
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your Shares in **Sino Oil and Gas Holdings Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker, or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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中國油氣控股有限公司
SINO OIL AND GAS HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 702)

(1) ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE
(2) POSSIBLE CONNECTED TRANSACTION UNDER PUT AND CALL OPTION
(3) APPOINTMENT OF NON-EXECUTIVE DIRECTOR
AND
(4) NOTICE OF SPECIAL GENERAL MEETING

**Independent financial adviser to the Independent Board Committee
and the Independent Shareholders**



Optima Capital Limited

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular. A letter from the Board is set out on pages 7 to 31 of this circular.

A notice convening the special general meeting of the Company to be held at Capital Conference Services Limited, Suite 2418, 24/F., Jardine House, 1 Connaught Place, Central, Hong Kong on 28 July 2016 at 3 p.m. is set out at pages 64 to 65 of this circular. Whether or not you are able to attend such meeting, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's Hong Kong share registrar and transfer office, Computershare Hong Kong Investor Services Ltd., at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding such meeting (or adjourned meeting thereof as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the meeting (or adjourned meeting thereof as the case may be) should you so wish.

12 July 2016

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	7
Letter from the Independent Board Committee	32
Letter from Optima Capital	33
Appendix – General Information	55
Notice of SGM	64

DEFINITIONS

In this circular, the following expressions shall have the same meanings set out below unless the context requires otherwise:

“Board”	the board of Directors
“Bond Certificate”	a certificate in respect of the Convertible Bonds to be issued by the Company to the Bondholder pursuant to the terms of the Bond Instrument
“Bondholder”	Crescent Spring Investment Holdings Limited, a limited liability company incorporated under the laws of the British Virgin Islands which is an Independent Third Party
“Bond Instrument”	the instrument constituting the Convertible Bonds
“Business Day”	a day (other than a Saturday or Sunday) on which commercial banks are open for normal banking business in Hong Kong
“Call Option”	the option granted by the Bondholder to SOGR to require the Bondholder to sell some or all of the Convertible Bonds to SOGR under the Put and Call Option Deed
“Call Option Period”	the period commencing from the Issue Date and ending on the date that falls on the end of the thirtieth (30th) month from the Issue Date
“Call Option Purchase Price”	the purchase price payable by SOGR for the Convertible Bonds in respect of which the Call Option is exercised under the Put and Call Option Deed
“Capital Distribution”	any dividend or distribution (whether of cash or assets in specie) by the Company for any financial period by way of capitalisation of reserves, and including any Scrip Dividend unless it comprises a purchase or redemption of Shares by or on behalf of the Company, where the weighted average price (before expenses) on any one day in respect of such purchases does not exceed the Current Market Price of the Shares as published in the daily quotation sheet of the Stock Exchange, by more than 10 per cent (10%) either (1) on that date, or (2) where an announcement has been made of the intention to purchase Shares at some future date at a specified price, on the Trading Day immediately preceding the date of such announcement

DEFINITIONS

“Collateral Ratio”	being (a) US\$130,000,000 (being the principal amount of the Convertible Bonds) to (b) the value of the Sanjiao Project (as shown in the Company’s latest audited financial statements for the financial year or its unaudited financial statement for the interim period of six months, whichever is the latest) minus the total liabilities of the Company (as shown in the Company’s latest audited financial statement for the financial year or its unaudited financial statement for the interim period of six months, whichever is the latest)
“Company”	Sino Oil and Gas Holdings Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange
“Conversion Price”	HK\$0.207, being the initial price for conversion of the Convertible Bonds, which is subject to adjustment pursuant to the terms and conditions of the Bond Instrument
“Conversion Shares”	the new Shares to be allotted and issued by the Company upon the exercise of the conversion rights attaching to the Convertible Bonds
“Convertible Bonds”	the 8% secured convertible bonds in the aggregate principal amount of US\$130,000,000 due 2019 to be issued by the Company to the Bondholder under the Subscription Agreement
“Current Market Price”	the average of the closing price per Share for the twenty (20) consecutive trading days ending on the trading day immediately preceding such date
“Director(s)”	the director(s) of the Company
“Dr. Dai”	Dr. Dai Xiaobing, an executive Director and a Shareholder
“Escrow Account”	an account to be maintained at a bank to the satisfaction of the Bondholder for Orion Energy and Power Great
“Escrow Account Agreement”	the escrow account agreement to be entered into between Orion Energy, Power Great and the Bondholder for the establishment and management of the Escrow Account
“Event of Default”	any event or circumstances specified as such in the Bond Instrument

DEFINITIONS

“Fair Market Value”	with respect to any assets, security, option, warrants or other right on any date, the fair market value of that asset, security, option, warrant or other right as determined by an Independent Investment Bank, provided that (i) the fair market value of a cash dividend paid or to be paid per Share shall be the amount of such cash dividend per Share determined as at the date of announcement of such dividend; (ii) where options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined by such investment banks) the fair market value of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights during the period of five trading days on the relevant market commencing on the first such trading day such options, warrants or other rights are publicly traded
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee comprising all the independent non-executive Directors, namely, Mr. Wong Kwok Chuen Peter, Professor Wong Lung Tak Patrick, Dr. Wang Yanbin and Dr. Dang Weihua to advise the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the grant of Specific Mandate and taking into account the Put and Call Option Deed)
“Independent Investment Bank”	an independent investment bank of international repute (acting as expert) selected by the Company and approved by the Bondholder
“Independent Shareholders”	Shareholders other than Dr. Dai and his associates
“Independent Third Party”	person or company which is independent of and not connected with (within the meaning of the Listing Rules) any of the directors, chief executive and substantial shareholders (within the meaning of the Listing Rules) of the Company, any of its subsidiaries or any of their respective associates
“Issue Date”	the date on which completion of the issue of and the subscription for the Convertible Bonds
“Last Trading Day”	31 May 2016, being the date of the Subscription Agreement
“Latest Practicable Date”	7 July 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

DEFINITIONS

“Listing Committee”	the listing committee of the Stock Exchange for considering application for listing and the grant of listing
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	the date falling thirty six (36) months from the Issue Date
“Mr. Chen”	Mr. Jason Chun Tung Chen
“Notice of Issuance”	the form of notice of issuance in relation to the issue of the Convertible Bonds
“Obligors”	the Company, Orion Energy and Power Great
“OE Articles “	the articles of association of Orion Energy to be restated and amended and the form and substance of which shall be to the satisfaction of the Bondholder
“Optima Capital”	Optima Capital Limited, a licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the grant of Specific Mandate and taking into account the Put and Call Option Deed)
“Orion Energy”	Orion Energy International Inc., a limited company incorporated under the laws of the Cayman Islands and a wholly-owned subsidiary of the Company
“Orion Energy Shares”	the entire issued share capital of Orion Energy legally and beneficially owned by Power Great
“Orion Energy Share Charge”	the share charge in respect of certain shares of Orion Energy held by Power Great and granted by Power Great in favour of the Bondholder
“PG Articles “	the articles of association of Power Great to be restated and amended and the form and substance of which shall be to the satisfaction of the Bondholder
“Power Great “	Power Great Limited, a limited company incorporated under the laws of the Cayman Islands and a wholly-owned subsidiary of the Company

DEFINITIONS

“Power Great Shares”	the entire issued share capital of Power Great legally and beneficially owned by the Company
“Power Great Share Charge”	the share charge in respect of certain shares of Power Great held by the Company and granted by the Company in favour of the Bondholder
“PRC”	the People’s Republic of China, which, for the purpose of this circular, excludes Hong Kong, the Macau Administrative Region and Taiwan
“Put and Call Option Deed”	the put and call option deed dated 31 May 2016 and entered into between SOGR and the Bondholder in relation to the Call Option and the Put Option
“Put Option”	the option granted by SOGR to the Bondholder to require SOGR to purchase some or all of the Convertible Bonds from the Bondholder under the Put and Call Option Deed
“Put Option Period”	the period commencing from (i) the day on which the Call Option Period expires, or (ii) the date at any time after the Issue Date when SOGR breaches any term of the Put and Call Option Deed; or (iii) at any time if any Event of Default is triggered, whichever is the earlier
“Put Option Purchase Price”	the purchase price payable by SOGR for the Convertible Bonds in respect of which the Put Option is exercised under the Put and Call Option Deed
“RMB”	Renminbi, the lawful currency of the PRC
“Sanjiao Project”	the coalbed methane project in Sanjiao of Shanxi Province in the PRC
“Scrip Dividend”	any Shares issued in lieu of the whole or any part of any cash dividend being a dividend which the Shareholders concerned would or could otherwise have received and which would not have constituted a Capital Distribution
“Secured Liabilities”	all monies, obligations and liabilities now or thereafter due, owing or incurred by any Obligor to the Bondholder under or pursuant to the Transaction Documents
“Security Documents”	the Share Charges and any other document designated as such by the Company and the Bondholder

