



15 July 2019

To: The independent shareholders of Pearl Oriental Oil Limited

Dear Sirs,

**MANDATORY UNCONDITIONAL CASH OFFER BY
FORWIN SECURITIES GROUP LIMITED
FOR AND ON BEHALF OF XIN HUA PETROLEUM (HONG KONG) LIMITED
TO ACQUIRE ALL THE ISSUED CONSOLIDATED SHARES
(OTHER THAN THE EXCLUDED SHARES) OF
PEARL ORIENTAL OIL LIMITED**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Shareholders in respect of the Share Offer, details of which are set out in the Composite Document dated 15 July 2019 jointly issued by the Company and the Offeror to the Shareholders, of which this letter of advice forms part. Terms used in this letter of advice shall have the same meanings as defined in the Composite Document 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.

Completion has taken place on 8 July 2019, following such, Xin Hua and Noble became Shareholders holding 7,300,000,000 New Shares and 1,700,000,000 New Shares respectively.

To facilitate the Subscriptions, the Company also carried out a capital reorganisation consisting of, amongst others, the Share Consolidation under which every 20 issued and unissued New Shares are consolidated into one Consolidated Share of nominal value of HK\$0.20 each in the share capital of the Company. The Share Consolidation has become effective on 10 July 2019.

After the Share Consolidation, 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) are interested in 365,000,000 Consolidated Shares in aggregate, representing approximately 59.61% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares. 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. The Share Offer will be made to all Shareholders (excluding holders of the Excluded Shares).

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 of the Company held on 28 June 2019. As at the Latest Practicable Date, there was no non-executive Director, it is therefore not possible for the Company to form an independent committee to advise the Independent Shareholders as to whether the Share Offer is fair and reasonable and as to the acceptance of the Share Offer. Accordingly, pursuant to Rule 2.8 of the Takeovers Code, we, VBG Capital Limited, as the Independent Financial Adviser 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, and our opinion herein is solely for such purpose.

OUR INDEPENDENCE

As at the Latest Practicable Date, apart from the existing engagement in connection with the Subscriptions and the Share Offer, we confirm that we did not have any significant connection, business, financial or otherwise, with the Company and/or the Offeror or the controlling shareholders of either of them within two years prior to the commencement of the Offer Period, of a kind reasonably likely to create, or create the perception of, a conflict of interest or reasonably likely to affect the objectivity of our advice. Save for the normal fees payable to us in connection with this appointment, no arrangement exists whereby we will 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, the Offeror or their respective parties acting in concert. We consider ourselves independent to form our opinion in respect of the Share Offer.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Composite Document and the information and representations as provided to us by the management of the Group and the Offeror (where applicable). We have assumed that all information and representations that have been provided by the management of the Group and the Offeror (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, the Offeror and Noble (where applicable) in the Composite Document 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 Composite Document, or the reasonableness of the opinions expressed by the Company, the Offeror, their respective advisers and/or management (where applicable), which have been provided to us. Our opinion is based on the management of the Group's and the Offeror's representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Share Offer. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules and Rule 2 of the Takeovers Code.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than those information relating to the Offeror and parties acting in concert with it) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Composite Document (other than those expressed by the Offeror and parties acting in concert with it) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement contained in the Composite Document misleading.

The directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than any information relating to the Group, Noble and parties acting in concert with any of them, excluding the Offeror and Daqing Xinhua) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Document (other than those expressed by the Group, Noble and parties acting in concert with any of them) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement contained in the Composite Document misleading.

The sole director of Daqing Xinhua, namely Mr. Wang Zhiming, accepts full responsibility for the accuracy of the information contained in the Composite Document (other than those in relation to the Group, Noble and parties acting in concert with any of them, excluding the Offeror and Daqing Xinhua), and confirms, having made all reasonable enquires, that to the best of his knowledge, opinions expressed in the Composite Document (other than those expressed by the Group, Noble and parties acting in concert with any of them) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement contained in the Composite Document misleading.

