, divided into 200,000,000,000 shares of nominal value of HK\$0.10 each. Under the laws of Bermuda and the bye-laws of the Company, in which bye-law 12 states that no Shares shall be issued at a discount, shares of a Bermuda-incorporated company cannot be subscribed for at a price lower

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## LETTER FROM THE BOARD

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than the nominal value of the shares. As such, to facilitate the Subscriptions, the Company proposes to implement the Capital Reorganisation which will involve the Capital Reduction, the Share Subdivision and the Share Consolidation, details of which are as follows:

**(a) Capital Reduction**

The Company proposes to implement the Capital Reduction, pursuant to which the issued share capital of the Company will be reduced by a reduction in the nominal value of each issued Share from HK\$0.10 to HK\$0.01 which will comprise a cancellation of such amount of the paid-up capital on each issued Share so that each issued Share will be treated as one fully paid-up share of nominal value of HK\$0.01 each in the share capital of the Company immediately following the Capital Reduction, and the credit arising from the Capital Reduction will be credited to the contributed surplus account of the Company within the meaning of the Bermuda Companies Act.

**(b) Share Subdivision**

Immediately following the Capital Reduction, each of the authorised but unissued Shares of nominal value of HK\$0.10 each will be subdivided into 10 New Shares of nominal value of HK\$0.01 each.

**(c) Share Consolidation**

Subject to and effective following completion of the Xin Hua Subscription (or both Subscriptions, as the case may be), the Company proposes to implement a Share Consolidation on the basis that every 20 issued and unissued New Shares of nominal value of HK\$0.01 each will be consolidated into one Consolidated Share of nominal value of HK\$0.20 each in the share capital of the Company.

### **Conditions of the Capital Reorganisation**

The implementation of the Capital Reorganisation is conditional upon (i) the passing of the necessary resolutions by the Shareholders by way of poll at the SGM to approve the Capital Reorganisation; and (ii) completion of the Xin Hua Subscription.

Subject to the above conditions being fulfilled, it is anticipated that (i) each of the Capital Reduction and the Share Subdivision will become effective on the next Business Day immediately following the date of the SGM; and (ii) the Share Consolidation will become effective immediately following completion of the Xin Hua Subscription or both Subscriptions (as the case may be).

### **Effects of the Capital Reorganisation**

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$20,000,000,000, divided into 200,000,000,000 shares of nominal value of HK\$0.10 each, of which 3,245,519,752 Shares have been issued and are fully paid or credited as fully paid. Save for the 74,890,000 Share Options, the exercise of which in full will result in the issue of 74,890,000 Shares, the Company has no other outstanding warrants, options or convertible securities as at the Latest Practicable Date.

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## LETTER FROM THE BOARD

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Assuming that there are no changes in the issued share capital of the Company from the Latest Practicable Date until the effective date of the Capital Reorganisation, the share capital structure of the Company will be as follows:

*(i) Assuming no Share Options are converted*

	As at the Latest Practicable Date	Immediately following the Capital Reduction and the Share Subdivision becoming effective and completion of both Subscriptions but prior to the Share Consolidation becoming effective	After completion of both Subscriptions and immediately following the Share Consolidation becoming effective	Immediately following the Capital Reduction, the Share Subdivision becoming effective and completion of the Xin Hua Subscription only (but not the Noble Subscription) but prior to the Share Consolidation becoming effective	After completion of the Xin Hua Subscription only (but not the Noble Subscription) and immediately following the Share Consolidation becoming effective
Nominal value	HK\$0.10 per Share	HK\$0.01 per New Share	HK\$0.20 per Consolidated Share	HK\$0.01 per New Share	HK\$0.20 per Consolidated Share
Number of authorised shares	200,000,000,000 Shares	2,000,000,000,000 New Shares	100,000,000,000 Consolidated Shares	2,000,000,000,000 New Shares	100,000,000,000 Consolidated Shares
Authorised share capital	HK\$20,000,000,000	HK\$20,000,000,000	HK\$20,000,000,000	HK\$20,000,000,000	HK\$20,000,000,000
Number of issued Shares	3,245,519,752 Shares	12,245,519,752 New Shares	612,275,987 Consolidated Shares	10,545,519,752 New Shares	527,275,987 Consolidated Shares

## LETTER FROM THE BOARD

*(ii) Assuming all Share Options are converted*

	As at the Latest Practicable Date	Immediately following the Capital Reduction and the Share Subdivision becoming effective and completion of both Subscriptions but prior to the Share Consolidation becoming effective	After completion of both Subscriptions and immediately following the Share Consolidation becoming effective	Immediately following the Capital Reduction, the Share Subdivision becoming effective and completion of the Xin Hua Subscription only (but not the Noble Subscription) but prior to the Share Consolidation becoming effective	After completion of the Xin Hua Subscription only (but not the Noble Subscription) and immediately following the Share Consolidation becoming effective
Nominal value	HK\$0.10 per Share	HK\$0.01 per New Share	HK\$0.20 per Consolidated Share	HK\$0.01 per New Share	HK\$0.20 per Consolidated Share
Number of authorised shares	200,000,000,000 Shares	2,000,000,000,000 New Shares	100,000,000,000 Consolidated Shares	2,000,000,000,000 New Shares	100,000,000,000 Consolidated Shares
Authorised share capital	HK\$20,000,000,000	HK\$20,000,000,000	HK\$20,000,000,000	HK\$20,000,000,000	HK\$20,000,000,000
Number of issued Shares	3,245,519,752 Shares	12,320,409,752 New Shares	616,020,487 Consolidated Shares	10,620,409,752 New Shares	531,020,487 Consolidated Shares

### Reasons for the Capital Reorganisation

As mentioned above, the existing authorised share capital of the Company as of the Latest Practicable Date is HK\$20,000,000,000, divided into 200,000,000,000 shares of nominal value of HK\$0.10 each. Under the laws of Bermuda and the Bye-laws, in which Bye-law 12 states that no Shares shall be issued at a discount, shares of a Bermuda-incorporated company cannot be subscribed for at a price lower than the nominal value of the shares.

Further, pursuant to Rule 13.64 of the Listing Rules, where the market price of the securities of the issuer approaches the extremities of HK\$0.01 or HK\$9,995.00, the Stock Exchange reserves the right to require the issuer either to change the trading method or to proceed with a consolidation or splitting of its securities.

In this regard, the Directors proposed to implement the Capital Reduction and the Share Subdivision to facilitate the Subscriptions and the Share Consolidation to enable the Company to comply with the trading requirements of the Listing Rules.

Other than the relevant expenses, including but not limited to professional fees and printing charges incurred and to be incurred, the implementation of the Capital Reorganisation will have no effect on the consolidated net asset value of the Group, nor will it alter the underlying assets, business, operations, management or financial position of the Company or the proportionate interests of the Shareholders. The Board believes that the Capital Reorganisation will not have any material adverse effect on the financial position of the Group. The Capital Reorganisation will not result in any change in the relative rights of the Shareholders.

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## LETTER FROM THE BOARD

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In view of the above, the Board considers that the Capital Reorganisation is in the interests of the Company and the Shareholders at a whole.

### **Listing and dealings in New Shares**

An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the New Shares arising from the Capital Reduction and Share Subdivision.

Subject to the granting of listing of, and permission to deal in, the New Shares on the Stock Exchange, the New Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the New Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second settlement day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. The Capital Reduction and the Share Subdivision will not result in any change in the rights of the Shareholders. The New Shares will be identical in all respects and rank pari passu in all respects with each other as to all future dividends and distributions which are declared, made or paid. All necessary arrangements will be made for the New Shares to be admitted into CCASS.

Save that the Shares are listed and dealt in on the Stock Exchange, none of the Shares and the Company's debt securities are listed or dealt in on any other stock exchange, and at the time the Capital Reorganisation becoming effective, save that the New Shares will be listed and dealt in on the Stock Exchange, the New Shares and the Company's debt securities in issue will not be listed or dealt in on any other stock exchange, and no such listing or permission to deal is being or is proposed to be sought.

### **Listing and dealings in Consolidated Shares**

An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consolidated Shares arising from the Share Consolidation.

Subject to the granting of listing of, and permission to deal in, the Consolidated Shares on the Stock Exchange, the Consolidated Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Consolidated Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second settlement day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. The Share Consolidation will not result in any change in the rights of the Shareholders. The Consolidated Shares will be identical in all respects and rank pari passu in all respects with each other as to all future dividends and distributions which are declared, made or paid. All necessary arrangements will be made for the Consolidated Shares to be admitted into CCASS.

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## LETTER FROM THE BOARD

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Save that the Shares are listed and dealt in on the Stock Exchange, none of the Shares and the Company's debt securities are listed or dealt in on any other stock exchange, and at the time the Capital Reorganisation becoming effective, save that the Consolidated Shares will be listed and dealt in on the Stock Exchange, the Consolidated Shares and the Company's debt securities in issue will not be listed or dealt in on any other stock exchange, and no such listing or permission to deal is being or is proposed to be sought.

### **Free exchange of share certificates for Consolidated Shares**

Subject to the Capital Reorganisation becoming effective, which is expected to be on Monday, 17 June 2019, the Shareholders may, on or after Monday, 17 June 2019 until Wednesday, 24 July 2019 (both days inclusive), submit their existing share certificates for the Shares to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for exchange for new share certificates for the Consolidated Shares at the expense of the Company. Thereafter, existing share certificates for the Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such other amount as may from time to time be specified by the Stock Exchange) by the Shareholders for each share certificate issued for the Consolidated Shares or each existing share certificate for the Shares submitted for cancellation, whichever the number of certificates issued or cancelled is higher.

It is expected that new share certificates for the Consolidated Shares will be available for collection within a period of 10 Business Days after the submission of the existing share certificates.