DEFINITIONS

“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened and held at Capital Conference Services Limited, Suite 2418, 24/F., Jardine House, 1 Connaught Place, Central, Hong Kong on 28 July 2016 at 3 p.m. for the Independent Shareholders to consider and, if thought fit, to approve, among other things, the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the grant of Specific Mandate and taking into account the Put and Call Option Deed), and the appointment of Mr. Chen as a non-executive Director
“Share(s)”	the ordinary share(s) of HK\$0.01 each in the capital of the Company
“Share Charges”	the Orion Energy Share Charge and the Power Great Share Charge
“Shareholder(s)”	holder(s) of the Share(s)
“SOGR”	Sino Oil and Gas Resources Limited, a company wholly and beneficially owned by Dr. Dai
“Specific Mandate”	a specific mandate to be sought from the Independent Shareholders at the SGM to authorise the Directors to allot and issue the Conversion Shares pursuant to the Subscription Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of the Convertible Bonds by the Bondholder pursuant to the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 31 May 2016 and entered into by the Company with the Bondholder in relation to the issue of and subscription for the Convertible Bonds
“Trading Day”	a day when the Stock Exchange is open for dealing business
“Transaction Documents”	the Subscription Agreement, the Bond Instrument, the Bond Certificate, Security Documents, the Escrow Account Agreement and any other documents designated as such by the Company and the Bondholder
“US Dollar” or “US\$”	United States dollar, the lawful currency of the United States of America
“%”	per cent

This circular contains translations between US\$ and HK\$ at the rate of US\$1.00 = HK\$7.77 and between RMB and HK\$ at the rate of RMB1 = HK\$1.19. The translations should not be taken as a representation that the relevant currencies could actually be converted into HK\$ at that rate or at all.

LETTER FROM THE BOARD



中國油氣控股有限公司 SINO OIL AND GAS HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 702)

Executive Directors:

Dr. Dai Xiaobing
Mr. King Hap Lee
Mr. Wan Tze Fan Terence

Non-executive Directors:

Mr. Chen Hua
Mr. Huang Shaowu
Mr. He Lin Feng

Independent non-executive Directors:

Mr. Wong Kwok Chuen Peter
Professor Wong Lung Tak Patrick
Dr. Wang Yanbin
Dr. Dang Weihua

Registered office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

*Head Office and Principal place of
business in Hong Kong:*

Suite 3707-3708, West Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

12 July 2016

*To the Shareholders and, for information only,
holders of convertible bonds*

Dear Sir or Madam,

**(1) ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE
(2) POSSIBLE CONNECTED TRANSACTION UNDER PUT AND CALL OPTION
(3) APPOINTMENT OF NON-EXECUTIVE DIRECTOR
AND
(4) NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated 31 May 2016 in which the Company announced that: (a) on 31 May 2016 (after trading hours), the Company entered into the Subscription Agreement with the Bondholder pursuant to which the Bondholder has conditionally agreed to subscribe in cash for the Convertible Bonds in the aggregate principal amount of US\$130,000,000 (equivalent to approximately HK\$1,010,100,000) due 2019; and (b) on 31 May 2016 (after trading hours), SOGR entered into the Put and Call Option Deed with the Bondholder pursuant to which the Bondholder grants to SOGR an irrevocable and unconditional right (but without obligation) to purchase some or all of the Convertible Bonds at the Call Option Purchase Price during the Call Option Period, and SOGR grants to the Bondholder an irrevocable and unconditional right (but without obligation) to require SOGR to purchase some or all of the Convertible Bonds at the Put Option Purchase Price during the Put Option Period.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, amongst other things, (i) details of the Subscription Agreement and the Put and Call Option Deed; (ii) details of the grant of Specific Mandate; (iii) details of appointment of Mr. Chen as a non-executive Director; (iv) the letter of advice from Optima Capital to the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the grant of Specific Mandate and taking into account the Put and Call Option Deed); (v) the letter of recommendation from the Independent Board Committee containing its advice to the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the grant of Specific Mandate and taking into account the Put and Call Option Deed); and (vi) a notice of the SGM.

THE SUBSCRIPTION AGREEMENT

Date

31 May 2016

Parties

Issuer : The Company

Bondholder : Crescent Spring Investment Holdings Limited

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the Bondholder and its ultimate beneficial owners are Independent Third Parties.

The Bondholder is an investment holding company and a wholly-owned subsidiary of China Huarong International Holdings Limited (“**Huarong International**”). Huarong International is an indirect wholly-owned subsidiary of China Huarong Asset Management Co., Ltd., a joint stock company incorporated in the PRC with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 2799).

Subscription

Subject to the satisfaction (or waiver as the case may be) of the conditions precedent set out in the Subscription Agreement, the Bondholder agrees to subscribe for in cash, and the Company agrees to issue, the Convertible Bonds in the principal amount of US\$130,000,000 due 2019.

Conditions precedent

Completion of the Subscription Agreement is conditional upon:

- (a) the Bondholder having performed and completed to its sole satisfaction due diligence review of business, affairs, operations and financial position of the Company, the Group and the Sanjiao Project, including but not limited the obtaining of a legal opinion addressed to the Bondholder from a PRC law firm in such form and substance to the Bondholder’s sole satisfaction;

LETTER FROM THE BOARD

- (b) the approval by the Independent Shareholders at the SGM for (i) the granting of the Specific Mandate in accordance with the Listing Rules as a connected transaction of the Company, and (ii) the appointment of Mr. Chen as a non-executive Director;
- (c) the approval by the Shareholders at the annual general meeting of the Company for the increase in the authorized share capital of the Company to HK\$400,000,000 divided into 40,000,000,000 Shares by the creation of an additional 15,000,000,000 Shares;
- (d) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange and such approval and permission remaining in full force and effect;
- (e) the Bondholder having received all of the documents and evidence set out in the Subscription Agreement in form and substance satisfactory to it on or prior to the date of the Notice of Issuance;
- (f) the OE Articles and PG Articles having been adopted by Orion Energy and Power Great, respectively and filed with the Registrar of Companies of the Cayman Islands;
- (g) the appointment of Mr. Chen as a director of each of Orion Energy and Power Great and the Registrar of Companies of the Cayman Islands is notified of such appointment;
- (h) the release of the Company's interest in Orion Energy and Power Great from the security charged to CDB Leasing Co., Ltd ("**CDB Leasing**"), to the satisfaction of the Bondholder;
- (i) evidence that the Bondholder has performed all necessary external, internal and corporate approvals and checks under all applicable laws and regulations, including but not limited to, investment committee approval;
- (j) the representations and warranties of the Company contained in the Transaction Documents to which it is a party being true, accurate and correct and not misleading during the period beginning on the date of the Subscription Agreement and ending on the Issue Date; and
- (k) no Event of Default is continuing or would result from the proposed issue by the Company of the Convertible Bonds to the Bondholder.

In relation to the condition precedent specified in item (h) above, Orion Energy Shares have been charged to CDB Leasing as a security for the facility of RMB1,000,000,000 granted by CDB Leasing to Orion Energy under the financing agreement entered into between CDB Leasing and Orion Energy on 23 December 2011 (the "**CDB Facility**"). The Power Great Shares have not been charged as a security for the CDB Facility or any other facility. The Company is currently liaising with CDB Leasing in relation to the mechanism of releasing the existing security charged. It is expected that the charge on Orion Energy Shares will be released in August 2016 when Orion Energy has fully settled the outstanding amount of the loan due to CDB Leasing under the CDB Facility.

LETTER FROM THE BOARD

If any of the above conditions precedent has not been fulfilled or waived (other than the condition precedent specified in item (b), (c) and (d) above which cannot be waived) by the Bondholder on or before 30 September 2016 (or such later date as may be agreed by the parties thereto in writing), the Subscription Agreement shall lapse immediately thereafter and be of no further effect and neither party shall have any claim against or liability or obligation to the other party under the Subscription Agreement save for any rights or obligations which may accrue prior to the date of such termination.

As at the Latest Practicable Date, the condition precedent specified in item (c) above has been satisfied.

Completion

The Company shall deliver to the Bondholder a duly completed Notice of Issuance not later than 11:00 a.m. on the date falling two Business Days prior to the proposed Issue Date (or at such other time as the Bondholder may agree).

Subject to the satisfaction (or waiver as the case may be) of the conditions precedent set out above, completion of the Subscription shall take place on the Issue Date as set out in the Notice of Issuance or at such other time as the Company and the Bondholder may agree.