The sole director of Noble, namely Ms. Fan, accepts full responsibility for the accuracy of the information contained in the Composite Document (other than those in relation to the Group, the Offeror and parties acting in concert with any of them, excluding Ms. Fan and Noble), and confirms, having made all reasonable enquires, that to the best of her knowledge, opinions expressed in the Composite Document (other than those expressed by the Group, the Offeror and parties acting in concert with any of them) have

been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement contained in the Composite Document misleading.

We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Composite Document, save and except for this letter of advice. 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 and affairs of the Company, the Offeror, Noble or their respective subsidiaries or associates or parties acting in concert (if applicable), nor have we considered the taxation implication on the Group or the Shareholders as a result of the Share Offer. The Company has been separately advised by its own professional advisers with respect to the Share Offer and the preparation of the Composite Document (other than this letter of advice).

We have assumed that the Share Offer will be consummated in accordance with the terms and conditions set forth in the Composite Document without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents as required for the Share Offer, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Share Offer. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

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.

As at the Latest Practicable Date, we had not identified any reason to doubt the truth and accuracy of the information provided by the Company. Should there be any material changes to the information affecting our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible in compliance with Rule 9.1 of the Takeovers Code.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

(1) Terms of the Share Offer

Forwin is, for and on behalf of the Offeror and in compliance with the Takeovers Code, making the Share Offer to acquire all the issued Consolidated Shares (other than the Excluded Shares) on the following basis:

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

The Offer Price of HK\$0.844 per Consolidated Offer Share was determined with 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 will be extended to all Shareholders, and the value of the special benefit of HK\$0.444 per Consolidated Share has been appropriately reflected in the Consolidated Offer Share; and (iii) the aggregate number of Consolidated Shares held by Mr. Cheung and Mr. So.

As confirmed by the Directors, as at the Latest Practicable Date, the Company had 612,275,987 Consolidated Shares in issue (which will be the subject of the Share Offer).

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.

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

(2) Historical financial and business performance of the Group

Business overview of the Group

Set out below are the audited 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 year ended 31 December 2016, the year ended 31 December 2015 and the year ended 31 December 2014, respectively:

	For the year ended 31 December 2018 HK\$'000	For the year ended 31 December 2017 HK\$'000	For the year ended 31 December 2016 HK\$'000	For the year ended 31 December 2015 HK\$'000	For the year ended 31 December 2014 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 performance has been highly unsatisfactory 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 Uinta Basin of Utah, the 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 (for details, please refer to the section headed "Overview of the international crude oil and natural gas market" of this letter of advice), 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.

For the year ended 31 December 2017, the Group started the trading of oil-related products 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.

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 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. Nevertheless, an impairment loss on fair value of oil and gas processing rights 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.

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:

As at 31 December 2018
HK\$'000

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:

As at 31 December 2018
HK\$'000

Unsecured loans repayable in one year	102,093
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According to the Directors, the total outstanding borrowings of the Group further increased to approximately HK\$117.3 million as at 30 April 2019, all of which are unsecured and short term. Owing to 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 placed heavy financial burden on the Group.

On 4 March 2019, the Company announced that it received a statutory demand dated 4 March 2019 from its former legal adviser demanding the Company to repay outstanding legal fees and disbursements amounting to approximately HK\$1.8 million (the "Amount") within three weeks. If the Company does not repay such amount within three weeks, it may be presented with a winding up petition. The Directors confirmed that the Company made partial repayment of HK\$282,100 in early April 2019 and entered into an agreement with its former legal adviser regarding the repayment schedule of the remaining Amount. No further action had been taken by its former legal adviser as at the Latest Practicable Date.

Given (i) the highly unsatisfactory financial performance of the Group over the past few years notwithstanding the positive revenue from the trading of oil-related products; (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; and (iv) the heavy financial burden arising from the existing high interest borrowings obtained by the Company, it is certainly that the Group is in serious financial distress and it is doubtful as to the Group's ability to continue as a going concern.