After 4:00 p.m. on Wednesday, 24 July 2019, existing share certificates for the Shares will continue to be good evidence of legal title and may be exchanged for share certificates for Consolidated Shares at any time but are not acceptable for trading, settlement and registration purposes.

The new share certificates for the Consolidated Shares will be light green in colour so as to be distinguished from the existing share certificates for the Shares which are red in colour.

### **PROPOSED CHANGE IN BOARD LOT SIZE**

As at the Latest Practicable Date, the Shares are traded in board lots of 1,000 Shares. The Board proposes to change the board lot size for trading in the Shares from 1,000 Shares to 2,000 Consolidated Shares subject to and upon the Capital Reorganisation becoming effective.

Based on the closing price of HK\$0.098 per Share (equivalent to a theoretical closing price of HK\$1.96 per Consolidated Share) as at the Latest Practicable Date, (i) the value of each board lot of the Shares is HK\$98; (ii) the value of each board lot of 1,000 Consolidated Shares would be HK\$1,960, assuming the Capital Reorganisation has become effective; and (iii) the estimated value of each board lot of 2,000 Consolidated Shares would be HK\$3,920, assuming the Change in Board Lot Size has become effective.

The Board is of the view that the Change in Board Lot Size will enable the Company to maintain the trading value for each board lot at a reasonable level and comply with the "Guide on Trading Arrangements for Selected Types of Corporate Actions" issued by the Hong Kong Exchanges and Clearing Limited, which requires the expected board lot value to be greater than HK\$2,000.

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## LETTER FROM THE BOARD

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### OTHER ARRANGEMENTS

#### Fractional entitlement to Consolidated Shares

Any fractional Consolidated Share arising from the Capital Reorganisation will not be issued by the Company. Any such fractional entitlements to the Consolidated Shares will be aggregated and sold (if a premium, net of expenses can be obtained) for the benefit of the Company.

#### Odd lots arrangement and matching services

In order to alleviate the difficulties arising from the existence of odd lots of the Consolidated Shares following the Change in Board Lot Size, the Company has appointed Forwin as agent to provide a matching service, on a best effort basis, to those Shareholders who wish to acquire odd lots of the Consolidated Shares to make up a full board lot, or to dispose of their holding of odd lots of the Consolidated Shares. Shareholders who wish to take advantage of this facility should contact Dealing Department of Forwin at Unit 32B, 32/F, Tower One, Lippo Centre, 89 Queensway, Admiralty, Hong Kong or at telephone number (852) 2895 9991 during office hours. Shareholders should note that successful matching of the sale and purchase of odd lots of the Consolidated Shares is not guaranteed. Any Shareholder who is in any doubt about the odd lots arrangement, is recommended to consult his/her/its own professional advisers.

### INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising the independent non-executive Directors, has been formed to advise, among others, the Shareholders on the terms of the Second Subscription Agreement and the granting of the Specific Mandate for the Noble Subscription. None of the members of the Independent Board Committee have any interest or involvement in the transactions contemplated under the First Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Second Subscription Agreement.

VBG Capital Limited, with the approval of the Independent Board Committee, has been appointed as the Independent Financial Adviser to advise, among others, the Independent Board Committee and the Shareholders in respect of the Second Subscription Agreement and the granting of the Specific Mandate for the Noble Subscription.

### SGM

A notice convening the SGM to be held at Suites 1905-07, 19th Floor, Tower 6, The Gateway, Harbour City, Kowloon, Hong Kong on Wednesday, 12 June 2019 at 11:00 a.m. is set out on pages SGM-1 to SGM-4 of this circular.

Only the Independent Shareholders are entitled to vote at the SGM in respect of the resolutions to approve the Subscriptions and the granting of the Specific Mandates. The Subscribers and their respective associates and concert parties shall abstain from voting on the resolutions to approve the Subscriptions and the granting of the Specific Mandates to be proposed at the SGM.



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## LETTER FROM THE BOARD

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Other than Mr. Cheung and Mr. So, no existing Shareholder has a material interest in the Subscriptions and the granting of the Specific Mandates and therefore no Shareholder, other than Mr. Cheung and Mr. So, is required to abstain from voting in relation to the resolutions to approve the Subscriptions and the granting of the Specific Mandates to be proposed at the SGM. As at the Latest Practicable Date, Mr. Cheung and Mr. So respectively hold 68,859,000 Shares and 325,211,000 Shares, representing approximately 2.12% and 10.02% of the issued share capital of the Company respectively.

No existing Shareholder has a material interest in the Capital Reorganisation and therefore no Shareholder is required to abstain from voting in relation to the resolutions to approve the Capital Reorganisation to be proposed at the SGM.

A form of proxy for use at the SGM is enclosed with this circular. Such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.pearloriental.com](http://www.pearloriental.com)). Whether or not you are able to attend the SGM, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return the completed form of proxy to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM if you so wish and in such event, the form of proxy shall be deemed to be revoked.

The resolutions proposed at the SGM will be taken by way of poll. An announcement on the poll results will be made by the Company after the SGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

### **CLOSURE OF REGISTER OF MEMBERS**

To ascertain the entitlement to attend and vote at the SGM, the register of members of the Company will be closed from Thursday, 6 June 2019 to Wednesday, 12 June 2019, both dates inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the above meeting, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Wednesday, 5 June 2019.

### **RECOMMENDATIONS**

The Directors (including the members of the Independent Board Committee after taking into account the opinion and advice of the Independent Financial Adviser, and excluding Ms. Fan, who is the vice chairlady of the Company and an executive Director, and is interested in the Noble Subscription), consider that the Subscriptions (including the granting of the Specific Mandates) and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole.

Your attention is drawn to the "Letter from the Independent Board Committee" as set out on pages 49 to 50 of this circular and the "Letter from the Independent Financial Adviser" as set out on pages 51 to 70 of this circular.

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## LETTER FROM THE BOARD

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Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders and Shareholders to vote for in favour of the relevant resolutions to be proposed at the SGM.

**The Offers will only be made if completion of the Xin Hua Subscription takes place. Completion of the Xin Hua Subscription is subject to, as applicable, satisfaction and/or waiver of the conditions contained in the First Subscription Agreement (as amended and supplemented by the Supplemental Agreement). Accordingly, the Offers may or may not be made. The issue of this circular does not in any way imply that the Offers will be made.**

**Shareholders, Optionholders and potential investors of the Company are advised to exercise caution when dealing in the Shares. Persons who are in doubt as to the action they should take should consult their stockbroker, licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional advisers.**

### ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully,  
For and on behalf of the Board  
**Pearl Oriental Oil Limited**  
**Liu Gui Feng**  
*Chairlady and Executive Director*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders on the terms of the Second Subscription Agreement and the granting of the Specific Mandate for the Noble Subscription.*



東方明珠石油有限公司\*  
**Pearl Oriental Oil Limited**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 632)**

21 May 2019

*To the Shareholders*

Dear Sir or Madam,

**(1) PROPOSED SUBSCRIPTION OF NEW SHARES BY  
XIN HUA PETROLEUM (HONG KONG) LIMITED;  
(2) CONNECTED TRANSACTION – PROPOSED SUBSCRIPTION OF NEW  
SHARES BY NOBLE PIONEER LIMITED;  
AND  
(3) PROPOSED CAPITAL REORGANISATION**

We have been appointed to form an independent board committee to consider and advise the Independent Shareholders on the terms of the Second Subscription Agreement and the granting of the Specific Mandate for the Noble Subscription, details of which are set out in the circular issued by the Company to the Shareholders dated 12 June 2019 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular will have the same meanings when used herein unless the context otherwise requires.

We wish to draw your attention to the letter from the Board and the letter of advice from the Independent Financial Adviser set out on pages 12 to 48 and pages 51 to 70 of the Circular, respectively, and the additional information set out in the appendix to the Circular.

Having taken into account the background of and reasons for the Noble Subscription (including the granting of the Specific Mandate for the Noble Subscription) and having taken into consideration the advice of the Independent Financial Adviser in relation thereto as set out on pages 51 to 70 of the Circular, we concur with the view of the Independent Financial Adviser and consider that the Noble Subscription (including the granting of the Specific Mandate for the Noble Subscription) and the transactions contemplated thereunder (i) are on normal commercial terms, fair and reasonable so far as the Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole; and (ii) are not in the

\* *For identification purpose only*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Noble Subscription (including the granting of the Specific Mandate for the Noble Subscription).

Yours faithfully,

For and on behalf of the Independent Board Committee of  
**Pearl Oriental Oil Limited**

**Xing Yong**

*Independent non-executive  
Director*

**Shi Wen Jiang**

*Independent non-executive  
Director*

**Chen Zhong Min**

*Independent non-executive  
Director*

**Jiang Cai Yi**

*Independent non-executive  
Director*

**Zhang Yue Yang**

*Independent non-executive  
Director*

**He Jun**

*Independent non-executive  
Director*

**Chen Xue Hui**

*Independent non-executive  
Director*

**Hu Jing**

*Independent non-executive  
Director*

**Lyu Jia Lian**

*Independent non-executive  
Director*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Set out below is the text of a letter received from VBG Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscriptions for the purpose of inclusion in this circular.*



建泉融資有限公司  
VBG Capital Limited

18/F., Prosperity Tower  
39 Queen's Road Central  
Hong Kong

21 May 2019

*To: The independent board committee and the independent shareholders of Pearl Oriental Oil Limited*

Dear Sirs,

**(1) PROPOSED SUBSCRIPTION OF NEW SHARES BY  
XIN HUA PETROLEUM (HONG KONG) LIMITED; AND  
(2) CONNECTED TRANSACTION –  
PROPOSED SUBSCRIPTION OF NEW SHARES BY  
NOBLE PIONEER LIMITED**

### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscriptions, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 21 May 2019 issued by the Company to the Shareholders (the “**Circular**”), of which this letter of advice forms part. Terms used in this letter of advice shall have the same meanings as ascribed to them under the section headed “Definitions” in the Circular unless the context requires otherwise.