Specific undertakings of the Company

The Company undertakes to the Bondholder that so long as the obligations and liabilities of the Company to the Bondholder under each Transaction Document have not been unconditionally and irrevocably paid and discharged in full:

- (a) it will continue to be interested in 100% of the entire issued share capital of Power Great and Power Great is interested in 100% of the entire issued share capital of Orion Energy;
- (b) it shall procure that Dr. Dai remains a Director and that his shareholding in the Company shall not be less than five per cent. (5%);
- (c) there will not be any material adverse change on the net asset value and total asset value of the Company as shown in its latest audited financial statements or the latest unaudited half-yearly financial statements to the extent they are more recent than the audited financial statements;
- (d) the Company shall procure that the Escrow Account be maintained and shall be used for (i) the collection of all cashflow generated from the Sanjiao Project and (ii) the repayment of the principal and interest for the Convertible Bonds. The Company shall procure each of Orion Energy, Power Great and their subsidiaries not to enter into contract, liability or commitment which would involve expenditure that exceeds HK\$10,000,000 unless with the prior consent of the director of Orion Energy and Power Great nominated by the Bondholder (i.e. Mr. Chen);

LETTER FROM THE BOARD

- (e) the Company shall procure, so far as it lawfully can, the OE Articles and the PG Articles to be amended such that Orion Energy and Power Great shall only carry out the following activities, including (i) amending its respective articles of association, (ii) changing its respective registered capital, (iii) conducting investment, (iv) incurring financial indebtedness including providing indemnity and guarantee, (v) opening accounts, (vi) entering into any types of contracts exceeding the amount of HK\$30,000,000, and (vii) making any payment, on an individual basis, exceeding HK\$10,000,000, with the prior consent of the director of Orion Energy and Power Great nominated by the Bondholder; and
- (f) the Collateral Ratio is not more than 1:2. If such ratio exceeds 1:2, the Company shall promptly and in any event, not more than five (5) Business Days provide the Bondholder with additional security by way of transferring or procuring the transfer of assets and/or cash to the Bondholder and such assets and/or cash shall be to the sole satisfaction of the Bondholder, to the extent that the Collateral Ratio being not more than 1:2.

PRINCIPAL TERMS OF THE CONVERTIBLE BONDS

Issuer	: The Company
Bondholder	: Crescent Spring Investment Holdings Limited
Principal amount	: US\$130,000,000 (equivalent to approximately HK\$1,010,100,000)
Issue price	: 100% of the principal amount of the Convertible Bonds
Maturity date	: The date falling thirty six (36) months from the Issue Date
Interest	: The Convertible Bonds shall bear interest from and including the Issue Date to the Maturity Date at the rate of 8% per annum payable in arrears every quarter of a calendar year on 18 March, 18 June, 18 September and 18 December.
Denomination	: US\$1,000,000
Security	: 1. Orion Energy Share Charge

Pursuant to the Orion Energy Share Charge, Power Great as legal and beneficial owner of the Orion Energy Shares and as continuing security for the payment and discharge of all of the Secured Liabilities charges to the Bondholder by way of first fixed legal charge all its rights, title and interest in the Orion Energy Shares and all their rights.

LETTER FROM THE BOARD

At any time after the occurrence of an Event of Default, the Bondholder may, among other things, in its sole discretion and without notice to Power Great or the prior authorization of any court, enforce all or any part of the security created by the Orion Energy Share Charge and dispose of all or any part of the Orion Energy Shares at such times and upon such terms as it sees fit, appoint any one or more persons to be a receiver under the Orion Energy Share Charge and exercise all of the powers, authorities and discretions granted to a receiver by the Orion Energy Share Charge or by law.

The principal business activities of Orion Energy are exploration, development and production of coalbed methane in the PRC (i.e. Sanjiao Project). As at 31 December 2015 (being the date to which the latest published audited consolidated financial statements of the Group were made up), the net assets value of Orion Energy is approximately HK\$163 million.

2. Power Great Share Charge

Pursuant to the Power Great Share Charge, the Company as legal and beneficial owner of the Power Great Shares and as continuing security for the payment and discharge of all of the Secured Liabilities charges to the Bondholder by way of first fixed legal charge all its rights, title and interest in the Power Great Shares and all their rights.

At any time after the occurrence of an Event of Default, the Bondholder may, among other things, in its sole discretion and without notice to the Company or the prior authorization of any court, enforce all or any part of the security created by the Power Great Share Charge and dispose of all or any part of the Power Great Shares at such times and upon such terms as it sees fit, appoint any one or more persons to be a receiver under the Power Great Share Charge and exercise all of the powers, authorities and discretions granted to a receiver by the Power Great Share Charge or by law.

Power Great is an investment holding company and wholly owns the entire issued shares of Orion Energy. As at 31 December 2015 (being the date to which the latest published audited consolidated financial statements of the Group were made up), the net assets value of Power Great is approximately HK\$85 million.

LETTER FROM THE BOARD

Conversion period : The Conversion period will commence at any time from and including the date from the Issue Date up to the close of business on the Maturity Date.

The Company shall not allot and issue Conversion Shares to the Bondholder nor shall the Bondholder be permitted to convert the Convertible Bonds (or parts thereof) if upon such allotment and issue or conversion (as the case may be), the Bondholder and parties acting in concert with it which when aggregated together with the existing Shares held shall be interested (whether directly or indirectly) in 29.90% or more of the consequential enlarged issued share capital of the Company at the date of the relevant exercise, or the Company shall fail to maintain a 25% public float.

If the conversion of the Convertible Bonds will result in the Bondholder and the parties acting in concert with it being interested in 29.90% or more of the issued share capital of the Company, the Bondholder may only exercise its right of conversion after disposing part of the Shares then held by it such that the relevant shareholding held by the Bondholder shall be maintained as at the date of the relevant exercise and the Company shall maintain a 25% public float.

Conversion price : The initial Conversion Price is HK\$0.207 per Conversion Share subject to adjustment in the manner provided in the terms and conditions of the Bond Instrument.

The initial Conversion Price represents:

- (a) a premium of approximately 16.95% over the closing price of HK\$0.177 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a premium of approximately 15.00% over the average closing price of HK\$0.180 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the Last Trading Day;
- (c) a premium of approximately 16.95% over the average closing price of HK\$0.177 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the Last Trading Day;
- (d) a discount of approximately 7.59% over the closing price of HK\$0.224 per Share as quoted on the Stock Exchange as at the Latest Practicable Date; and

LETTER FROM THE BOARD

- (e) a premium of approximately 4.55% over the audited net asset value attributable to the Shareholders of approximately HK\$0.198 per Share as at 31 December 2015 (based on the audited consolidated net assets of the Group attributable to the Shareholders of approximately HK\$3,488.6 million as at 31 December 2015 and 17,603,601,000 Shares in issue as at 31 December 2015.

The Conversion Price was determined after arm's length negotiations between the Company and the Bondholder with reference to the prevailing market price of the Shares.

The Directors (including the independent non-executive Directors) are of the opinion that the Conversion Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Adjustment to the
Conversion Price

: The Conversion Price will be subject to adjustments upon the occurrence of the following events:

- (a) If and whenever the Shares by reason of any consolidation, subdivision or reclassification become of a different nominal amount, the Conversion Price in force immediately prior thereto shall be adjusted by multiplying it by the following fraction:

$$\frac{A}{B}$$

where:

A = the nominal amount of one Share immediately after such alteration; and

B = the nominal amount of one Share immediately before such alteration.

Such adjustment shall become effective on the date the alteration takes effect.

- (b) If and whenever the Company shall issue any Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves (except any Scrip Dividend) and which would not have constituted a Capital Distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A}{B}$$

LETTER FROM THE BOARD

where:

A = the aggregate nominal amount of the issued Shares immediately before such issue; and

B = the aggregate nominal amount of the issued Shares immediately after such issue.

Such adjustment shall become effective on the date of issue of such Shares or if a record date is fixed therefor, immediately after such record date.

In the case of an issue of Shares by way of a Scrip Dividend where the Current Market Price of such Shares exceeds the amount of the cash dividend or the relevant part thereof and which would not have constituted a Capital Distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the issue of such Shares by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A = the aggregate nominal amount of the issued Shares immediately before such issue;

B = the aggregate nominal amount of Shares issued by way of such Scrip Dividend multiplied by a fraction of which (i) the numerator is the amount of the whole, or the relevant part, of the relevant cash dividend and (ii) the denominator is the Current Market Price of the Shares issued by way of Scrip Dividend in respect of each existing Share in lieu of the whole, or the relevant part, of the relevant cash dividend; and

C = the aggregate nominal amount of Shares issued by way of such Scrip Dividend.

LETTER FROM THE BOARD

- (c) If and whenever the Company shall pay or make any Capital Distribution to the Shareholders, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such Capital Distribution by the following fraction:

$$\frac{A-B}{A}$$

where:

A = the Current Market Price of one Share on the date on which the Capital Distribution is publicly announced; and

B = the Fair Market Value on the date of such announcement of the portion of the Capital Distribution attributable to one Share.