The negative publicity surrounding the Company

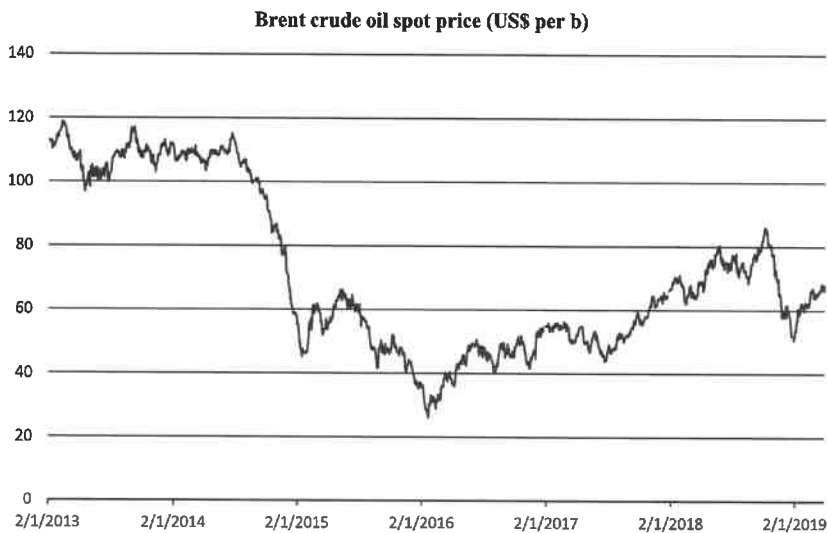
Upon our enquiry with the Directors, we understand that the negative publicity surrounding the Company in recent years has disrupted the Group's operation, not to mention that its development has also been hindered as many financiers, lenders and potential investors expressed concern over the Group.

In this relation, 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 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.

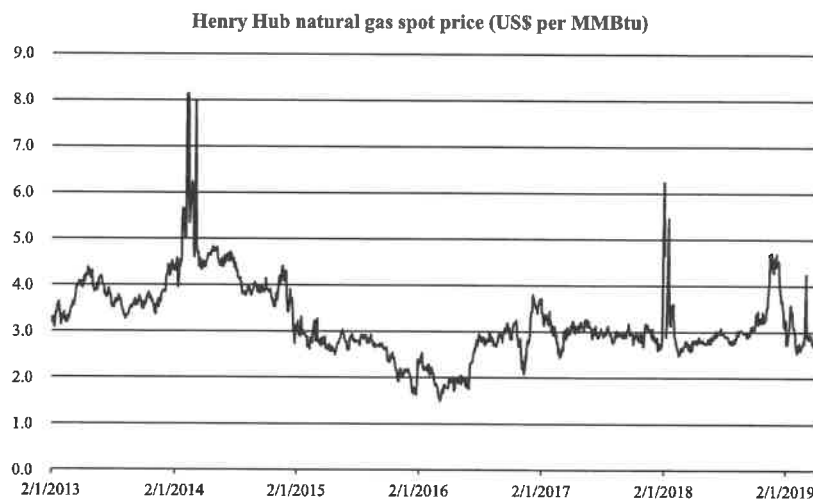
On top of the aforesaid, there were other dispute issues between the Company and its shareholder(s) and the Group had certain pending litigation cases as at the Latest Practicable Date. For details of those dispute issues and the Group's pending litigation cases, please refer to the announcements of the Company dated 29 August 2018, 3 September 2018, 28 September 2018, 22 October 2018, 30 October 2018, 5 November 2018, 16 November 2018, 21 November 2018, 27 November 2018, 29 November 2018, 30 November 2018, 9 May 2019, 18 June 2019 and 28 June 2019, its circulars dated 31 October 2018 and 7 December 2018, and the section headed "Litigation" in Appendix III to the Composite Document.

(3) Overview of the international crude oil and natural gas market

Set out below are the historical price charts of Brent crude oil and Henry Hub natural gas from 2013 to March 2019, respectively:



Source: U.S. Energy Information Administration (<https://www.eia.gov>)



Source: U.S. Energy Information Administration (<https://www.eia.gov>)

As noted from the above charts, the historical prices of Brent crude oil and Henry Hub natural gas have been fluctuating extensively and both of their prices have dropped considerably from the historical high.