On 13 February 2019, the Company, Xin Hua and Noble entered into the First Subscription Agreement, pursuant to which the Company has conditionally agreed to allot and issue and each of Xin Hua and Noble has conditionally agreed to subscribe for 7,300,000,000 Subscription Shares and 1,700,000,000 Subscription Shares respectively, constituting an aggregate of 9,000,000,000 Subscription Shares, in each case at the Subscription Price of HK\$0.02 per Subscription Share.

On 29 March 2019, the Company, Xin Hua and Noble entered into the Supplemental Agreement, pursuant to which the parties thereto agreed to cancel Noble's subscription of New Shares under the First Subscription Agreement, while the subscription by Xin Hua of 7,300,000,000 Subscription Shares remained unchanged. The aggregate consideration for the Xin Hua Subscription Shares amounts to HK\$146 million.

On 3 April 2019, the Company and Noble entered into the Second Subscription Agreement, pursuant to which the Company conditionally agreed to allot and issue and Noble conditionally agreed to subscribe for 1,700,000,000 Subscription Shares at the Subscription Price of HK\$0.02 per Subscription Share. The aggregate consideration for the Noble Subscription Shares amounts to HK\$34 million.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Subscription Shares will be allotted and issued pursuant to the Specific Mandates to be sought from the Independent Shareholders at the SGM in accordance with the requirements of the Listing Rules. In addition, as the Noble Subscription constitutes a non-exempt connected transaction for the Company under Chapter 14A of the Listing Rules, the Noble Subscription is subject to the announcement, reporting and Independent Shareholders' approval requirements in accordance with the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Xing Yong, Mr. Shi Wen Jiang, Mr. Chen Zhong Min, Mr. Jiang Cai Yi, Mr. Zhang Yue Yang, Mr. He Jun, Ms. Chen Xue Hui, Ms. Hu Jing and Ms. Lyu Jia Lian, who have no direct or indirect interest in the Subscriptions, has been established to advise the Independent Shareholders on (i) whether the terms of the First Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Second Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Subscriptions are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolutions to approve the Subscriptions at the SGM. We, VBG Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

### OUR INDEPENDENCE

As at the Latest Practicable Date, apart from the existing engagement in relation to the Subscriptions, we did not have any business relationship with the Company within the past two years. Save for the normal fees payable to us in connection with this appointment, no arrangement exists whereby we shall receive any fees or benefits from the Company and its subsidiaries or the Directors, chief executive or substantial shareholders of the Company or any of their associates. We consider ourselves independent to form our opinion in respect of the Subscriptions.

### BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the management of the Group and the Subscribers (where applicable). We have assumed that all information and representations that have been provided by the management of the Group and the Subscribers (where applicable), for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors and the Subscribers (where applicable) in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, the Subscribers, their respective advisers and/or management (where applicable), which have been provided to us.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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All Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular, and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement contained in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business, affairs and personal profile or future prospects of the Group, the Subscribers or their respective shareholders, subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Subscriptions. Our opinion is necessarily based on the market, financial, economic and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Where information in this letter of advice has been extracted from published or otherwise publicly available sources, we have ensured that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources while we did not conduct any independent investigation into the accuracy and completeness of such information.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Subscriptions, we have taken into consideration the following principal factors and reasons:

#### 1. Background of and reasons for the Subscriptions

##### *Business overview of the Group*

Set out below are the consolidated financial results of the Group for the five years ended 31 December 2018, 2017, 2016, 2015 & 2014 as extracted from the Company's annual reports for the year ended 31 December 2018 (the "**2018 Annual Report**"), the year ended 31 December 2017 (the "**2017 Annual Report**"), the year ended 31 December 2016 and the year ended 31 December 2014, respectively:

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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	For the year ended 31 December 2018	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2015	For the year ended 31 December 2014
	(Audited) HK\$'000	(Audited) HK\$'000	(Audited & reclassified) HK\$'000	(Audited & restated) HK\$'000	(Audited) HK\$'000
Turnover	74,036	35,594	518	889	97,367
– Sales of oil and natural gas	191	395	518	889	2,729
– Trading of oil-related products	73,845	35,199	Not applicable	Not applicable	Not applicable
– Sales of plastic recycling materials	Not applicable	Not applicable	Not applicable	Nil	94,638
(Loss)/Profit for the year	(58,702)	(351,669)	134,316	(1,486,200)	(123,981)

As depicted by the above table, the Group's financial performance has been deteriorating over the past few years. The Group was principally engaged in the sales of oil and natural gas and the sales of plastic recycling materials until the year ended 31 December 2016 when it terminated the sales of plastic recycling materials due to persistent downturn. The sales of oil and natural gas was the only principal business of the Group in 2016. The Group owned the entire interest of an oil and gas field, being the Utah Oil and Gas Field, which is located in Uintah Basin of Utah, Midwestern United States with an area of approximately 3,692 acres. Based on the information provided by the Company, the historical oil and natural gas sales of the Utah Oil and Gas Field are as follows:

	2018	2017	2016	2015	2014	2013	2012	2011
Oil sale ( <i>barrels</i> )	873	1,400	1,400	2,149	3,900	5,900	7,700	-
Natural gas sale ( <i>cubic feet</i> )	3,371,000	8,411,000	8,411,000	13,774,000	12,847,000	31,500,000	89,000,000	250,000

As advised by the Directors, due to the lack of capital on the Utah Oil and Gas Field, the production rate of the Utah Oil and Gas Field has been extremely low. Its oil sale dropped significantly by approximately 88.7% from approximately 7,700 barrels in 2012 to approximately 873 barrels in 2018. Its natural gas sale also dropped significantly by approximately 96.2% from the peak of approximately 89.0 million cubic feet in 2012 to approximately 3.4 million cubic feet in 2018. As a result of the aforesaid drop in oil and natural gas sales, coupled with the concurrent sharp decrease in crude oil price, the Group's revenue from the sales of oil and natural gas shrank drastically from approximately HK\$2.7 million for the year ended 31 December 2014 to approximately HK\$191,000 for the year ended 31 December 2018. As represented by the Directors, the Utah Oil and Gas Field has a long history and good location for oil and gas business with mature infrastructure and oilfield service facilities nearby. Currently, there are 11 oil and gas producing wells, including three oil producing wells and eight natural gas producing wells at the Utah Oil and Gas Field and the Group is only maintaining a minimum level of oil and natural gas production due to the lack of capital. The



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Directors are of the view that the production rate of the Utah Oil and Gas Field would expand should the Group be able to devote sufficient expertise, technology and resources on the necessary development work.

With the new capital from the Subscriptions, it is the intention of the Company to reactivate the existing oil and gas producing wells of the Utah Oil and Gas Field to enhance and increase production. Drilling of new oil and gas producing wells will be required in order to expand the scale of the Group's oil and gas production. Following the workover of the Group's existing oil and gas producing wells and the drilling of new oil producing wells, the Directors expect that there shall be a total of 15 operating oil and gas producing wells at the Utah Oil and Gas Field. The reactivation of oil/gas drilling is expected to increase the daily production of the oil and natural gas producing wells. For more information in relation to the Company's reactivation and expansion plan for its oil and gas business, please refer to the sections headed "Business outlook" and "Other fund raising methods" of the Letter from the Board.

For the year ended 31 December 2017, the Group started the trading of oil-related products business to extend its business to downstream of the production chain. Contributed by this new business, the Group's total revenue increased tremendously to approximately HK\$35.6 million during the same year under review as compared to approximately HK\$518,000 of the prior year. For the year ended 31 December 2018, trading of oil-related products contributed almost the entire total revenue of the Group. The Directors consider the trading business to be relatively low risk since sales contracts are always entered into with buyers before or simultaneously with contracts entered into with suppliers.

With regard to profitability, for the year ended 31 December 2015, the Group suffered from substantial net loss of approximately HK\$1,486.2 million mainly due to an impairment loss on fair value of its oil and gas processing rights. The Group then recorded an accounting profit for the year ended 31 December 2016 due to the recovery of gas price as well as the reduced drilling and operating costs at the Utah Oil and Gas Field which led to a write back of the previously impaired value on the Utah Oil and Gas Field of approximately HK\$202.9 million. Owing to such accounting profit, the Group recorded net profit of approximately HK\$134.3 million for the year ended 31 December 2016. Nonetheless, an impairment loss of approximately HK\$344.5 million re-occurred for the year ended 31 December 2017 resulting in the Group's overall net loss of approximately HK\$351.7 million in 2017. For the year ended 31 December 2018, the net loss of the Group amounted to approximately HK\$58.7 million, which according to the 2018 Annual Report was mainly due to the relatively low crude oil and gas prices and huge finance costs and legal and professional fees of the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Liquidity position of the Group*

Set out below is the Group's audited liquidity position as at 31 December 2018 as extracted from the 2018 Annual Report:

	<b>As at 31 December 2018</b>
	<i>HK\$'000</i>
Net current liabilities	121,466
Bank balances and cash	993

As depicted by the above table, the Group had net current liabilities of approximately HK\$121.5 million and minimal cash of approximately HK\$993,000 as at 31 December 2018. With regard to cash flow, for the two years ended 31 December 2017 and 2018, the Group recorded a net cash outflow from operating activities of approximately HK\$21.2 million and HK\$30.3 million, respectively; and a net cash outflow of approximately HK\$232,000 and HK\$3.5 million, respectively.