Such adjustment shall become effective on the date that such Capital Distribution is actually made or if a record date is fixed therefor, immediately after such record date.

- (d) If and whenever the Company shall issue Shares to all Shareholders as a class by way of rights, or issue or grant to all Shareholders as a class by way of rights, of options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares, in each case at less than the Current Market Price per Share on the date of the announcement of the terms of the issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A= the number of Shares in issue immediately before such announcement;

B = the number of Shares which the aggregate amount (if any) payable for the Shares issued by way of rights or for the options or warrants or other rights issued or granted by way of rights and for the total number of Shares comprised therein would subscribe for, purchase or otherwise acquire at such Current Market Price per Share; and

LETTER FROM THE BOARD

C = the aggregate number of Shares issued or, as the case may be, comprised in the grant.

Such adjustment shall become effective on the date of issue of such Shares or issue or grant of such options, warrants or other rights (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants, as the case may be.

- (e) If and whenever the Company shall issue any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares) to all Shareholders as a class by way of rights or grant to all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for, purchase or otherwise acquire any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A-B}{A}$$

where:

A = the Current Market Price of one Share on the date on which such issue or grant is publicly announced; and

B = the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue of the securities or grant of such rights, options or warrants (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants, as the case may be.

- (f) If and whenever the Company shall issue any Shares (other than Shares issued on the exercise of Conversion Rights or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares) or the issue or grant of options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares in each case at a price per Share which is less than the Conversion Price (the “**Reduced Price**”), the Conversion Price shall be adjusted to the Reduced Price.

LETTER FROM THE BOARD

Such adjustment shall become effective on the date of issue of such additional Shares or, as the case may be, the issue of such options, warrants or other rights.

- (g) If and whenever the Company or any of its subsidiaries, or any other company, person or entity shall issue any securities (other than the Convertible Bonds) which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares to be issued by the Company upon conversion, exchange or subscription at the Reduced Price, the Conversion Price shall be adjusted to the Reduced Price. Such adjustment shall become effective on the date of issue of such securities.
- (h) If and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any such securities so that the consideration per Share is less than the Current Market Price on the date of announcement of the proposals for such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such modification by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A = the number of Shares in issue immediately before such modification;

B = the number of Shares which the aggregate consideration receivable by the Company for the Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to the securities so modified would purchase at such Current Market Price per Share or, if lower, the existing conversion, exchange or subscription price of such securities; and

C = the maximum number of Shares to be issued on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate.

Such adjustment shall become effective on the date of modification of the rights of conversion, exchange or subscription attaching to such securities.

LETTER FROM THE BOARD

- (i) If and whenever the Company or any of its subsidiaries or any other person issues, sells or distributes any securities in connection with an offer pursuant to which the Shareholders generally are entitled to participate in arrangements whereby such securities may be acquired by them, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A-B}{A}$$

where:

A = the Current Market Price of one Share on the date on which such issue is publicly announced; and

B = the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue of the securities.

- (j) If the Company or the Bondholder determines that an adjustment should be made to the Conversion Price as a result of one or more events or circumstances not referred to in the precedent paragraphs, the Company or the Bondholder shall, at their own expense, consult an Independent Investment Bank or the auditor of the Company, to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof, if the adjustment would result in a reduction in the Conversion Price, and the date on which such adjustment should take effect and upon such determination by the Independent Investment Bank or the auditor of the Company such adjustment (if any) shall be made and shall take effect in accordance with such determination.

No adjustment shall be made to the Conversion Price where such adjustment would be less than one per cent. of the Conversion Price then in effect.

No adjustment will be made to the Conversion Price when Shares or other securities are issued, offered or granted to employees of the Company pursuant to any share option scheme or when Shares are issued pursuant to the outstanding convertible bonds issued by the Company prior to the date of the Subscription Agreement.

LETTER FROM THE BOARD

Transferability : The Convertible Bonds are transferable, except to connected person (as defined in the Listing Rules) of the Company without prior consent of the Company.

If the Convertible Bonds are transferred to a connected person (as defined in the Listing Rules), all such transfer shall be made subject to having obtained the written consent from the Company and prior approval of the Stock Exchange (if necessary) and full compliance with the Listing Rules.

Conversion Shares : The Conversion Shares will be credited as fully paid and rank pari passu in all respects with, and within the same class as the Shares in issue as at the date of allotment and issue of the Conversion Shares.

Redemption on Maturity Date : Unless previously redeemed, converted, purchased or cancelled, the Company will redeem all of the Convertible Bonds on the Maturity Date at such amount that would make up an aggregate internal return rate of 12% per annum on the Convertible Bonds (for the avoidance of doubt, the aggregate return shall take into account all interest accrued and paid on the principal amount of the Convertible Bonds) calculated from the Issue Date to (and including) the later of the actual date of payment and the Maturity Date.

Events of Default : If any of the following events occurs, the Bondholder shall be entitled to require the Company to redeem the entire principal amount of the Convertible Bonds not being converted according to the terms of the Bond Instrument:

- (a) any Obligor fails to pay the amount due and payable pursuant to a Transaction Document;
- (b) the Company fails to pay any interest due and payable pursuant to a Transaction Document;
- (c) if any Obligor fails to perform or observe any of its other obligations under the Bond Instrument, the Subscription Agreement and any other Transaction Document to which it is a party;
- (d) a representation, statement or warranty made or deemed to be made or repeated by any Obligor in any Transaction Document or other related transaction documents is or proves to have been incorrect or misleading;
- (e) the Shares cease to be listed or admitted to, or are suspended for a period of more than ten (10) consecutive Business Days (save for any suspension of trading caused by clearance of an announcement or a circular pursuant to Chapters 14 and/or 14A of the Listing Rules) and/or the Shareholders pass a shareholder resolution to delist its shares from the Stock Exchange;

LETTER FROM THE BOARD

- (f) if (i) any financial indebtedness of the Company or member of the Group is not paid when due; (ii) any financial indebtedness of the Company or member of the Group is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default; (iii) any commitment for any financial indebtedness of the Company or member of the Group is cancelled or suspended by a creditor of the Company or member of the Group as a result of an event of default; (iv) any creditor of the Company or member of the Group becomes entitled to declare any financial indebtedness of the Company or member of the Group due and payable prior to its specified maturity as a result of any event of default; (v) any security given by the Company or member of the Group becomes enforceable and steps are taken to enforce the same; or (vi) default is made by the Company or member of the Group in making any payment due under any guarantee and/or indemnity given by it in relation to any financial indebtedness of any other person;
- (g) if the Company or any member of the Group is involved in any insolvency event;
- (h) if any Obligor repudiates or purports to repudiate a Transaction Document to which it is a party;
- (i) any litigation, arbitration, administrative, governmental, regulatory or other investigations, proceedings, requisitions or disputes are commenced or threatened in relation to the Transaction Documents or other related transaction documents or against the Company or member of the Group or in relation to its assets;
- (j) any governmental agency seizes, compulsorily purchases or expropriates all or a substantial part of the assets of the Company or member of the Group or makes an order therefore;
- (k) an issue of unlawfulness arises under any of the Transaction Documents;
- (l) if any of the security created under any Security Document fails to have first ranking priority or is subject to any prior ranking or pari passu ranking security interest;
- (m) the occurrence of any event, condition, regulatory action, sanction or fine that in the reasonable opinion of the Bondholder has results in or causes or would have a material adverse effect on the value of any asset charged or mortgaged under the Security Documents;

LETTER FROM THE BOARD

- (n) if Dr. Dai ceases to be a Director or holds, directly or indirectly, less than 5% of the entire issued Shares;
- (o) any event or circumstance occurs including a decrease in the total asset value or the net asset value of the Company which in the opinion of the Bondholder has or may have a material adverse effect;
- (p) if the Company or member of the Group ceases or threatens to cease to carry on the whole or a substantial part of its business or changes or threatens to change the nature or scope of its ordinary and usual business as at the Issue Date or the Company changes or attempts to change its jurisdiction of incorporation to a jurisdiction outside of Bermuda; or
- (q) the Collateral Ratio is more than 1:2 and the Company fails to, within five (5) Business Days, provide the Bondholder with additional security by way of transferring or procuring the transfer to the Bondholder such assets and/or cash to the sole satisfaction of the Bondholder.

Voting Rights	:	The Convertible Bonds do not confer any voting right at any meetings of the Company.
Listing	:	No application will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.
Status of the Convertible Bonds	:	The Convertible Bonds constitute direct, secured, unsubordinated and unconditional obligations of the Company and shall at all times rank pari passu and without any preference or priority among themselves. The payment obligations of the Company under the Convertible Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable laws, at all times rank at least equally with all of the Company's other present and future direct, secured, unsubordinated and unconditional obligations.
Ranking of the Conversion Shares	:	The Conversion Shares, when allotted and issued, will rank pari passu with, and carry the same rights in all aspects as, the other Shares then issued and outstanding.