With reference to a report named “Short-term Energy Outlook” released by the U.S. Energy Information Administration (“EIA”) at <https://www.eia.gov> in May 2019, EIA forecasted that the Brent crude oil spot prices will average at approximately United States Dollars (US\$) 70 per barrel (b) in 2019 and approximately US\$67/b in 2020, compared to an average of approximately US\$71/b in 2018. EIA also forecasted that crude oil production in the Organisation of the Petroleum Exporting Countries (“OPEC”) will average at approximately 30.3 million barrels per day (b/d) in 2019, down by approximately 1.7 million b/d from 2018. In 2020, EIA believed OPEC’s crude oil production will continue to fall to an average of approximately 29.8 million b/d, resulting in an increasing supply disruption risk globally. It is expected that production in Venezuela and Iran will account for most of the OPEC output declines in 2019 and in 2020, but EIA expected that these declines will be partially offset by production increases from other OPEC members. On the other hand, global crude oil demand is likely to outpace supply in 2019 in accordance with EIA’s forecast. Nonetheless the global crude oil supply will rise by approximately 1.9 million b/d in 2020; whilst the global crude oil demand will rise only by approximately 1.5 million b/d in 2020.

As for natural gas, EIA expected that the strong growth in the United States natural gas production will put downward pressure on natural gas prices in 2019 and in 2020. EIA expected the Henry Hub natural gas spot prices will average at approximately US\$2.79 per million British Thermal Unit (MMBtu) in 2019, down by approximately 36 US cents/MMBtu from 2018. The forecasted 2020 average Henry Hub spot price will further drop to approximately \$2.78/MMBtu. EIA believed that natural gas production will average at approximately 90.3 billion cubic feet per day (Bcf/d) in 2019, up by approximately 6.9 Bcf/d from 2018. It is also the expectation of EIA that natural gas production will continue to grow in 2020 to an average of approximately 92.2 Bcf/d, leading to an expected decrease in natural gas price.

Taking into consideration the factors as mentioned above, we are of the opinion that there remains uncertainty in the prospects of the international crude oil and natural gas market, and in turn the future performance of the Group’s existing sales of oil and natural gas as well as its trading of oil-related businesses.

(4) Information on the Offeror

Set out below is the information on the Offeror as extracted from the “Letter from Forwin” of the Composite Document:

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 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*), a company which is principally engaged in trading of fuel oil, asphalt and petroleum related products, from September 2011 to September 2018 and Ms. Chen was responsible for the sales and marketing of the fuel oil business.

(5) Intentions of the Offeror in relation to the Group

As extracted from the "Letter from Forwin" of the Composite Document, following the close of the Share Offer, it is the current intention of the Offeror to continue the principal oil and gas businesses of the Group. As at the Latest Practicable Date, no definitive proposals, terms or timetable had been determined for any such possible future transaction or arrangement, and no agreements for any such possible future transactions or arrangements had been entered into and no discussions had been held. The Offeror had neither identified any investment or business opportunities nor entered

into any related agreements, arrangements, understandings or negotiations relating to business or assets injections, and there was 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, the Offeror currently has no intention to make any substantial change to the existing business of the Group and the employment of the Group's employees (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").

It is noted from the above sections that the Offeror is principally engaged in the oil related business, and it is its current intention to continue the principal oil and gas businesses of the Group and appoint new Directors with oil and gas related experience. Given that there remains uncertainty in the prospects of the international crude oil and natural gas market, the Group's performance after the Offer Period may also be rather uncertain.