### *Gearing position of the Group*

Set out below is the Group's audited gearing position as at 31 December 2018 as extracted from the 2018 Annual Report:

	<b>As at 31 December 2018</b>
	<i>HK\$'000</i>
Unsecured loans repayable in one year	102,093

As referred to in the Letter from the Board, on 29 August 2018, the Company received a statutory demand from Burberlon, a creditor of the Company, demanding the repayment of a total sum of approximately HK\$32 million. The Company subsequently failed to repay such amount within the specified time. On 19 October 2018, the Company was served with a legal notice in which Burberlon sought a winding-up order against the Company (the "**Petition**") and an order for the appointment of provisional liquidators to assist the Board in restructuring the debts and liabilities of the Company (the "**Summons**") from the Supreme Court of Bermuda. Both the Petition and the Summons were listed to be heard in the Bermuda Court on 19 October 2018 (Bermuda time) which was later adjourned to 22 February 2019 (Bermuda time). On 14 December 2018, the Company confirmed to the Supreme Court of Bermuda that it has sufficient financial resources to settle the entire amount in relation to the Petition in full. Shareholders may refer to the announcements of the Company dated 6 August 2018, 29 August 2018, 22 October 2018, 5 November 2018, 16 November 2018, 3 December 2018, 7 December 2018 and 17 December 2018 for further details of the Petition and the Summons.

The Company entered into the Deed of Settlement with Mr. Cheung and Mr. So on 21 December 2018 to fully and finally settle all claims arising out of or in connection with, inter alia, the outstanding amount owed to Burberlon (the "**Debt**") (which was assigned to Mr. Cheung). Following the entering into of the Deed of Settlement, a consent order, which was received by the Company on

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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22 January 2019, was entered into by, amongst others, Burberlon, Mr. So, Mr. Cheung and the Company on 27 December 2018. Pursuant to the consent order, it was ordered by consent that, among other things, the Petition and the Summons be withdrawn and discontinued and there be no order as to costs. Shareholders may refer to the announcements of the Company dated 24 December 2018 and 22 January 2019 for further details of the Deed of Settlement and the Debt.

As confirmed by the Directors, as at the Latest Practicable Date the Group's gearing position was further worsened. Owing to the reasons as being illustrated under the sub-section headed "Financing alternatives available to the Group" of this letter of advice, the Company has been unable to secure long term financing. As at the Latest Practicable Date, the total outstanding borrowings of the Group amounted to approximately HK\$111.0 million, all of which are unsecured and repayable within 12 months of the Joint Announcement. Those borrowings bear relatively high interest ranging from 8% to 16% per annum, thus placing heavy financial burden on the Group.

The current financial conditions of the Group indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern. As advised by the Directors, should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to re-classify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in the Group's consolidated financial statements for the year ended 31 December 2018.

Given (i) the deteriorating financial performance of the Group over the past few years; (ii) the extremely acute liquidity position of the Group and the pressing funding need of the Company to fulfil its debt repayment obligations in the very short term; (iii) the Company's inability to secure long term financing; (iv) the heavy financial burden arising from the existing high interest borrowings obtained by the Company; and (v) the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern, it is certainly that the Group is in serious financial distress.

### *Information on the Subscribers*

Set out below is the information on the Subscribers as extracted from the Letter from the Board:

#### *Xin Hua*

Xin Hua is a limited liability company incorporated in Hong Kong on 29 October 2018 and is principally engaged in investment holding. It is owned as to approximately 46.3% and 53.7% by Ms. Chen and Daqing Xinhua, respectively.

Daqing Xinhua, formerly known as 大慶聯誼石化股份有限公司新華瀝青廠 (Asphalt Factory of Daqing Lianyi Petrochemical Co., Ltd\*), changed its name to 大慶市新華瀝青有限責任公司 (Daqing Xinhua Asphalt Company Limited\*) in August 2005. Through its development in the last ten years, Daqing Xinhua has evolved to cover areas including transportation, production and sale of road asphalt and fuel oil. Daqing Xinhua is

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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headquartered in Xinhuatun, Datong District, Daqing City in the PRC and its main products are road asphalt and fuel oil with distribution networks covering various cities in the Heilongjiang Province and neighbouring provinces in the PRC.

As at the Latest Practicable Date, (i) Daqing Xinhua was held as to 65% by Mr. Yu and 35% by Mr. Chen; (ii) Mr. Wang Zhiming (王志民) was the sole director of Daqing Xinhua; and (iii) the board of directors of Xin Hua comprised Ms. Chen, Mr. Yu and Mr. Chen.

Mr. Yu, an existing shareholder of Daqing Xinhua and a director of Xin Hua, finished his legal professional studies (法律專科) in July 1989 and law studies (法律本科) in January 1998 at 黑龍江省政法管理幹部學院 (Heilongjiang Administrative Cadre Institute of Politics and Law). Mr. Yu obtained his master in Executive MBA (高級管理人員工商管理碩士) at Tsinghua University (清華大學) in January 2019. Mr. Yu has ten years of experience in the petrochemical industry. From January 2007 to January 2009, Mr. Yu was the chairman and the general manager of 大慶錦聯石油化工有限公司 (Daqing Jinlian Petrochemical Co., Ltd\*). From October 2009 to March 2019, Mr. Yu was the director of Daqing Lianyi and from August 2012 to October 2016, Mr. Yu was also acting as the chairman of Daqing Lianyi. From October 2016 to March 2019, Mr. Yu was the vice general manager of Daqing Lianyi. Daqing Lianyi is a petrochemical company engaging in, amongst others, sale of crude oil, petroleum processing and distribution of oil-related products business.

Mr. Chen, an existing shareholder of Daqing Xinhua and a director of Xin Hua, has almost ten years of experience in petrochemical industry. Mr. Chen graduated from petroleum engineering studies (石油工程專科) at 中國石油大學 (China University of Petroleum) in July 2014. He was the vice general manager of the branch sale office of Daqing Lianyi from October 2009 to September 2018. Mr. Chen has been the vice general manager of Daqing Xinhua since October 2018.

Mr. Wang Zhiming (王志民) completed the economics and management studies (經管專業專科) from 中共黑龍江省委黨校 (The Party School of HLJ P.P.C. of The C.P.C.) in January 2000. He was working for 北京諾輝世紀國際珠寶股份有限公司 (Beijing NuoHui Century International Jewelry Co., Ltd\*) from April 2012 to December 2016 and was mainly responsible for the acquisition and exploration of the mining business in Indonesia and Canada. Mr. Wang coordinated the incorporation of NuoHui Mining Ltd. (諾輝礦業有限公司) in Province of British Columbia, Canada in 2014 and Mr. Wang was the director and general manager of NuoHui Mining Ltd. (諾輝礦業有限公司) until December 2016. Since December 2016, Mr. Wang has been the director and the general manager of Daqing Xinhua.

Ms. Chen was a business manager and promoted to business director (業務總監) and the general manager assistant at 上海大華國化企業管理有限公司 (Shanghai Dahua Nationalisation Business Management Co. Ltd.\*) from September 2011 to September 2018.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Noble*

Noble is an investment holding company incorporated in the British Virgin Islands with limited liability, and is beneficially wholly owned by Ms. Fan. As at the Latest Practicable Date, Ms. Fan was the sole director of Noble.

Ms. Fan is currently the vice chairlady of the Company, an executive Director and the sole director of Noble. She served as an executive director of Chevalier Pacific Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 508) from 2 October 2009 to 5 November 2010. In 2005, Ms. Fan co-founded Flying Eagle Aviation Limited and has served as its chairperson since then. She assisted Flying Eagle Aviation Limited in obtaining an Aircraft General Terms Agreement (AGTA) licence from Boeing, which permits licensees to operate aircraft businesses worldwide. In 2005, Ms. Fan also founded Great Dragon Petroleum Limited, a company engaged in the trading of oil-related products. Ms. Fan also previously served as a senior consultant in China affairs at Nomura (Hong Kong) Limited.

As referred to in the Letter from the Board, Ms. Fan was involved with negotiating the terms of the Subscriptions, the HK\$50M Loan and the HK\$20M Loan with Xin Hua. In assessing whether to provide the HK\$50M Loan and the HK\$20M Loan to the Company and proceed with the Xin Hua Subscription, Xin Hua's decision was based on Ms. Fan's representations and the available public information regarding the Group. Xin Hua requested Ms. Fan to participate in the Subscriptions to demonstrate her confidence in the current situation and prospects of the Company, especially the status of the Utah Oil and Gas Field as a major asset of the Company.

### ***Financing alternatives available to the Group***

As advised by the Directors, the Company has encountered difficulties in recent years which have adversely affected the Group's financials, liquidity, operations and prospects, as well as the negative publicity surrounding the Company, all of which hinder the ability of the Company to secure financing from banks and procure underwriting offers for a rights issue or open offer from securities firms in order to improve its financial condition and develop its business, as many financiers, lenders and potential financial investors cast major concern on the Group's development.

In relation to the above, based on our independent research, we notice that the Company and/or some former Director(s) (i) were criticised by the Stock Exchange for breaching certain disclosure obligations under the Listing Rules in June 2013; and (ii) was involved in certain criminal charges, proceedings and investigations (details of which are set out in the Company's announcements dated 29 January 2013, 28 March 2013, 28 October 2013, 19 November 2013 and 20 December 2013) and disciplinary proceedings brought by the SFC regarding the avoidance of the obligations under the Takeovers Code to make a general offer for the Shares. Moreover, according to the SFC's press release dated 24 May 2011, due to failing to disclose material information to the Shareholders, the High Court of Hong Kong ordered that certain former Directors be disqualified from being a director of or being involved in the management of any corporation, without the leave of court, for one year. According to the SFC's press release dated 25 January 2018, due to defalcation, misfeasance and

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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other misconduct towards the Company, the High Court of Hong Kong also ordered that a former Director be disqualified from being a director of or being involved in the management of any corporation, without the leave of court, for six years.

Upon our enquiry with the Directors, we understand that the negative publicity surrounding the Company together with the Company's deteriorating financial performance hinder the ability of the Company to secure financing from banks and procure underwriting offers for a rights issue or open offer from securities firms in order to improve its financial condition and develop its business. Given the adverse business environment and the Company's difficulties in securing long term financing, the Directors advised us that the Company has no choice but to use new short term loans with relatively high interest rates (ranging from 8% to 20% per annum during the past two years) to maintain the Group's liquidity and finance its debt repayment obligations. The interest expenses and finance costs arising from such short term borrowings have also placed heavy financial burden on the Company.