LETTER FROM THE BOARD

PUT AND CALL OPTION DEED

On 31 May 2016 (after trading hours), SOGR entered into the Put and Call Option Deed with the Bondholder.

Principal terms of the Put and Call Option Deed are as follows:

Date

31 May 2016

Parties

Sino Oil and Gas Resources Limited (“**SOGR**”)

Crescent Spring Investment Holdings Limited (“**Bondholder**”)

SOGR is wholly-owned by Dr. Dai, an executive Director and a Shareholder.

Call Option

The Bondholder grants to SOGR an irrevocable and unconditional right (but without obligation) to purchase some or all of the Convertible Bonds at the Call Option Purchase Price during the Call Option Period.

Call Option Purchase Price

The Call Option Purchase Price payable by SOGR for the Convertible Bonds in respect of which the Call Option is exercised shall be at such amount that would make up an aggregate internal return rate on the Convertible Bonds in respect of which the Call Option is exercised of 12% per annum (for the avoidance of doubt, the aggregate return shall take into account all interest accrued and paid on the principal amount of the Convertible Bonds in respect of which the Call Option is exercised) calculated from the Issue Date to (and including) the date of completion of the sale and purchase of the Convertible Bonds after the exercise of the Call Option.

Call Option Period

The Call Option Period commences from the Issue Date and ends on the date that falls on the end of the thirtieth (30th) month from the Issue Date.

Exercise of the Call Option

The Call Option may be exercised by SOGR in whole or in part on one or more occasions at any time during the Call Option Period, provided that the principal amount of the Convertible Bonds in respect of which the Call Option is exercised shall be in the lots of at least US\$10,000,000.

LETTER FROM THE BOARD

Put Option

SOGR grants to the Bondholder an irrevocable and unconditional right (without obligation) to require SOGR to purchase some or all of the Convertible Bonds at the Put Option Purchase Price during the Put Option Period.

Put Option Purchase Price

The Put Option Purchase Price payable by SOGR for the Convertible Bonds in respect of which the Put Option is exercised shall be at such amount that would make up an aggregate internal return rate on the Convertible Bonds in respect of which the Put Option is exercised of 12% per annum (for the avoidance of doubt, the aggregate return shall take into account all interest accrued and paid on the principal amount of the Convertible Bonds in respect of which the Put Option is exercised) calculated from the Issue Date to (and including) the date of completion of the sale and purchase of the Convertible Bonds after the exercise of the Put Option.

Put Option Period

The Put Option Period commences from (i) the day on which the Call Option Period expires, or (ii) the date at any time after the Issue Date when SOGR breaches any term of the Put and Call Option Deed; or (iii) at any time if any Event of Default is triggered, whichever is the earlier.

Exercise of the Put Option

The Put Option may be exercised by the Bondholder in whole or in part on one or more occasions at any time during the Put Option Period.

Undertakings of the Bondholder

The Bondholder undertakes to SOGR that, during the Call Option Period, it will not and will procure its affiliates not to dispose of nor enter into any agreement to dispose of, or otherwise create any encumbrance, or exercise the conversion right attaching to the Convertible Bonds. The Bondholder or its affiliates shall be able to dispose of or enter into any agreement to dispose of, or otherwise create any encumbrance, or exercise the conversion right attaching to the Convertible Bonds during the Put Option Period.

REASONS FOR ENTERING INTO THE PUT AND CALL OPTION DEED

The Directors (including the independent non-executive Directors) are of the view that the entering into of the Put and Call Option Deed provides the Bondholder with an exit option during the Put Option Period at an assured return equal to that under the Convertible Bonds, and the exercise of option also eases the then cash flow position of the Group. The added flexibility by the Put and Call Option Deed also facilitates the consummation of the Subscription Agreement to bring in a reputable and sizeable Bondholder as a financial investor and potential Shareholder and enhances the profile of the Company. Given Dr. Dai's existing role as the Chairman and Executive Director, the Put and Call Option Deed also serves as a means through which Dr. Dai may increase his shareholding in the Company and align his management interest with the Company and the Shareholders. In the way, Dr. Dai has demonstrated his confidence in and support to the Company.

LETTER FROM THE BOARD

FUND RAISING ACTIVITIES DURING THE PAST TWELVE MONTHS

Save as disclosed below, the Company has not conducted any fund raising activities on any issue of equity securities in the past twelve months immediately prior to the date of this circular.

Date of announcement(s)	Event	Net proceeds and intended use	Actual use of proceeds
15 June 2015 and 5 April 2016	Issue of the convertible bonds in the aggregate principal amount of HK\$100,000,000	The net proceeds of approximately HK\$99,000,000 is intended to be used for general working capital of the Group	Approximately 60% of the proceeds has been used for the acquisition of a raw coal washing project located in Shanxi province. The remaining balance has been used for operations of the Group's existing oil and gas projects and working capital.
26 January 2016	Issue of the convertible bonds in the principal amount of HK\$200,000,000	The net proceeds of approximately HK\$198,000,000 is intended to be used for general working capital of the Group which may include oil and gas business development and repayment of certain financial obligation	Approximately 70% of the proceeds has been used for settlement of the construction and operation costs payable in respect of the Sanjiao Project, the remaining of which has been used for development of oil and gas business and for repayment of certain financial obligations.
19 May 2016	Issue of the convertible bonds in the aggregate principal amount of HK\$160,000,000	The net proceeds of approximately HK\$158,000,000 is intended to be used for the working capital of the Sanjiao Project and repayment of certain financial obligations.	Approximately 65% of the proceeds has been used for repayment of certain financial obligations and the remaining of which is currently kept in bank and will be used for the working capital of the Sanjiao Project.

In relation to the actual use of proceeds from the issue of convertible bonds in the aggregate principal amount of HK\$100,000,000 as disclosed in the announcements of the Company dated 15 June 2015 and 5 April 2016, the project company of the raw coal washing project located in Shanxi province has a 10-year guaranteed supply agreement with an adjacent coal mine and the vendor has irrevocably guaranteed the Group that the annual total net profit after tax per annum of the project company will not be less than RMB30,000,000 for the 6 years after the completion date. As such, the Board believes that the change of use of part of the proceeds raised not only promotes a more efficient usage of the fund raised, but also enhances the profitability of the Company and creates better returns to the Shareholders.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE OF THE COMPANY

For illustration purpose, the table below sets out the shareholding structure of the Company (a) as at the Latest Practicable Date; (b) immediately upon full conversion of the Convertible Bonds at the initial Conversion Price (assuming there being no other change in the issued share capital and shareholding structure of the Company since the Latest Practicable Date and none of the other convertible bond or options has been exercised/converted); and (c) immediately upon exercise of the Call Option or Put Option in full and full conversion of the Convertible Bonds at the initial Conversion Price (assuming there being no other change in the issued share capital and shareholding structure of the Company since the Latest Practicable Date and none of the other convertible bonds or options has been exercised/converted):

Shareholder	As at the Latest Practicable Date		Immediately upon full conversion of the Convertible Bonds		Immediately upon exercise of the Call Option or Put Option in full and full conversion of the Convertible Bonds	
	% of the issued share		% of the issued share		% of the issued share	
	No. of Shares	capital of the Company	No. of Shares	capital of the Company	No. of Shares	capital of the Company
Directors						
Dai Xiaobing (Note 3)	1,381,245,000	7.99%	1,381,245,000	6.23%	6,260,955,144	28.24%
King Hap Lee (Note 1)	200,010,000	1.16%	200,010,000	0.90%	200,010,000	0.90%
Wan Tze Fan Terence	33,660,000	0.19%	33,660,000	0.15%	33,660,000	0.15%
Huang Shaowu (Note 2)	1,983,730,000	11.47%	1,983,730,000	8.95%	1,983,730,000	8.95%
He Lin Feng	1,500,000,000	8.68%	1,500,000,000	6.77%	1,500,000,000	6.77%
Public Shareholders						
Bondholder	0	0%	4,879,710,144	22.01%	0	0%
Other public Shareholders	12,190,080,697	70.51%	12,190,080,697	54.99%	12,190,080,697	54.99%
Total:	17,288,725,697	100%	22,168,435,841	100%	22,168,435,841	100%

LETTER FROM THE BOARD

Notes:

1. 200,000,000 Shares are owned by Wai Tech Limited, a company wholly owned by Petromic Corporation which in turn is wholly and beneficially owned by Mr. King Hap Lee. In addition, Mr. King Hap Lee beneficially owns 10,000 Shares.
2. 1,883,730,000 shares are owned by Yuanjing International Limited, a company wholly and beneficially owned by Mr. Huang Shaowu. In addition, Mr. Huang Shaowu beneficially owns 100,000,000 Shares.
3. Immediately upon exercise of the Call Option or Put Option in full and full conversion of the Convertible Bonds, 4,879,710,144 Shares will be owned by SOGR, a company wholly and beneficially owned by Dr. Dai. In addition, Dr. Dai beneficially owns 1,381,245,000 Shares.