(6) The Offer Price

Offer Price comparison

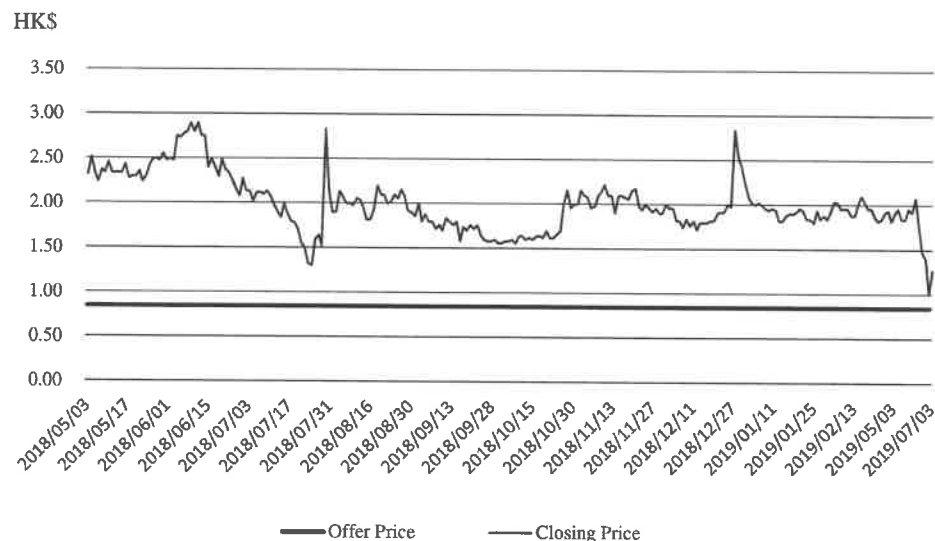
The Offer Price of HK\$0.844 per Consolidated Offer Share represents:

- (a) a discount of approximately 32.48% to the closing price of HK\$1.250 per Consolidated Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a discount of approximately 65.41% to the theoretical closing price of HK\$2.440 per Consolidated Share (based on the closing price of HK\$0.122 per Share prior to the Share Consolidation) as quoted on the Stock Exchange on the Last Trading Day;
- (c) a discount of approximately 60.15% to the average theoretical closing price of approximately HK\$2.118 per Consolidated Share (based on the average closing price of approximately HK\$0.106 per Share prior to the Share Consolidation) as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;
- (d) a discount of approximately 56.78% to the average theoretical closing price of approximately HK\$1.953 per Consolidated Share (based on the average closing price of approximately HK\$0.098 per Share prior to the Share Consolidation) as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day;
- (e) a discount of approximately 57.00% to the average theoretical closing price of approximately HK\$1.963 per Consolidated Share (based on the average closing price of approximately HK\$0.098 per Share prior to the Share Consolidation) as quoted on the Stock Exchange for the last 60 consecutive trading days up to and including the Last Trading Day; and

- (f) a discount of approximately 54.67% to the average theoretical closing price of approximately HK\$1.862 per Consolidated Share (based on the average closing price of approximately HK\$0.093 per Share prior to the Share Consolidation) as quoted on the Stock Exchange for the last 90 consecutive trading days up to and including the Last Trading Day.

Historical movement of the Closing Prices

Set out below is a chart showing the movement of the closing prices of, as the case may be, the Shares (after adjusted for the effect of the Share Consolidation, i.e. closing price of the Shares times 20)/New Shares (after adjusted for the effect of the Share Consolidation, i.e. closing price of the New Shares times 20)/Consolidated Shares on the Stock Exchange (altogether, the “Closing Prices”) within the period from 1 May 2018 up to the Latest Practicable Date (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 of the Shares/New Shares/Consolidated Shares:



Source: the Stock Exchange website (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. Trading in the Shares was halted from 14 February 2019 to 16 April 2019 (both days inclusive) pending the release of the Joint Announcement.

For the sake of illustration, we divide the entire Review Period into (i) the Pre-GO Announcement Period, i.e. (both days inclusive) from 1 May 2018 to the Last Trading Day; and (ii) the Post-GO Announcement Period, i.e. (both days inclusive) from 17 April 2019, being the first day on which trading in the Shares was resumed following the release of the Joint Announcement, to the Latest Practicable Date.