As confirmed by the Directors, the Group has considered alternative fund raising methods including a rights issue. However, considering (i) the required time and significant costs of preparing a rights issue; (ii) the uncertain responses from Shareholders; and (iii) the imminent funding needs of the Company, the Directors are of the view that a rights issue may not serve its purpose of raising adequate funds for the Company. In addition, the Group has approached various potential investors in an effort to obtain further financing for the Company. Again, the responses were tepid. Given (i) the adverse market conditions, in particular the volatility of crude oil prices; (ii) the poor financial conditions of the Group; and (iii) the impaired reputation of the Group as a result of negative publicity surrounding the Group as mentioned above, no other investors were interested except for Xin Hua and Noble.

Taking into account the negative publicity surrounding the Company together with the deteriorating financial performance of the Group, we understand that the Group may not be able to obtain bank borrowings up to the substantial amount as proposed under the Subscriptions if without asset pledge and/or incurring high interest rate. We noted that as at 31 December 2018, the Group had audited property, plant and equipment of approximately HK\$42.7 million, which are insufficient as pledges for bank borrowings of substantial amount. Moreover, bank borrowings with high interest rate would increase the finance costs of the Group, hence adversely affecting the Group's financial performance even further.

In light of the extremely acute liquidity position and pressing funding need of the Group, we also concur with the Directors that it is crucial for the Group to obtain sufficient funding in the short term. Since the negotiations with financial institutions for bank borrowings and/or securities firms to procure commercial underwriting for rights issue or open offer exercise would probably be lengthy, the Subscriptions which are relatively less time consuming are more appropriate for the Group.

Furthermore, the Xin Hua Subscription may benefit the Group by bringing in a strategic investor as majority Shareholder such that the Company will be optimally placed to leverage on the business opportunities and resources available to Xin Hua; whereas the Noble Subscription may align the interest of Ms. Fan with the Shareholders and provide her with an incentive to contribute to the future growth of the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Based on the foregoing factors, we concur with the Directors that the Subscriptions provide a viable and appropriate fund raising means for the Group to improve its liquidity and financial position, ease its pressing funding need and fuel the Group's future development. For these reasons, we concur with the Directors that the Subscriptions are in the interests of the Company and the Shareholders as a whole even though they are not conducted in the ordinary and usual course of business of the Group.

### *Intended use of proceeds from the Subscriptions*

With reference to the Letter from the Board, following completion of the Xin Hua Subscription and the Noble Subscription, the gross proceeds from the Subscriptions will amount to HK\$180 million. Having taken into account (i) the offsetting of the HK\$80 million from the HK\$50M Loan, the HK\$20M Loan, the First HK\$5M Loan and the Second HK\$5M Loan; and (ii) the professional fees and other related expenses of approximately HK\$5 million, the net proceeds will be approximately HK\$95 million and will be applied as follows:

- (a) as to approximately HK\$28 million for repayment of the loan owed by the Company to NPCC, comprising a principal amount of HK\$25 million plus interest;
- (b) as to approximately HK\$57 million for the reactivation and expansion of the Group's oil and gas business from the Utah Oil and Gas Field and expansion of the trading business of the Group; and
- (c) as to approximately HK\$10 million for general working capital of the Group.

In the event that the Noble Subscription fails to complete, upon completion of the Xin Hua Subscription only, the net proceeds from the Xin Hua Subscription are estimated to be approximately HK\$61 million. The Company intends to apply the net proceeds from the Xin Hua Subscription in the same manner as described above, except that (i) the amount of proceeds which will be used for reactivation and expansion of the Group's oil and gas business from the Utah Oil and Gas Field and expansion of the trading business of the Group will be reduced from approximately HK\$57 million to approximately HK\$26 million; and (ii) the amount of proceeds which will be used for the general working capital of the Group will be reduced from approximately HK\$10 million to approximately HK\$7 million.

## **2. Principal terms of the First Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Second Subscription Agreement**

The following is a summary of the principal terms of the First Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Second Subscription Agreement:

<b>Dates:</b>	13 February 2019, 29 March 2019 and 3 April 2019
<b>Issuer:</b>	The Company
<b>Subscribers:</b>	Xin Hua and Noble

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**Subscription Shares:**

A total of 9,000,000,000 Subscription Shares to be allocated in the below manner:

Name	Number of Subscription Shares	% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares)
Xin Hua	7,300,000,000	59.61%
Noble	<u>1,700,000,000</u>	<u>13.88%</u>
Total	<u><u>9,000,000,000</u></u>	<u><u>73.49%</u></u>

**Subscription Price:**

HK\$0.02 per Subscription Share.

The Subscription Price represents:

- (i) a discount of approximately 79.59% to the closing price of HK\$0.098 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 83.61% to the closing price of HK\$0.122 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 83.05% to the average closing price per Share of approximately HK\$0.118 for the last five consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 81.13% to the average closing price per Share of approximately HK\$0.106 for the last ten consecutive trading days up to and including the Last Trading Day; and
- (v) a discount of approximately 53.49% to the audited consolidated net asset value per Share (being the audited consolidated net assets of the Group as at 31



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December 2018 divided by the total number of issued Shares as at the Latest Practicable Date) of approximately HK\$0.043 as at 31 December 2018.

**Completion:**

Completion of the Xin Hua Subscription shall take place on the Xin Hua Completion Date after all the conditions precedent to the First Subscription Agreement have been fulfilled (or waived, if applicable). Completion of the Xin Hua Subscription is independent of and not conditional upon completion of the Noble Subscription.

Completion of the Noble Subscription shall take place on the Noble Completion Date after all the conditions precedent to the Second Subscription Agreement have been fulfilled (or waived, if applicable). Completion of the Noble Subscription is conditional upon and subject to the concurrent completion of the Xin Hua Subscription.

***The Subscription Price***

To assess the fairness and reasonableness of the Subscription Price, we have taken into consideration the following factors:

*The Group's exceptional financial position*

As mentioned in the announcement of the Company dated 2 May 2018, on 4 April 2018, the Company entered into a subscription agreement with NPCC and Noble in respect of a conditional subscription of a total of 9,693,439,000 Shares at a subscription price of HK\$0.02 per Share. Notwithstanding that the subscription agreement was subsequently terminated on 28 April 2018, such terms were the best available terms that the Company was able to obtain at the time given its serious financial difficulties. As presented under the sub-sections headed "Business overview of the Group", "Liquidity position of the Group" and "Gearing position of the Group" of this letter of advice, the Group's financial performance has been deteriorating. For the year ended 31 December 2017, the Group recorded substantial net loss of approximately HK\$351.7 million. For the year ended 31 December 2018, the Group recorded net loss of approximately HK\$58.7 million, a net cash outflow from operating activities of approximately HK\$30.3 million and a net cash outflow of approximately HK\$3.5 million. As at 31 December 2018, the Group had net current liabilities of approximately HK\$121.5 million and minimal cash of approximately HK\$993,000. As at the Latest Practicable Date, the Group had total outstanding borrowings of approximately HK\$111.0 million which are all unsecured and repayable within 12 months from the date of the Joint Announcement bearing interest ranging from 8% to 16% per annum. The Group's liquidity position is extremely acute and the Company has a pressing funding need to fulfil its debt repayment obligations in the very short term. In addition, owing to the reasons as detailed under the sub-section headed "Financing alternatives available to the Group" of this letter of advice, the Company is unable to secure long term financing and suffers from heavy financial

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burden as a result of its existing high interest borrowings. The existence of material uncertainties may cast significant doubt about the Group's ability to continue as a going concern. As such, it is certainly that the Group is in serious financial distress.

### *Strengths of Xin Hua as a strategic investor*

As extracted from the Letter from the Board and reproduced under the sub-section headed "Information on the Subscribers" of this letter of advice, Daqing Xinhua, being one of the shareholders of Xin Hua, has evolved to cover areas including transportation, production and sale of road asphalt and fuel oil through its development in the last ten years. Daqing Xinhua is headquartered in Xinhuatun, Datong District, Daqing City, the PRC and its main products are road asphalt and fuel oil with distribution networks covering various cities in the Heilongjiang Province and neighbouring provinces in the PRC. Asphalt is refined from crude oil and the sale of asphalt is a midstream business in the petrochemical industry, while the trading of fuel oil is a downstream business. In this regard, the trading business of Daqing Xinhua, which is engaged in transportation, production and sale of road asphalt and fuel oil as the downstream business in the oil industry, is in line with the Group's current business operation. As advised by the Directors, it is expected that Daqing Xinhua may facilitate the development and expansion of the Group, having taken into consideration the followings:

- (a) Daqing Xinhua and the Company are both engaged in the oil industry (with Daqing Xinhua being engaged in the downstream business and the Company being engaged in the upstream business) and there can be synergies to the upstream and downstream business chain by broadening the Group's product offering and complementing the Group's product base;
- (b) the shareholders of Daqing Xinhua, Mr. Yu and Mr. Chen, have ten years of experience in the oil and petrochemical industry. From October 2009 to March 2019, Mr. Yu was a director of Daqing Lianyi, which is traded on 全國中小企業股份轉讓系統 (National Equities Exchange and Quotations) in the PRC;
- (c) with Mr. Yu and Mr. Chen's exposure, management experience and expertise in the petrochemical and oil field industry in the PRC, Daqing Xinhua can facilitate and help the Group to explore further business opportunities in the oil industry; and
- (d) the trading of oil-related products business of the Group can be enhanced and expanded by cooperation with the customer base referred by Daqing Xinhua. Daqing Xinhua is headquartered in Xinhuatun, Datong District, Daqing City in the PRC and its main products are road asphalt and fuel oil with distribution networks covering various cities in the Heilongjiang Province and neighbouring provinces in the PRC.