REASONS FOR THE ISSUANCE OF THE CONVERTIBLE BONDS AND USE OF PROCEEDS

The Directors (including the independent non-executive Directors) are of the view that the raising of funds by the issuance of the Convertible Bonds is fair and reasonable having considered the recent market conditions which represent an opportunity for the Company to enhance its working capital, strengthen its capital base and financial position and broaden the shareholder's base.

The Directors (including the independent non-executive Directors) consider the terms and conditions of the Subscription Agreement (including but not limited to the grant of Specific Mandate and taking into account the Put and Call Option Deed) to be fair and reasonable, on normal commercial terms and are in the best interests of the Company, as far as the Company and the Shareholders as a whole are concerned.

The gross proceeds from the issue of the Convertible Bonds will be approximately US\$130,000,000 (approximately HK\$1,010,100,000). The net proceeds from the issue of the Convertible Bonds, after deduction of all relevant costs and expenses, will be approximately US\$128,700,000 (approximately HK\$999,999,000), which will be used for the Sanjiao Project, including exploration, drilling, exploitation and production, as well as for general working capital requirements of the Group.

Based on the net proceeds from the Subscription of US\$128,700,000 (approximately HK\$999,999,000), the net subscription price per Conversion Share is approximately HK\$0.205.

INFORMATION ON THE SANJIAO PROJECT

Currently total of 92 wells, comprising 44 multilateral horizontal wells and 48 vertical wells, have been completed at the Sanjiao Project. Out of the total 92 wells, 68 wells were in the normal dewatering stage, of which 59 wells had access to gas collection pipeline network. A ground pipeline network of approximately 18 kilometers, inter-well pipelines of approximately 39 kilometers, outbound pipelines of approximately 17 kilometers and a total of approximately 55.5 kilometers of 10KV power grid and branch power line were completed. The Overall Development Plan for the Group's Sanjiao Project has been duly approved by the National Development and Reform Commission (NDRC) in the fourth quarter of 2015 and the Group has officially commenced the expansion of production capacity of Sanjiao Project in December 2015, targeting to build up an annual CBM production capacity of 300 million cubic meters by the end of 2017. It is estimated that 130 wells will be added by the end of 2018 and production capacity could be further increased. The works of which include large-scale drilling works, expansion of CBM processing stations, laying and improvement of pipelines for gas collection and transmission in the region and further expansion into new sales markets.

LETTER FROM THE BOARD

The Group plans to develop 100 multilateral horizontal wells and 30 vertical wells by the end of year 2018. It is estimated that capital expenditure for the Sanjiao Project attributable to the Group based on our interest in the Production Sharing Contract will amount to approximately RMB1,106 million for the three years ending 31 December 2018, in which drilling expenses amounting to approximately RMB871 million, dewatering expenses amounting to approximately RMB95 million and ground facility expenditure and other direct costs amounting to approximately RMB140 million.

Save as disclosed above, the Company does not have significant future commitments to the Sanjiao Project before 2019. The Company does not have any further funding plan for Sanjiao Project currently in view of the existing development plan as disclosed.

INFORMATION ON THE GROUP AND THE BONDHOLDER

The Company is an investment holding company. The Group is principally engaged in (i) exploration, development and production of coalbed methane, (ii) exploitation and sale of crude oil and natural gas and (iii) raw coal washing and sale of raw and cleaned coal in the PRC.

The Bondholder is a wholly-owned subsidiary of China Huarong International Holdings Limited.

SPECIFIC MANDATE

The Company will seek the approval of the Specific Mandate from the Independent Shareholders at the SGM to allot and issue the Conversion Shares. No application will be made by the Company to the Listing Committee for listing of the Convertible Bonds. Application will be made by the Company to the Listing Committee of the Stock Exchange for the grant of the listing of, and permission to deal in, the Conversion Shares.

Based on the initial Conversion Price of HK\$0.207 per Conversion Share and assuming full conversion of the Convertible Bonds at the initial Conversion Price under the Subscription Agreement, the Convertible Bonds will be convertible into 4,879,710,144 Conversion Shares, representing approximately 28.22% of the issued share capital of the Company as at the Latest Practicable Date and approximately 22.01% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares.

IMPLICATIONS UNDER THE LISTING RULES

SOGR is wholly-owned by Dr. Dai, an executive Director and a Shareholder. SOGR is therefore a connected person of the Company under the Listing Rules. As all of the Convertible Bonds to be issued to the Bondholder may be purchased by SOGR upon exercise of the Call Option or Put Option, the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the grant of Specific Mandate and taking into account the Put and Call Option Deed) may constitute a connected transaction for the Company which is subject to announcement, reporting and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

An Independent Board Committee has been established to advise the Independent Shareholders in respect of the terms of the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the grant of Specific Mandate and taking into account the Put and Call Option Deed) after taking into account of the advice of Optima Capital.

LETTER FROM THE BOARD

Optima Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the terms and conditions of the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the grant of Specific Mandate and taking into account the Put and Call Option Deed) and the manner of voting by the Independent Shareholders on the relevant resolutions at the SGM. The letter from Optima Capital is set out on pages 33 to 54 of this circular.

APPOINTMENT OF NON-EXECUTIVE DIRECTOR

Pursuant to the terms of the Subscription Agreement, completion of the Subscription is subject to, among others, the approval by the Independent Shareholders at the SGM for the appointment of Mr. Chen as non-executive Director.

The qualification and experience of Mr. Chen have been reviewed and approved by the nomination committee of the Company having taken into account Mr. Chen's experience in corporate financing. On the recommendation of the nomination committee of the Company, the Board shall put forward the relevant resolution regarding the appointment of Mr. Chen as non-executive Director effective on the date of completion of the Subscription for approval by the Independent Shareholders at the SGM.

The biography of Mr. Chen is set out below:

Mr. Chen Chun Tung Jason, aged 32, is currently responsible for direct investments at China Huarong International Holdings Ltd. He was previously a director in Corporate Finance Department responsible for leading origination and execution of corporate finance transactions and providing strategic advisory in Greater China at Standard Chartered Securities (Hong Kong) Ltd. from 2010 to 2015 and an associate at the Investment Banking Department of Citigroup Global Markets Asia Ltd. from 2006 to 2010. Mr. Chen holds a Bachelor of Science degree in Industrial Engineering Operations Research (cum laude) from Columbia University.

Save as disclosed above, Mr. Chen had not held any directorship in other public companies the securities which are listed on any securities market in Hong Kong or overseas in the last three years and he has no relationship with any Directors, senior management, substantial shareholders or controlling shareholders of the Company. As at the date of the Latest Practicable Date, Mr. Chen does not have, and is not deemed to have, any interests or short positions in any shares, underlying shares or debentures (as defined under Part XV of the Securities and Futures Ordinance, Cap.571 of the Laws of Hong Kong) of the Company.

Mr. Chen will enter into a service agreement with the Company commencing from the date of completion of the Subscription and will continue thereafter until terminated by not less than one month's notice in writing served by either party to the other. He will be subject to retirement by rotation and re-election pursuant to the Bye-laws of the Company and his appointment may be terminated with one month's notice in writing served by either party on the other.

Mr. Chen will be entitled to an annual remuneration which will be determined by the Company with reference to the duties and level of responsibilities, the remuneration policy of the Company and the working experience, skill, knowledge and involvement in the Company's affairs. The Company will publish an announcement once Mr. Chen's annual remuneration is determined.

LETTER FROM THE BOARD

Save as disclosed above, the Company is not aware of any other matters that need to be brought to the attention of the Shareholders. There is no other information regarding Mr. Chen which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules and there are no other matters relating to his appointment that need to be brought to the attention of the Shareholders.

THE SGM

The SGM will be held at Capital Conference Services Limited, Suite 2418, 24/F., Jardine House, 1 Connaught Place, Central, Hong Kong on 28 July 2016 at 3 p.m. for the Independent Shareholders to consider and, if thought fit, to approve, among other things, the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the grant of Specific Mandate and taking into account the Put and Call Option Deed), and the appointment of Mr. Chen as a non-executive Director.

As Dr. Dai is considered to be materially interested in the transaction contemplated under the Subscription Agreement and the Put and Call Option Deed, Dr. Dai and his associates are required to abstain from voting on the relevant resolutions at the SGM approving the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the grant of Specific Mandate and taking into account the Put and Option Deed), and the appointment of Mr. Chen as a non-executive Director. As at the Latest Practicable Date, apart from the holding of 1,381,245,000 Shares by Dr. Dai, neither Dr. Dai nor his associates holds any Shares. Save as disclosed above, no other Shareholder is required to abstain from voting at the SGM.

