
LETTER FROM THE BOARD



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*)
Mr. Cheung Kam Shing, Terry
Mr. Tang Yau Sing
Mr. Lin Qing Yu

Registered Office:

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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

15 July 2019

To the Independent Shareholders,

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFERS BY
FORWIN SECURITIES GROUP LIMITED
FOR AND ON BEHALF OF THE OFFEROR
TO ACQUIRE ALL THE CONSOLIDATED SHARES OF
PEARL ORIENTAL OIL LIMITED
(OTHER THAN THE EXCLUDED SHARES)**

INTRODUCTION

Reference is made to (i) the Joint Announcement made jointly by the Company and the Offeror; and (ii) the Circular made by the Company, in relation to, among other things, the Subscription Agreements and the Offers.

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.

* *For identification purpose only*

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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 (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. The aggregate consideration for the Noble Subscription Shares amounts to HK\$34 million.

The Capital Reduction and the Share Subdivision became effective on 3 July 2019.

On 8 July 2019, the Xin Hua Subscription and the Noble Subscription were completed, following such, Xin Hua and Noble became Shareholders of the Company and interested in 7,300,000,000 New Shares and 1,700,000,000 New Shares respectively. The Share Consolidation became effective on 10 July 2019.

Following Completion and Share Consolidation, and as at the Latest Practicable Date, the Concert Group is interested in 450,000,000 Consolidated Shares in aggregate, 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 365,000,000 Consolidated Shares, representing approximately 59.61% of the enlarged 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 Consolidated Shares and other securities of the Company (other than the Excluded Shares) under Rule 26.1 of the Takeovers Code.

INDEPENDENT FINANCIAL ADVISER

As disclosed in the announcement of the Company dated 28 June 2019, all independent non-executive Directors have retired upon conclusion of the annual general meeting held on 28 June 2019. As currently there is no non-executive Director in the Company, it is therefore not possible for the Company to form an independent committee to advise the Independent Shareholders as to whether the Share Offer are fair and reasonable and as to the acceptance of the Share Offer.

Accordingly, pursuant to Rule 2.8 of the Takeovers Code, the independent financial adviser appointed by the Board, VBG Capital Limited, shall be primarily responsible for advising the Independent Shareholders as to whether the Share Offer is fair and reasonable and as to the acceptance of the Share Offer.

THE SHARE OFFER

Forwin, for and on behalf of Xin Hua, makes the Share Offer on the terms set out in this Composite Document in accordance with the Takeovers Code on the following basis:

For each Consolidated Offer Share **HK\$0.844 in cash**
(equivalent to HK\$0.0422 in cash per Share prior to Share Consolidation)

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The Offer Price of HK\$0.844 per Consolidated Offer Share was determined by reference to (i) the Subscription Price; (ii) the special benefit conferred on Mr. Cheung and Mr. So under the Deed of Settlement and the Supplemental Deed; and (iii) the aggregate number of Shares held by Mr. Cheung and Mr. So.

The Consolidated Offer Shares acquired under the Share Offer shall be fully paid and free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching thereto, including, without limitation, the right to receive dividends and distributions declared, made or paid, if any, on or after the date on which the Share Offer is made, being the date of this Composite Document.

The Share Offer is unconditional in all respects. Acceptance of the Share Offer will be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code.

The Option Offer

As at the Latest Practicable Date, the Company has 3,744,500 outstanding Consolidated Share Option, the exercise of which in full will result in the issue of 3,744,500 new Consolidated Shares.

As all the Consolidated Share Options expired on 14 July 2019, upon the date of this Composite Document, the Company does not have any outstanding Consolidated Share Options. Therefore, the Option Offer will not be made by the Offeror.

FURTHER INFORMATION ON THE SHARE OFFER

Please refer to the “Letter from Forwin” contained in this Composite Document, Appendix I to this Composite Document and the accompanying Form of Acceptance for further information in relation to the Share Offer, the making of the Share Offer to the overseas Shareholders, taxation and acceptance and settlement procedures of the Share Offer.

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FINANCIAL INFORMATION OF THE GROUP

Set out below is a summary of audited financial information of the Group for the three financial years ended 31 December 2016, 2017 and 2018 as extracted from the Company's annual reports for the years ended 31 December 2016, 2017 and 2018:

	Year ended 31 Dec 2018	Year ended 31 Dec 2017	Year ended 31 Dec 2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Audited)	(Audited)	(Audited)
Revenue	74,036	35,594	518
(Loss)/Profit before tax	(59,562)	(447,259)	183,535
(Loss)/Profit after tax attributable to owners of the Company	(58,415)	(351,633)	132,075
	As at 31 Dec 2018	As at 31 Dec 2017	As at 31 Dec 2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Audited)	(Audited)	(Audited)
Total assets	319,015	307,748	698,559
Total liabilities	<u>(180,738)</u>	<u>(110,769)</u>	<u>(171,484)</u>
Net assets	<u>138,277</u>	<u>196,979</u>	<u>527,075</u>

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) 612,275,987 Consolidated Shares; and (ii) 3,744,500 outstanding Consolidated Share Options, the exercise of which in full will result in the issue of 3,744,500 new Consolidated 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 Consolidated Shares. All the Consolidated Share Options expired on 14 July 2019.