From the above chart, we noted that the Closing Price was at the peak of HK\$2.90 per Consolidated Share on 15 June 2018 but dropped consistently to the trough of HK\$1.30 per Consolidated Share on 7 August 2018. A few trading days after reaching the trough, the Closing Price increased abruptly to HK\$2.84 per Consolidated Share on 15 August 2018. Based on our discussion with the Directors, the Directors confirmed that they were not aware of any affirmative happening which might have led to such abrupt increase in the Closing Price, save and except for the publication of an announcement by the Company on 14 August 2018 regarding a possible conditional general offer. Shortly afterwards on 17 August 2018, the Closing Price dropped to below HK\$2.0 per Consolidated Share. On the remaining trading days during the Pre-GO Announcement Period, the Closing Price swung slightly and stayed at around HK\$2.0 per Consolidated Share until a sudden price surge took place again on 11 February 2019, two days before the Last Trading Day, when the Closing Price rose by approximately 43.4% to HK\$2.84 per Consolidated Share.

After the Share Offer was announced on 17 April 2019, the Closing Price fell gradually and stayed at below HK\$2.0 per Consolidated Share on most of the trading days throughout the Post-GO Announcement Period.

We are of the view that even though the Offer Price represents substantial discounts to the historical Closing Prices during the Review Period, there is no assurance that the market price will continue to maintain at a level higher than the Offer Price during and after the Offer Period taking into account the exceptionally poor fundamentals (such as net loss, net current liabilities and negative operating cash flow) of the Group, the negative publicity surrounding the Company and that the Group's future prospects and performance remain highly uncertain.

Historical trading liquidity of the Shares/New Shares/Consolidated Shares

The number of trading days, the average daily number of, as the case may be, the Shares (after adjusted for the effect of the Share Consolidation, i.e. number of Shares traded divided by 20)/New Shares (after adjusted for the effect of the Share Consolidation, i.e. number of New Shares traded divided by 20)/Consolidated Shares traded per month, and the percentages of, as the case may be, the Shares' (after adjusted for the effect of the Share Consolidation, i.e. number of Shares traded divided by 20)/New Shares' (after adjusted for the effect of the Share Consolidation i.e. number of Shares traded divided by 20)/Consolidated Shares' monthly trading volume as compared to the total number of, as the case may be, issued Shares (after adjusted from the effect of the Share Consolidation, i.e.

total number of issued Shares divided by 20)/issued New Shares (after adjusted for the effect of the Share Consolidation, i.e. total number of issued New Shares divided by 20)/issued Consolidated Shares as at the relevant month end, during the Review Period are tabulated as below:

Month	Number of trading days in each month	Average daily trading volume (the "Average Volume") Number of Consolidated Shares	% of the Average Volume to total number of issued Shares (after adjusted for the effect of the Share Consolidation)/New Shares (after adjusted for the effect of the Share Consolidation)/Consolidated Shares as at the relevant month end (the "Market Trading Percentage") %
2018			
May (Note 1)	20	247,887	0.15
June	20	93,960	0.06
July	21	46,938	0.03
August (Note 2)	21	1,789,291	1.10
September	19	756,600	0.47
October	21	183,764	0.11
November	22	171,178	0.11
December	19	142,288	0.09
2019			
January	22	48,879	0.03
February (Note 3)	6	1,152,625	0.71
March (Note 3)	0	N/A	N/A
April (Note 3)	8	2,162,367	1.33
May	21	188,698	0.12
June	19	330,121	0.20
1 July to the Latest Practicable Date	9	746,408	0.12

N/A = Not applicable

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

Notes:

- 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.
- 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.
- Trading in the Shares was halted from 14 February 2019 to 16 April 2019 (both days inclusive) pending the release of the Joint Announcement.