In compliance with the Listing Rules, the resolutions will be voted by way of poll at the SGM.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Ltd., at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event 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 or any adjournment thereof should you so wish, and in such case, the form of proxy previously submitted shall be deemed to be revoked.

RECOMMENDATION

Having considered the above-mentioned benefits to the Group and the advice of Optima Capital, the Directors (including the independent non-executive Directors) consider that the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the grant of Specific Mandate and taking into account the Put and Call Option Deed), and the appointment of Mr. Chen as a non-executive Director are on normal commercial terms and the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the grant of Specific Mandate and taking into account the Put and Call Option Deed), and the appointment of Mr. Chen as a non-executive Director as a whole are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the grant of Specific Mandate and taking into account the Put and Call Option Deed), and the appointment of Mr. Chen as a non-executive Director.

Your attention is drawn to the letter from the Independent Board Committee set out on page 32 of this circular and the letter from Optima Capital set out on pages 33 to 54 of this circular, which contains, among other matters, its advice to the Independent Board Committee and the Independent Shareholders in connection with the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the grant of Specific Mandate and taking into account the Put and Call Option Deed), and the principal factors considered by it in arriving at its recommendation.

ADDITIONAL INFORMATION

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

Yours faithfully,
By order of the Board
Sino Oil and Gas Holdings Limited
Dai Xiaobing
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the grant of Specific Mandate and taking into account the Put and Call Option Deed):



中國油氣控股有限公司
SINO OIL AND GAS HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)
(Stock Code: 702)

To the Independent Shareholders

Dear Sir or Madam,

(1) ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE
(2) POSSIBLE CONNECTED TRANSACTION UNDER PUT AND CALL OPTION

We refer to the circular dated 12 July 2016 (the “**Circular**”) to the shareholders of the Company of which this letter forms part. Unless otherwise specified, terms defined in the Circular shall have the same meanings in this letter.

As the independent non-executive Directors who are independent of the parties to the Subscription Agreement, the Put and Call Option Deed and the transactions contemplated thereunder, we have been appointed to form this Independent Board Committee to advise you as to whether, in our opinion, the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the grant of Specific Mandate and taking into account the Put and Call Option Deed) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Optima Capital has been appointed as the independent financial adviser to advise this Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the respective terms of the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the grant of Specific Mandate and taking into account the Put and Call Option Deed).

We wish to draw your attention to the letter from the Board, as set out on pages 7 to 31 of the Circular, and the letter of advice from Optima Capital, as set out on pages 33 to 54 of the Circular, both of which provide details of the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the grant of Specific Mandate and taking into account the Put and Call Option Deed).

Having considered the advice rendered by Optima Capital and the principal factors and reasons taken into consideration by it in arriving at its advice, we are of the opinion that the terms of the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the grant of Specific Mandate and taking into account the Put and Call Option Deed) are on normal commercial term and fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution which will be proposed at the SGM to approve the terms of the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the grant of Specific Mandate and taking into account the Put and Call Option Deed).

Yours faithfully,
For and on behalf of

Independent Board Committee

Mr. Wong Kwok Chuen
Peter
Independent
non-executive Director

Professor Wong Lung
Tak Patrick
Independent
non-executive Director

Dr. Wang Yanbin
Independent
non-executive Director

Dr. Dang Weihua
Independent
non-executive Director

LETTER FROM OPTIMA CAPITAL

The following is the text of a letter of advice from Optima Capital to the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the grant of Specific Mandate and taking into account the Put and Call Option Deed) which has been prepared for the purpose of incorporation in this circular.



Suite 1501, 15th Floor,
Jardine House
1 Connaught Place
Central
Hong Kong

12 July 2016

*To: the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

**(1) ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE
AND
(2) POSSIBLE CONNECTED TRANSACTION
UNDER PUT AND CALL OPTION**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder (taking into account the Put and Call Option Deed). Details of the Subscription Agreement, the Put and Call Option Deed and the transactions contemplated thereunder are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 12 July 2016 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise specified.

On 31 May 2016, the Company and SOGR separately entered into the Subscription Agreement and the Put and Call Option Deed with the Bondholder. Pursuant to the Subscription Agreement, the Bondholder has conditionally agreed to subscribe in cash for the Convertible Bonds in an aggregate principal amount of US\$130,000,000 (equivalent to approximately HK\$1,010,100,000). It is a condition precedent to completion of the Subscription that Mr. Chen is appointed as the director of each of Orion Energy and Power Great and the Independent Shareholders approve the appointment of Mr. Chen as a non-executive Director. Pursuant to the Put and Call Option Deed, the Bondholder grants to SOGR an irrevocable and unconditional right (but without obligation) to purchase some or all of the Convertible Bonds at the Call Option Purchase Price during the Call Option Period, and SOGR grants to the Bondholder an irrevocable and unconditional right (but without obligation) to require SOGR to purchase some or all of the Convertible Bonds at the Put Option Purchase Price during the Put Option Period.

LETTER FROM OPTIMA CAPITAL

SOGGR is a connected person of the Company by virtue of it being wholly owned by Dr. Dai, the Chairman of the Company and an executive Director. As all of the Convertible Bonds to be issued to the Bondholder may be purchased by SOGR upon exercise of the Call Option or Put Option pursuant to the Put and Call Option Deed, the Subscription Agreement and the transactions contemplated thereunder (taking into account the Put and Call Option Deed) may constitute a connected transaction for the Company which is subject to, among other things, the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will seek the Independent Shareholders' approval of the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the grant of the Specific Mandate) and the appointment of Mr. Chen as a non-executive Director at the SGM. Dr. Dai and his associates are required to abstain from voting on the relevant resolutions at the SGM. As at the Latest Practicable Date, apart from the holding of 1,381,245,000 Shares by Dr. Dai, none of his associates held any Shares. Save as disclosed above, no other Shareholder is required to abstain from voting at the SGM.

The Independent Board Committee, comprising Mr. Wong Kwok Chuen Peter, Professor Wong Lung Tak Patrick, Dr. Wang Yanbin and Dr. Dang Weihua, each being an independent non-executive Director, has been established to advise the Independent Shareholders as to whether the terms of the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the grant of the Specific Mandate and taking into account the Put and Call Option Deed) are fair and reasonable so far as the Independent Shareholders are concerned, on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, and to give a recommendation to the Independent Shareholders in respect of the voting on the resolutions to be proposed at the SGM. We, Optima Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

As at the Latest Practicable Date, neither Optima Capital nor persons stipulated under Rule 13.84(4) of the Listing Rules had any current business relationship with the Company, parties to the Subscription Agreement and the Put and Call Option Deed, or a director, subsidiary, holding company or substantial shareholder of the Company or parties to the Subscription Agreement and the Put and Call Option Deed, which would be reasonably considered to affect our independence in performing the duties as set out in the Listing Rules, or might reasonably give rise to a perception that our independence would be so affected.

LETTER FROM OPTIMA CAPITAL

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company (together, the “**Management**”) and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material respects at the time they were made and up to the date of the SGM. We have assumed that all the opinions or representations of the Management have been reasonably made after due and careful enquiry. We have also sought and received confirmation from the Management that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information have been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs and taxation implications of the Group, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the grant of Specific Mandate and taking into account the Put and Call Option Deed) are fair and reasonable so far as the Independent Shareholders are concerned, on normal commercial terms, and are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, we have taken into account the principal factors and reasons set out below.

1. Information of the Group, the Bondholder and SOGR

(a) *Principal business of the Group*

The Company is an investment holding company. The Group is principally engaged in (i) exploration, development and production of coalbed methane (the “**CBM**”); (ii) exploitation and sale of crude oil and natural gas; and (iii) raw coal washing and sale of raw and cleaned coal in the PRC.

According to the 2015 annual report of the Company, the Sanjiao Project is a core asset of the Group. It has been nominated by the Shanxi Government as one of the key development projects in Shanxi Province for three consecutive years from 2014 to 2016. The Sanjiao Project is one of the largest sino-foreign CBM cooperation projects in the PRC. Orion Energy, a wholly-owned subsidiary of the Company since 2010, entered into a production sharing contract (“**PSC**”) with China National Petroleum Corporation (“**Petro China**”) in 2006 in respect of the Sanjiao Project for exploration, exploitation and production at a CBM field covering a block in the Ordos Basin in Shanxi and Shaanxi provinces, with a total site area of 383 square kilometres. The Group has a 70% interest in the PSC.

The Sanjiao Project commenced trial production since 2012 after its overall development plan (the “**ODP**”) was granted a reply by the National Energy Administration under the National Development and Reform Commission (the “**NDRC**”) of the PRC. In November 2015, the ODP of the Sanjiao Project was duly approved by the NDRC and the project has since then stepped into large scale development stage. The Sanjiao Project has a term of 30 years, with production period of not more than 20 years starting from the date of commencement of commercial production to the expiry date of the production period as specified in the ODP.