The table below sets out the effect of the Subscriptions on the shareholding structure of the Company (i) as at the Latest Practicable Date, assuming no Consolidated Share Options are converted and no further Consolidated Shares are issued; (ii) as at the Latest Practicable Date, assuming exercise of all outstanding Consolidated Shares Options in full.

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	As at the Latest Practicable Date, assuming no Consolidated Share Options are converted and no further Shares are issued		As at the Latest Practicable Date, assuming exercise of all outstanding Consolidated Share Options in full	
	<i>Number of Consolidated Shares</i>		<i>Number of Consolidated Shares</i>	
	<i>Approximate %</i>		<i>Approximate %</i>	
Non-public Shareholders				
Pearl Oriental Sino Logistics Limited ⁽¹⁾	243,600	0.05%	243,600	0.05%
The Subscribers				
Xin Hua	365,000,000	59.61%	365,000,000	59.25%
Noble ⁽²⁾	85,000,000	13.88%	85,000,000	13.80%
Subtotal of the Concert Group	450,000,000	73.49%	450,000,000	73.05%
Public Shareholders				
Charcon Assets Limited ⁽³⁾	35,226,500	5.75%	35,226,500	5.72%
Mid-East Petroleum Group Ltd ⁽⁴⁾	20,000,000	3.26%	20,000,000	3.25%
Mr. So	16,260,550	2.66%	16,260,550	2.64%
Chung Keng	7,500,000	1.23%	7,500,000	1.22%
Mr. Cheung	3,442,950	0.56%	3,442,950	0.55%
Optionholders	–	–	3,744,500	0.60%
Other public Shareholders	79,602,387	13.00%	79,602,387	12.92%
Subtotal	162,032,387	26.46%	165,776,887	26.90%
Total number of issued Shares	612,275,987	100.00%	616,020,487	100.00%

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 243,600 Consolidated Shares held by Pearl Oriental Sino Logistics Limited (which is a subsidiary of the Company) consist of part of these consideration Shares and 40,600 bonus Consolidated Shares which were issued to Pearl Oriental Sino Logistics Limited in May 2011.
- Ms. Fan, previously an executive Director during the period from 20 October 2016 to 28 June 2019, 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.
- Charcon Assets Limited is a company wholly owned by Mr. Wong Yuk Kwan.

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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.

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.

Your attention is drawn to the financial information of the Group set out in Appendix II and the general information of the Company set out in Appendix III to this Composite Document.

INFORMATION ON THE OFFEROR

Please refer to the section headed “Information on the Offeror” in the “Letter from Forwin” contained in this Composite Document for the details in relation to the Offeror.

FUTURE INTENTIONS OF XIN HUA REGARDING THE GROUP

As set out in the “Letter from Forwin” contained in this Composite Document, 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 Board is aware of the intentions of the Offeror in respect of the Group, and is willing to render reasonable cooperation with the Offeror which is in the interests of the Company and the Shareholders as a whole. The Board is pleased to learn that the Offeror intends to continue the existing businesses of the Group and that the Offeror has no intention to discontinue the employment of any employees of the Group (except for the proposed change to the composition of the Board as detailed in the section headed “Proposed change to Board composition of the Company” in the “Letter from Forwin” contained in this Composite Document).

Your attention is drawn to the section headed “Future intention of Xin Hua regarding the Group” in the “Letter from Forwin” contained in this Composite Document.

MAINTAINING THE LISTING STATUS OF THE COMPANY

The Stock Exchange has stated that if, at the close of the Share Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the Consolidated Shares, are held by the public, or if the Stock Exchange believes that:

- (a) a false market exists or may exist in the trading of the Consolidated Shares; or

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(b) there are insufficient Consolidated Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the Consolidated Shares. The Offeror intends the Company to remain listed on the Stock Exchange. The directors of the Offeror and the new Directors to be appointed to the Board of the Company have jointly and severally undertaken to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists for the Consolidated Shares.

RECOMMENDATION

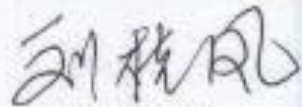
Independent Shareholders are advised to read the “Letter from the Independent Financial Adviser” set out on pages 28 to 46 of this Composite Document before deciding on the actions to be taken on the Share Offer.

ADDITIONAL INFORMATION

Your attention is also drawn to the “Letter from Forwin” and the additional information contained in the appendices to this Composite Document and the accompanying Form of Acceptance.

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Yours faithfully,
For and on behalf of the Board of
Pearl Oriental Oil Limited



Liu Gui Feng
Chairlady and Executive Director