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### *The Subscriptions being viable and appropriate fund raising means*

The net proceeds from the Subscriptions is estimated to be of approximately HK\$95 million. The Company intends to apply the net proceeds in the first place to fulfil its short term debt repayment obligations and the remaining in accordance with the Group's strategies to develop and expand its future business. As represented by the Directors under the sub-section headed "Financing alternatives available to the Group" of this letter of advice, other than the Subscriptions, there is no other viable and appropriate fund raising alternative currently available to the Group, not to mention that the Subscriptions may also allow the Group to bring in strategic investor as Shareholder and provide incentive to Ms. Fan to contribute to the future growth of the Group. Furthermore, the substantial amount to be raised from the Subscriptions could allow the Group to improve its liquidity and financial position, ease its pressing funding need and fuel the Group's tentative funding needs for business development in order to strengthen the future financial performance of the Group.

### *The historical Share price movement and trading liquidity*

Set out below is a table highlighting: (i) the highest and lowest closing prices and the average daily closing price of the Shares as quoted on the Stock Exchange; and (ii) the average daily number of the Shares traded and the percentage of the Shares' monthly trading volume as compared to the total number of issued Shares as at the Latest Practicable Date, in each month during the period commencing from 1 February 2018 up to and including the Last Trading Day (the "**Review Period**"), being approximate one-year period which represents a sufficient period of time to provide a general overview on the historical price performance and trading liquidity of the Shares:

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Month	No. of trading days in each month	Highest closing price (HK\$)	Lowest closing price (HK\$)	Average daily closing price (HK\$)	Average daily trading volume (the "Average Volume") Number of Shares	% of the Average Volume to total number of issued Shares as at the Latest Practicable Date (Note 3) (%)
<b>2018</b>						
February	18	0.255	0.217	0.230	3,507,878	0.11
March	21	0.212	0.146	0.160	5,420,810	0.17
April (Note 1)	2	0.150	0.146	0.148	686,500	0.02
May (Note 1)	20	0.126	0.112	0.118	4,957,747	0.15
June	20	0.145	0.115	0.131	1,879,190	0.06
July	21	0.119	0.089	0.104	938,762	0.03
August (Note 2)	21	0.142	0.065	0.093	35,785,816	1.10
September	19	0.110	0.090	0.099	15,131,995	0.47
October	21	0.092	0.078	0.084	3,675,276	0.11
November	22	0.108	0.078	0.087	3,423,564	0.11
December	19	0.111	0.095	0.103	2,845,752	0.09
<b>2019</b>						
January	22	0.100	0.086	0.093	977,584	0.03
1 February to the Last Trading Day	6	0.142	0.096	0.114	23,052,500	0.71

Source: The Stock Exchange web-site ([www.hkex.com.hk](http://www.hkex.com.hk))

Notes:

1. Trading in the Shares was halted from 6 April 2018 to 2 May 2018 (both days inclusive) pending the release of an announcement pursuant to the Takeovers Code.
2. Trading in the Shares was halted from 13 August 2018 to 14 August 2018 (both days inclusive) pending the release of an announcement pursuant to the Takeovers Code.
3. Based on 3,245,519,752 Shares in issue as at the Latest Practicable Date.

From the above table, we noted that the closing prices of the Shares on the Stock Exchange had been demonstrating an overall plummeting trend during the Review Period. The open market Share price was at the peak of HK\$0.255 per Share on 1 February 2018 but dropped consistently to the trough of HK\$0.065 per Share on 7 August 2018. Subsequently, the monthly average daily closing price of the Shares fluctuated slightly and stayed at below HK\$0.10 per Share.

On the other hand, the above table also shows that trading in the Shares was extremely thin and inactive during the entire Review Period.

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Having considered (i) the fact that the Group is in serious financial distress; (ii) the unsuccessful fund raisings attempted by the Group; and (iii) the extremely low trading liquidity of the Shares, we concur with the Directors that a substantial deep discount to the prevailing market price of the Shares would be inevitable in order to attract any sensible investor for a significant amount of share subscription money in cash.

### *Similar share subscription cases*

We have conducted research of Hong Kong listed companies which announced fund raising by way of shares subscription and we noted that the substantial deep discount of approximately 83.61% to the closing price of the Shares as at the Last Trading Day as represented by the Subscription Price is rare in the market. Notwithstanding this, the results of our research also indicate that such deep discount (over 80%) is common in shares subscriptions conducted by Hong Kong listed companies which suffered from severe financial/business difficulties (the “**Extreme Cases**”). The table below demonstrates our relevant findings during the period from 1 January 2015 up to the Last Trading Day:

Date of announcement	Company name (stock code)	Discount of issue price to closing price of shares as at the latest practicable date	Loss making? <i>(Note 1)</i>	Net liabilities or net current liabilities? <i>(Note 1)</i>	Negative operating cash flow? <i>(Note 1)</i>
23 March 2015	Huarong International Financial Holdings Limited (993)	95.8%	No	No	Yes
13 May 2015	Huanxi Media Group Limited (1003)	88.1%	Yes	No	No
29 May 2015	Yunfeng Financial Group Limited (376)	82.3%	No	No	Yes
4 June 2015	China Goldjoy Group Limited (1282)	87.1%	Yes	No	Yes
31 July 2015	HengTen Networks Group Limited (136)	98.3%	Yes	Yes	Yes
27 August 2015	China Minsheng Financial Holding Corporation Limited (245)	84.3%	Yes	No	Yes
27 October 2015	Fullsun International Holdings Group Co., Limited (627)	81.0%	No	No	Yes
26 November 2015	E -Commodities Holdings Limited (1733)	83.0%	Yes	No	Yes
10 December 2015	Huayi Tencent Entertainment Company Limited (419)	91.3%	No	No	Yes
29 February 2016	Qianhai Health Holdings Limited (911)	80.4%	No	No	Yes
6 June 2016	Birmingham Sports Holdings Limited (2309)	94.0% <i>(Note 2)</i>	Yes	Yes	Yes
6 January 2017	GTI Holdings Limited (3344)	92.7%	Yes	Yes	No
16 February 2017	China Lumena New Materials Corp. (67)	99.4% <i>(Note 2)</i>	Yes	Yes	Yes
7 August 2017	Longhui International Holdings Limited (1007)	97.0% <i>(Note 2)</i>	Yes	Yes	Yes
9 November 2017	Union Asia Enterprise Holdings Limited (8173)	85.9% <i>(Note 2)</i>	No	Yes	Yes
27 September 2018	Greens Holdings Ltd (1318)	96.5% <i>(Note 2)</i>	Yes	Yes	Yes

*Source: the Stock Exchange website (www.hkex.com.hk)*

#### *Notes:*

- Based on their financial information published around the date of the relevant share subscription announcement.*

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2. *Discount of issue price to closing price of shares as at the last trading day instead of the latest practicable date.*

We are of the view that the above findings reiterate our prior conclusion that a substantial deep discount to the prevailing market price of the Shares would be inevitable in order to attract any sensible investor in situation of severe financial/business difficulties.

### *Conclusion on the Subscription Price*

In view of the above factors regarding the Subscriptions which we summarise as below:

- (a) it is certainly that the Group is in serious financial distress;
- (b) the Directors represented that the strengths of Daqing Xinhua would likely to facilitate the development and expansion of the Group;
- (c) the Directors represented that other than the Subscriptions, there is no other viable and appropriate fund raising alternative currently available to the Group, not to mention that the Subscriptions may also allow the Group to bring in strategic investor as Shareholder and provide incentive to Ms. Fan to contribute to the future growth of the Group;
- (d) the substantial amount to be raised from the Subscriptions could allow the Group to improve its liquidity and financial position, ease its pressing funding need and fuel the Group's tentative funding needs for business development in order to strengthen the future financial performance of the Group;
- (e) as a result of (i) the fact that the Group is in serious financial distress; (ii) the unsuccessful fund raisings attempted by the Group; and (iii) the extremely low trading liquidity of the Shares, a substantial deep discount to the prevailing market price of the Shares would be inevitable in order to attract any sensible investor for a significant amount of share subscription money in cash;
- (f) a substantial deep discount of the issue price to market price of shares is common in the Extreme Cases which reiterate our prior conclusion that a substantial deep discount to the prevailing market price of the Shares would be inevitable in order to attract any sensible investor in situation of severe financial/business difficulties;
- (g) as being discussed under the section headed "Possible dilution on the shareholding interests of the existing Independent Shareholders" of this letter of advice, the financial condition of the Company falls under Rule 7.27B of the Listing Rules, being exceptional circumstances and financial difficulties, and the Subscriptions form part of the rescue proposal which may prevent the Company from being wound up, causing more severe loss to the Shareholders and investors of the Company;

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- (h) as being discussed under the section headed “Possible dilution on the shareholding interests of the existing Independent Shareholders” of this letter of advice, upon completion of the Subscriptions, all of the existing indebtedness of the Group will be settled, and the Subscriptions would enlarge the capital base of the Group; and
- (i) as advised by the Directors, the Noble Subscription is not a standalone subscription. According to the Directors, Ms. Fan was involved with negotiating the terms of the Subscriptions, the HK\$50M Loan and the HK\$20M Loan with Xin Hua. In assessing whether to provide the HK\$50M Loan and the HK\$20M Loan to the Company and proceed with the Xin Hua Subscription, Xin Hua’s decision was based on, amongst others, Ms. Fan’s representations regarding the Group. Given Ms. Fan’s contribution in introducing Xin Hua to the Group and that she participates in the Subscriptions only upon the request of Xin Hua, it is justifiable that the subscription price for the Noble Subscription is the same as that for the Xin Hua Subscription,

we consider that the Subscription Price, although being at a deep discount of approximately 83.61% to the closing price of the Shares on the Last Trading Day, is fair and reasonable so far as the Independent Shareholders are concerned.