As depicted by the above table, trading in the Shares/New Shares/Consolidated Shares had been extremely thin (with the Market Trading Percentage generally below 1%) during the Review Period. Given that the Consolidated Shares are highly illiquid, disposal of large block of Consolidated Shares held by the Shareholders in the open market may trigger price slump of the Consolidated

Shares. As such, Independent Shareholders (especially those with relatively sizeable shareholdings) may not be able to realise their investments in the Consolidated Shares at a price higher than the Offer Price, in particular when they are going to dispose of their entire holdings at a fixed cash price without disturbing the market price. Therefore, we anticipate that the Independent Shareholders may encounter difficulties in selling a significant number of Consolidated Shares in the open market within a short period of time if the same trading pattern of the Consolidated Shares persists during and shortly after the Offer Period. In such circumstance, we consider that the Share Offer provides an exit alternative for the Independent Shareholders who would like to realise their investments in the Consolidated Shares.

Nonetheless, if any Independent Shareholders who would like to realise their investments in the Consolidated Shares are able to dispose of their Consolidated Shares in the open market and/or identify potential purchaser(s) to acquire their Consolidated Shares at a price higher than the Offer Price, those Independent Shareholders may consider not accepting the Share Offer but selling their Consolidated Shares in the open market and/or to such potential purchaser(s), as they wish to do so and as they think fit having regard to their own circumstances, in case the net proceeds from the sale of their Consolidated Shares would exceed the net amount receivable under the Share Offer.

Furthermore, those Independent Shareholders who, after reading through the 2018 Annual Report, the Circular and the Composite Document, are optimistic about the future business and financial performance of the Group after the Subscriptions and the Share Offer, may, having regard to their own circumstances, consider retaining all or any part of their Consolidated Shares.

Accordingly, Independent Shareholders should closely monitor the market price and liquidity of the Consolidated Shares during the Offer Period and carefully consider the relevant risks and uncertainties based on their individual risk preference and tolerance level. Those Independent Shareholders who decide to retain part or all of their investments in the Consolidated Shares should also carefully monitor the financial performance of the Group as well as the intentions of the Offeror in relation to the Company in the future, and the potential difficulties they may encounter in disposing of their investments in the Consolidated Shares after the close of the Share Offer.

Comparison with peer companies

We have attempted to use the price multiples analysis, being a commonly adopted valuation method in the market, to further assess the fairness and reasonableness of the Offer Price. In this relation, we researched for Hong Kong listed companies which are (i) engaged in similar line of business as the Group, being the oil and gas business, and generate over 80% of their revenues from such business; and (ii) with market capitalisation of between HK\$500 million and HK\$1,500 million in view of that the market capitalisation of the Company was around HK\$800 million as at the Latest Practicable Date. There are six comparable listed companies which met our selection criteria (the “Comparable Companies”) and we consider those Comparable Companies to be fair, representative and exhaustive samples. Nevertheless, it should be noted that the operations and prospects of the Comparable Companies are not the same as the Company and we have not conducted any investigation into the businesses, operations and prospects of the Comparable Companies. Therefore, the following price multiples analysis is for reference only.

The price multiples analysis normally includes the price to book ratio (“P/B”) and the price to earnings ratio. Nevertheless, as the Group has been loss making during the latest full financial year (i.e. 2018), only the P/B analysis is applicable in our assessment. The following table sets out (a) the P/Bs of the Comparable Companies based on their closing share price as at the Latest Practicable Date and their latest published financial information; and (b) the implied P/B of the Company based on the Offer Price and its latest published financial information:

Name of company	Stock code	P/B (times)
China Energy Development Holdings Limited	228	0.89
Yanchang Petroleum International Limited	346	0.70
Energy International Investments Holdings Limited	353	0.95
Strong Petrochemical Holdings Limited	852	0.52
MIE Holdings Corporation	1555	Not applicable
		(Note)
United Strength Power Holdings Limited	2337	4.11
	Maximum	4.11
	Minimum	0.52
	Mean	1.43
	Median	0.89
The Company	632	0.99

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

Note: MIE Holdings Corporation recorded negative net asset value as at 31 December 2018.