### **3. Possible dilution on the shareholding interests of the existing Independent Shareholders**

Referring to the table under the section headed “Effect on shareholding structure” of the Letter from the Board, the shareholding interests of the existing Independent Shareholders would be diluted by approximately 73.39 percentage point immediately upon completion of the Subscriptions.

In relation to the above, we noted that on 3 July 2018, the Listing Rules have been amended to disallow rights issues, open offers and specific mandate placings, individually or when aggregated within a rolling 12-month period, which would result in a material value dilution (25% or more on a cumulative basis), unless there are exceptional circumstances, for example the issuer is in financial difficulties.

As disclosed in the Letter from the Board with reference to Rule 7.27B of the Listing Rules, the Subscriptions would result in a theoretical dilution effect of 25% or more within a 12-month period. Nevertheless, in view of that:

- (a) the Group’s financial performance has been deteriorating with net loss of approximately HK\$58.7 million for the year ended 31 December 2018;
- (b) the Group had net current liabilities of approximately HK\$121.5 million and minimal cash of approximately HK\$993,000 as at 31 December 2018. Its total outstanding short term borrowings amounted to approximately HK\$111.0 million which are due within 12 months from the date of the Joint Announcement. Therefore, the Group is at extremely acute liquidity position with pressing funding need to fulfil its debt repayment obligations in the very short term;

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- (c) the heavy financial burden arising from the existing high interest borrowings obtained by the Group;
- (d) the Company's inability to secure long term financing; and
- (e) the existence of material uncertainties may cast significant doubt about the Group's ability to continue as a going concern,

it is certainly that the financial condition of the Company falls under Rule 7.27B of the Listing Rules, being exceptional circumstances and financial difficulties, and the Subscriptions form part of the rescue proposal.

In such circumstances, we concur with the Directors it is inconceivable that any sensible investor would invest in such a financially distressed company and finance the Company's debt restructuring without a material dilution of the shareholdings of the existing Shareholders. Upon completion of the Subscriptions, all of the existing indebtedness of the Group will be settled. The Subscriptions would help the Group to enlarge its capital base, stabilise its operations, financial status and create synergies for the current and future development of the Group. Accordingly, despite the material dilution, the Subscriptions would be in the interests of the Company and the Shareholders as a whole and may prevent the Company from being wound up, causing more severe loss to the Shareholders and investors of the Company.

### RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the First Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Second Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Subscriptions are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Subscriptions and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

For and on behalf of  
**VBG Capital Limited**  
**Doris Sing**  
*Deputy Managing Director*

\* *For identification purpose only*



## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes 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. DISCLOSURE OF INTERESTS

### (a) Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives in the Shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were 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 short positions which they were taken or deemed to have under such provisions of the SFO) or (b) were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

#### *Long positions in Shares and underlying shares*

Name of Director	Capacity	Number of Shares held	Approximate percentage of shareholding
Fan Amy Lizhen <sup>(1)</sup>	Interest in controlled corporation	1,700,000,000	52.38% <sup>(2)(3)</sup>

#### *Notes:*

- (1) Pursuant to the Second Subscription Agreement, 1,700,000,000 Subscription Shares are to be allotted and issued to Noble. Ms. Fan, the vice chairlady of the Company and an executive Director, wholly owns Noble. Given Ms. Fan introduced Xin Hua to the Company and was involved in the negotiation process in respect of the Xin Hua Subscription, and Xin Hua requested Ms. Fan to participate in the Noble Subscription, Xin Hua and Ms. Fan are parties acting in concert. As such, each of Noble and Ms. Fan is a de facto party acting in concert with Xin Hua under the Takeovers Code.
- (2) The percentage was calculated based on the total number of 3,245,519,752 issued Shares as at the Latest Practicable Date.
- (3) The Noble Subscription Shares will represent approximately 13.88% of the issued share capital of the Company as enlarged by the allotment and issue of the Xin Hua Subscription Shares and the Noble Subscription Shares (assuming that no Share Options are converted and no further Shares or New Shares (as the case may be) are issued).

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executives of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO), which were 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 short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

**(b) Substantial Shareholders' and Other Persons' Interest in Shares and Underlying Shares**

As at the Latest Practicable Date and to the best knowledge of the Directors and chief executives of the Company, the following persons (other than Directors or chief executives of the Company) had interests or short position, in the Shares and underlying shares of the Company, as recorded in the register required to be kept by the Company under Section 336 of the SFO:

*Long positions in Shares and underlying shares*

Name of Shareholder	Capacity	Number of Shares held	Approximate percentage of shareholding <sup>(5)</sup>
Chen Junyan <sup>(1)</sup>	Interest in controlled corporation	7,300,000,000	224.93% <sup>(6)</sup>
Chen Yaxin <sup>(1)</sup>	Interest in controlled corporation	7,300,000,000	224.93% <sup>(6)</sup>
Yu Zhibo <sup>(1)</sup>	Interest in controlled corporation	7,300,000,000	224.93% <sup>(6)</sup>
大慶市新華瀝青有限責任公司 <sup>(1)</sup>	Interest in controlled corporation	7,300,000,000	224.93% <sup>(6)</sup>
Xin Hua Petroleum (Hong Kong) Limited <sup>(1)</sup>	Beneficial Owner	7,300,000,000	224.93% <sup>(6)</sup>
Noble <sup>(2)</sup>	Beneficial Owner	1,700,000,000	52.38% <sup>(7)</sup>
Fan Amy Lizhen <sup>(2)</sup>	Interest in controlled corporation	1,700,000,000	52.38% <sup>(7)</sup>
Charcon Assets Limited <sup>(3)</sup>	Beneficial Owner	704,530,000	21.71%
Mid-East Petroleum Group Ltd <sup>(4)</sup>	Beneficial Owner	400,000,000	12.33%
So Kuen Kwok	Beneficial Owner	325,211,000	10.02%

*Notes:*

- (1) Pursuant to the First Subscription Agreement (as amended and supplemented by the Supplemental Agreement), 7,300,000,000 Subscription Shares are to be allotted and issued to Xin Hua, which is owned as to approximately 46.28% and 53.72% by Ms. Chen and Daqing Xinhua, respectively. Daqing Xin Hua is owned as to approximately 65% and 35% by Mr. Yu and Mr. Chen, respectively.
- (2) Pursuant to the Second Subscription Agreement, 1,700,000,000 Subscription Shares are to be allotted and issued to Noble. Ms. Fan, the vice chairlady of the Company and an executive Director, wholly owns Noble. Given Ms. Fan introduced Xin Hua to the Company and was involved in the negotiation process in respect of the Xin Hua Subscription, and Xin Hua requested Ms. Fan to participate in the Noble Subscription, Xin Hua and Ms. Fan are parties acting in concert. As such, each of Noble and Ms. Fan is a de facto party acting in concert with Xin Hua under the Takeovers Code.
- (3) Charcon Assets Limited is a company wholly owned by Mr. Wong Yuk Kwan. Based on the latest filing made on 18 July 2017, Charcon Assets Limited held 704,530,000 Shares and is a substantial shareholder of the Company as at the Latest Practicable Date. It shall be regarded as a public Shareholder upon completion of the Xin Hua Subscription and/or both Subscriptions.
- (4) According to the annual return of Mid-East Petroleum Group Ltd made up to 16 November 2018, the sole shareholder of Mid-East Petroleum Group Ltd is Wong Ching Chung (黃清松). The Subscribers confirm that Mid-East Petroleum Group Ltd is not related to them and is not a party acting in concert with them. Mid-East Petroleum Group Ltd shall be regarded as a public Shareholder upon completion of the Xin Hua Subscription and/or both Subscriptions.
- (5) The percentages are calculated based on the total number of 3,245,519,752 issued Shares as at the Latest Practicable Date.
- (6) The Xin Hua Subscription Shares will represent approximately 59.61% of the issued share capital of the Company as enlarged by the allotment and issue of the Xin Hua Subscription Shares and the Noble Subscription Shares (assuming that no Share Options are converted and no further Shares or New Shares (as the case may be) are issued).
- (7) The Noble Subscription Shares will represent approximately 13.88% of the issued share capital of the Company as enlarged by the allotment and issue of the Xin Hua Subscription Shares and the Noble Subscription Shares (assuming that no Share Options are converted and no further Shares or New Shares (as the case may be) are issued).

Save as disclosed above, the Directors are not aware of any other person who, as at the Latest Practicable Date, had any interests or short positions in the Shares or underlying shares as recorded in the Register required to be kept under Section 336 of the SFO.

### **3. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited financial statements of the Group were made up.

#### 4. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors or their respective associates had any competing interest (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder of the Company for the purpose of the Listing Rules).

#### 5. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

- (i) as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2018 (being the date to which the latest published annual report for the audited consolidated financial statements of the Company were made up), acquired, disposed of by, or leased to, or were proposed to be acquired, disposed of by, or leased to any member of the Group; and
- (ii) save for the First Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Second Subscription Agreement in which Ms. Fan, who is the vice chairlady of the Company and an executive Director, is interested, none of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

#### 6. LITIGATION

On 22 October 2018, one of the Shareholders, namely Mr. Chung Keng (“**Mr. Chung**”) commenced legal proceedings at the Court of First Instance of the High Court (the “**Court of First Instance**”) to seek leave to commence a derivative action (the “**Derivative Action**”) for and on behalf of the Company against two Directors, Ms. Fan and Mr. Tang Yau Sing (“**Mr. Tang**”), for breach of directors’ duties owed to the Company. During the hearing held before the Court of First Instance on 2 May 2019, the Court of First Instance granted Mr. Chung leave to commence the Derivative Action against Ms. Fan and Mr. Tang for and on behalf of the Company. With leave being granted, Mr. Chung may in the name of the Company commence the Derivative Action against Ms. Fan and/or Mr. Tang.