From the above table, we noticed that the P/B of United Strength Power Holdings Limited (stock code: 2337) is much higher than the remaining Comparable Companies, hence this company may be considered as an outlier. With this being the case, the implied P/B of the Company (based on the Offer Price) of approximately 0.99 times is higher than the P/Bs of all the remaining Comparable Companies. For this reason, we are of the view that the Offer Price is fair and reasonable.

RECOMMENDATION

Having considered the principal factors and reasons as discussed above, in particular:

- (a) given (i) the highly unsatisfactory performance of the Group over the past few years notwithstanding the positive revenue from the trading of oil-related products; (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; and (iv) the heavy financial burden arising from the existing high interest borrowings obtained by the Company, it is certainly that the Group is in serious financial distress and it is doubtful as to the Group’s ability to continue as a going concern;

- (b) taking into consideration the factors as mentioned in the section headed "Overview of the international crude oil and natural gas market" of this letter of advice, there remains uncertainty in the prospects of the international crude oil and natural gas market;
- (c) the Company has been surrounded by the negative publicity in recent years, which as represented by the Directors, has disrupted the Group's operation and hindered its development as many financiers, lenders and potential investors expressed concern over the Group;
- (d) judging from factors (a) to (c) above, we are of the view that the Group's future prospects and performance remain highly uncertain;
- (e) even though the Offer Price represents substantial discounts to the historical Closing Prices during the Review Period, there is no assurance that the market price will continue to maintain at a level higher than the Offer Price during and after the Offer Period taking into account the exceptionally poor fundamentals (such as net loss, net current liabilities and negative operating cash flow) of the Group, the negative publicity surrounding the Group and that the Group's future prospects and performance remain highly uncertain;
- (f) given that the Consolidated Shares are highly illiquid, disposal of large block of Consolidated Shares held by the Shareholders in the open market may trigger price slump of the Consolidated Shares. As such, Independent Shareholders (especially those with relatively sizeable shareholdings) may not be able to realise their investments in the Consolidated Shares at a price higher than the Offer Price, in particular when they are going to dispose of their entire holdings at a fixed cash price without disturbing the market price. Therefore, we anticipate that the Independent Shareholders may encounter difficulties in selling a significant number of Consolidated Shares in the open market within a short period of time if the same trading pattern of the Consolidated Shares persists during and shortly after the Offer Period. In such circumstance, we consider that the Share Offer provides an exit alternative for the Independent Shareholders who would like to realise their investments in the Consolidated Shares; and
- (g) for reference only, as set forth in the sub-section headed "Comparison with peer companies" of this letter of advice, the Offer Price is fair and reasonable based on market comparison,

we consider that the terms of the Share Offer (including the Offer Price) are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to accept the Share Offer.

However, Independent Shareholders should note that the recent closing prices of Consolidated Shares are at premium over the Offer Price. Thus, we would also like to remind the Independent Shareholders to closely monitor the market price and liquidity of the Consolidated Shares during the Offer Period and consider selling their Consolidated Shares in the open market, where possible, instead of accepting the Share Offer, if the net proceeds from such sales exceed the net amount receivable under the Share Offer.

Independent Shareholders who believe that they will be unable to sell the Consolidated Shares in the open market at a price higher than the Offer Price because of their size of the shareholding may consider the Share Offer as a fall back exit route for their investments in the Consolidated Shares.

Those Independent Shareholders who decide to retain part or all of their investments in the Consolidated Shares should carefully monitor the intentions of the Offeror in relation to the Company in the future and the potential difficulties they may encounter in disposing of their investments in the Consolidated Shares after the close of the Share Offer. Further terms and conditions of the Share Offer are set out in the "Letter from Forwin" of and Appendix I to the Composite Document.

Lastly, as different Independent Shareholders would have different investment criteria, objectives and/or circumstances, we would recommend any Independent Shareholders who may require advice in relation to any aspect of the Composite Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

Yours faithfully,
For and on behalf of
VBG Capital Limited



Doris Sing
Deputy Managing Director

Ms. Doris Sing is a licensed person and responsible officer of VBG Capital Limited registered with the SFC to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and has over 14 years of experience in corporate finance industry.

* for identification purpose only