The Company is currently seeking legal advice as to its next course of action. As of the Latest Practicable Date, Mr. Chung has not commenced the Derivative Action yet. Given that the Derivative Action has not been commenced, it is premature to predict the outcome of the Derivative Action and therefore the Directors consider that no provision is required at this stage.

On 3 May 2019, the Company received a monetary claim of approximately HK\$1 million from an ex-employee of the Company with an allegation that, among others, the Company had failed to pay wages, through the Labour Tribunal. As at the Latest Practicable Date, the dispute has not been settled and the Company is seeking legal advice on the claim. The Directors have made a provision of approximately HK\$1 million for such claim.

As at the Latest Practicable Date, save as the above, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

## 7. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, there were no existing or proposed service contracts between the Directors and any member of the Group which were not determinable by the Group within one year without payment of compensation, other than statutory compensation.

## 8. EXPERT AND CONSENT

The following is the qualification of the expert who have given opinion or advice contained in this circular:

<b>Name</b>	<b>Qualifications</b>
VBG Capital Limited	A licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

VBG Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which it appears. As at the Latest Practicable Date, VBG Capital Limited did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, VBG Capital Limited did not have any direct or indirect interest in any assets which have been acquired or disposed of or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2018 (being the date to which the latest published audited statements of the Company were made up).

## 9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on a business day in Hong Kong at the head office and principal place of business of the Company in Hong Kong at Suites 1905-07, 19th Floor, Tower 6, The Gateway, Harbour City, Kowloon, Hong Kong from the date of this circular up to and including the date of the SGM:

- (a) the bye-laws of the Company;
- (b) the First Subscription Agreement;
- (c) the Supplemental Agreement;
- (d) the Second Subscription Agreement;
- (e) the "Letter from the Board", the text of which is set out on pages 12 to 48 of this circular;
- (f) the "Letter from the Independent Board Committee", the text of which is set out on pages 49 to 50 of this circular;

- (g) the “Letter from the Independent Financial Adviser”, the text of which is set out on pages 51 to 70 of this circular; and
- (h) this circular.

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## NOTICE OF SGM

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# 東方明珠石油有限公司\*

## Pearl Oriental Oil Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 632)

### NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** a special general meeting (“SGM”) of Pearl Oriental Oil Limited (the “**Company**”) will be held at Suites 1905-07, 19th Floor, Tower 6, The Gateway, Harbour City, Kowloon, Hong Kong on Wednesday, 12 June 2019 at 11:00 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions as ordinary resolutions or special resolutions (as the case may be) of the Company:–

### ORDINARY RESOLUTIONS

1. **“THAT** subject to and conditional upon (i) passing of the special resolution numbered 3 below; and (ii) The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting the listing of, and permission to deal in, the Xin Hua Subscription Shares (as defined below):–
  - (a) the subscription agreement (the “**First Subscription Agreement**”) dated 13 February 2019 (as amended and supplemented by the supplemental agreement to the First Subscription Agreement (the “**Supplemental Agreement**”) dated 29 March 2019 (copies of which are produced to this meeting marked “A” and initialed by the chairlady of the SGM (the “**Chairlady**”) for the purpose of identification)) entered into between, among others, the Company as issuer and Xin Hua Petroleum (Hong Kong) Limited (“**Xin Hua**”) as subscriber, pursuant to which the Company conditionally agreed to allot and issue and Xin Hua conditionally agreed to subscribe for 7,300,000,000 New Shares (as defined below) (the “**Xin Hua Subscription Share(s)**”) at an issue price of HK\$0.02 per Xin Hua Subscription Share (the “**Xin Hua Subscription**”) (details of the First Subscription Agreement and the Supplemental Agreement are set out in the circular of the Company dated 21 May 2019 (the “**Circular**”)) be and are hereby approved, confirmed and ratified;
  - (b) the directors of the Company (“**Director(s)**”) be and are hereby granted a specific mandate to exercise the powers of the Company to allot and issue the Xin Hua Subscription Shares, on and subject to the terms and conditions of the First Subscription Agreement (as amended and supplemented by the Supplemental Agreement), and all transactions contemplated thereunder and in connection with the issue and allotment of the Xin Hua Subscription Shares be and are hereby approved;
  - (c) any one or more of the Directors be and is/are hereby authorised to do all such acts and things and execute all such documents and take all such steps as the Director(s) in his/her/their discretion may consider necessary, appropriate, desirable or expedient to

\* For identification purpose only

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## NOTICE OF SGM

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implement, give effect to or in connection with the First Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the transactions contemplated thereunder (including the granting of the relevant specific mandate).”

2. “**THAT** subject to and conditional upon (i) passing of the special resolution numbered 3 below; and (ii) the Stock Exchange granting the listing of, and permission to deal in, the Noble Subscription Shares (as defined below):–
  - (a) the subscription agreement (the “**Second Subscription Agreement**”) dated 3 April 2019 (a copy of is produced to this meeting marked “B” and initialed by the Chairlady for the purpose of identification) entered into between the Company as issuer and Noble Pioneer Limited (“**Noble**”) as subscriber, pursuant to which the Company conditionally agreed to allot and issue and Noble conditionally agreed to subscribe for 1,700,000,000 New Shares (the “**Noble Subscription Share(s)**”) at an issue price of HK\$0.02 per Noble Subscription Share (the “**Noble Subscription**”) (details of the Second Subscription Agreement are set out in the Circular) be and is hereby approved, confirmed and ratified;
  - (b) the Directors be and are hereby granted a specific mandate to exercise the powers of the Company to allot and issue the Noble Subscription Shares, on and subject to the terms and conditions of the Second Subscription Agreement, and all transactions contemplated thereunder and in connection with the issue and allotment of the Noble Subscription Shares be and are hereby approved; and
  - (c) any one or more of the Directors be and is/are hereby authorised to do all such acts and things and execute all such documents and take all such steps as the Director(s) in his/her/their discretion may consider necessary, appropriate, desirable or expedient to implement, give effect to or in connection with the Second Subscription Agreement and the transactions contemplated thereunder (including the granting of the relevant specific mandate).”

### SPECIAL RESOLUTIONS

3. “**THAT** subject to and conditional upon (i) passing of the ordinary resolution numbered 1 above; (ii) compliance by the Company with the requirements of section 46(2) of the Companies Act 1981 of Bermuda to effect the Capital Reduction (as defined below), (iii) compliance with the relevant procedures and requirements under the laws of Bermuda to effect the Capital Reorganisation (as defined below); and (iv) the Stock Exchange granting the listing of, and permission to deal in, the New Shares and the Consolidated Shares (as defined below) arising therefrom, where applicable:–
  - (a) the issued share capital of the Company be and is hereby reduced by a reduction in the nominal value of each issued share of the Company from HK\$0.10 to HK\$0.01 which will comprise a cancellation of such amount of the paid-up capital on each issued share of the Company so that each issued share of the Company will be treated as one fully paid-up share of nominal value of HK\$0.01 each (“**New Share(s)**”) in the share capital



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## NOTICE OF SGM

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of the Company (the “**Capital Reduction**”) immediately following the Capital Reduction, and the credit arising from the Capital Reduction be credited to the contributed surplus account of the Company within the meaning of the Bermuda Companies Act;

- (b) immediately following the Capital Reduction, each of the authorised but unissued shares of the Company of nominal value of HK\$0.10 each will be subdivided into 10 New Shares of nominal value of HK\$0.01 each (the “**Share Subdivision**”);
- (c) subject to and effective upon completion of the Xin Hua Subscription (or both the Xin Hua Subscription and the Noble Subscription, as the case may be), every 20 issued and unissued New Shares of nominal value of HK\$0.01 each be consolidated into one consolidated share of nominal value of HK\$0.2 each (“**Consolidated Share(s)**”) in the share capital of the Company (the “**Share Consolidation**, together with the Capital Reduction and the Share Subdivision, the “**Capital Reorganisation**”); and
- (d) any one or more of the Directors be and is/are hereby authorised to do all such acts and things and execute all such documents and take all such steps as the Director(s) in his/her/their discretion may consider necessary, appropriate, desirable or expedient to implement, give effect to or in connection with the Capital Reorganisation involving the Capital Reduction, the Share Subdivision and the Share Consolidation.”

By Order of the Board  
**Pearl Oriental Oil Limited**  
**Liu Gui Feng**  
*Chairlady and Executive Director*

Hong Kong, 21 May 2019

*Notes:*

1. All resolutions at the SGM (except for procedural and administrative matters) will be taken by poll pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) and the results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules.
2. Any member of the Company entitled to attend and vote at the SGM is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the SGM. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
3. A form of proxy for use at the SGM is enclosed. To be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of such power of attorney or authority at the Company’s branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM if you so wish and in such event, the form of proxy shall be deemed to be revoked.

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## NOTICE OF SGM

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4. In the case of joint holders of shares, any one of such holders may vote at the SGM, either personally or by proxy, in respect of such shares as if he was solely entitled thereto, but if more than one of such joint holders are present at the SGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
5. To ascertain the entitlement to attend and vote at the SGM, the register of members of the Company will be closed from Thursday, 6 June 2019 to Wednesday, 12 June 2019, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the above meeting, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Wednesday, 5 June 2019.

*As at the date of this notice, the Board comprises six executive Directors, namely Ms. Liu Gui Feng, Ms. Fan Amy Lizhen, Ms. Xiao Li, Mr. Cheung Kam Shing, Terry, Mr. Tang Yau Sing and Mr. Lin Qing Yu; and nine independent non-executive Directors, namely Mr. Xing Yong, Mr. Shi Wen Jiang, Mr. Chen Zhong Min, Mr. Jiang Cai Yi, Mr. Zhang Yue Yang, Mr. He Jun, Ms. Chen Xue Hui, Ms. Hu Jing and Ms. Lyu Jia Lian.*