LETTER FROM OPTIMA CAPITAL

As at the Latest Practicable Date, a total of 92 wells, comprising 44 multilateral horizontal wells and 48 vertical wells, have been completed at the Sanjiao Project. Out of the total 92 wells, 68 wells were in the normal dewatering stage, of which 59 wells had access to gas collection pipeline network. A ground pipeline network of approximately 18 kilometers, inter-well pipelines of approximately 39 kilometers, outbound pipelines of approximately 17 kilometers and a total of approximately 55.5 kilometers of 10KV power grid and branch power line were completed. The Group will continue to explore and develop the Sanjiao Project based on the latest business plan prepared by the Company and target to ramp up a CBM production capacity of 300 million cubic meters by the end of 2017. It is estimated that 130 wells will be added by the end of 2018.

Apart from the Sanjiao Project, the Group is also engaged in the business of exploitation and sale of crude oil through its interest in three oilfields in Liuluoyu, Yanjiawan and Jinzhuang in the Ordos Basin, Shaanxi Province. Since the acquisitions of Liuluoyu and Yanjiawan oil exploitation projects in 2009 and the entering into of the operation agreement in relation to Jinzhuang oilfield in 2010, the Group's oil and natural gas exploitation segment generated negative results continuously. After considering the higher expected return from the Sanjiao Project, the Group decided to focus its resources on the development of the Sanjiao Project and delayed the development of the oil fields since 2013. Further, due to the significant decline in oil price since 2014, the margin for the crude oil business was squeezed, leading to a further decrease in overall returns from crude oil production. As disclosed in the 2015 annual report, the segment results of oil and natural gas exploitation business of the Group recorded a loss of approximately HK\$7.3 million and approximately HK\$8.2 million for the financial years ended 31 December 2014 and 2015 respectively. With the ODP approval obtained for the Sanjiao Project in November 2015, the Group has decided to suspend any further investment to the oilfields so as to concentrate its resources for the development of the Sanjiao Project.

The major strategic deployment of the Group for the medium-to-long term is to push forward project expansion for the Sanjiao Project steadily and tap into more CBM markets. To this end, the Group has been actively seeking to diversify the business model and identify cooperation projects with a view to effectively consolidating the potential blocks in the surrounding area and expanding the CBM market. In May 2015, the Group expanded its business into raw coal washing and sale of raw and cleaned coal by acquiring a 75% equity interest in Golden Glow Holdings Limited which indirectly owns a raw coal washing project company located in Qinshui Basin, Shanxi Province. The raw coal washing project company has a 10-year guaranteed supply agreement with an adjacent coal mine and the vendor has irrevocably guaranteed a net profit after tax per annum of the project company of no less than RMB30 million for each of the first six years after the completion date. Since the official launch of the project in July 2015, it has entered into stable production phase and gradually developed sales channels. The Group expects this project will bring a steady income and cash flow to the Group. Through the co-operation with local coal enterprises, the Group gained further understanding of the local geological environment in Qinshui Basin. In January 2016, the Company entered into a non-legally binding strategic cooperation framework agreement with 山西古縣蘭花寶欣煤業有限公司 (Shanxi Guxian Lanhua Baoxin Coal Company Limited*) ("**Lanhua Baoxin**"), pursuant to which the Company and Lanhua Baoxin intend to establish a project management team for the development of CBM projects located in the coal mine block of Lanhua Baoxin Qinshui Basin and eastern edge of Ordos Basin. The entering

LETTER FROM OPTIMA CAPITAL

into of the aforesaid framework agreement with Lanhua Baoxin has marked the Group's official entrance into the CBM market in Qinshui Basin, which is expected to provide new momentum for the CBM business of the Group.

(b) Information of the Bondholder

Crescent Spring Investment Holdings Limited, the Bondholder, is an investment holding company. It is a wholly-owned subsidiary of China Huarong International Holdings Limited, which is in turn indirectly wholly owned by China Huarong Asset Management Co., Ltd. ("**China Huarong**"), a joint stock company incorporated in the PRC with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 2799). According to information on the website of China Huarong, China Huarong is a state-owned non-banking financial institution co-sponsored by the Ministry of Finance and China Life Insurance (Group) Company. China Huarong was previously known as China Huarong Asset Management Corporation, which was established as one of China's four leading financial asset management companies. As disclosed in the annual report of China Huarong for the year ended 31 December 2015, China Huarong held assets of approximately RMB866.5 billion as at 31 December 2015. It provides multi-licensed, multi-functional and comprehensive financial services in areas such as distressed asset management, asset management, banking, securities, trust, financial leasing, investment and futures.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the Bondholder and its ultimate beneficial owners are Independent Third Parties.

(c) Information of SOGR

SOGR is wholly and beneficially owned by Dr. Dai, the Chairman of the Company and an executive Director, and is therefore a connected person of the Company.

LETTER FROM OPTIMA CAPITAL

2. Financial information of the Group

(a) Financial performance

The following table sets forth the audited consolidated profit and loss account of the Group for each of the financial years ended 31 December 2013 (the “FY 2013”), 2014 (the “FY 2014”) and 2015 (the “FY 2015”) respectively, as extracted from the annual reports of the Company:

	For the year ended 31 December		
	2013	2014	2015
	HK\$'000	HK\$'000	HK\$'000
Turnover	21,598	16,540	67,021
Direct costs	(25,397)	(19,739)	(63,358)
Gross (loss)/profit	(3,799)	(3,199)	3,663
Other revenue	42,472	76,385	95,327
Other losses, net	(25,836)	(1,126)	(410,104)
Administrative expenses	(70,469)	(62,101)	(149,735)
(Loss)/profit from operations	(57,632)	9,959	(460,849)
Finance costs	(25)	(329)	(6,008)
Share of loss of joint venture/associate	(855)	(911)	(1,790)
(Loss)/profit before income tax expense	(58,512)	8,719	(468,647)
Income tax (expense)/credit	(2,820)	1,701	(9,064)
(Loss)/profit for the year	(61,332)	10,420	(477,711)

During FY 2013, the Group recorded a turnover of approximately HK\$21.6 million, which represented revenue derived from oil and natural gas exploitation operations in Shaanxi Province. Due to the high costs incurred during the production of crude oil, including fixed overheads such as depreciation and amortisation, the Group incurred a gross loss of approximately HK\$3.8 million. The Group’s net loss for FY 2013 amounted to approximately HK\$61.3 million, which mainly comprised (i) the aforesaid gross loss from oil and natural gas exploitation operations; (ii) the loss on extinguishment of financial liabilities of approximately HK\$25.2 million in respect of the new Shares issued in November 2013 to settle a sum payable for well-drilling and related services; and (iii) administrative expenses of approximately HK\$70.5 million, partially offset by the sales of CBM of approximately HK\$38.9 million recognised as other revenue during the trial production period of the Sanjiao Project.

LETTER FROM OPTIMA CAPITAL

The Group's turnover for FY 2014 decreased by approximately 23.4% to approximately HK\$16.5 million as compared to FY 2013. The decline was mainly attributable to the decrease in crude oil output from approximately 6,100 tonnes for FY 2013 to approximately 4,657 tonnes for FY 2014 as a result of the reallocation of resources of the Group to focus on the development of the Sanjiao Project. A gross loss of approximately HK\$3.2 million was recorded which was mainly attributable to the oil and natural gas exploitation business. Despite the gross loss, the Group recorded a net profit of approximately HK\$10.4 million as compared to net loss of approximately HK\$61.3 million in FY 2013. The turnaround was mainly resulted from (i) the significant increase in trial sales of CBM together with related government subsidies to approximately HK\$70.2 million which were accounted for as other revenue in the consolidated profit and loss account of the Group; (ii) the absence of one-off expenses in FY 2014 in relation to the loss on extinguishment of financial liabilities in FY 2013; and (iii) an approximately HK\$8.4 million (or approximately 11.9%) reduction in administrative expenses from the enhanced internal cost control measures of the Group.

Turnover of the Group for FY 2015 represented sales from (i) oil and natural gas exploitation operations; (ii) CBM; and (iii) raw and cleaned coal. The significant increase in turnover by approximately 305.2% to approximately HK\$67.0 million in FY 2015 was attributable to (i) sales derived from a newly acquired raw coal washing project located in Qinshui Basin, Shanxi Province during FY 2015, which contributed revenue of approximately HK\$47.9 million in FY 2015; and (ii) the recognition of sales of CBM since December 2015 as turnover of the Group after the ODP was approved by the NDRC and the project has stepped into large scale development stage. Taking into account the sales of CBM recognised as other revenue during January to November in FY 2015 before the ODP was approved, the total CBM sales during FY 2015 amounted to approximately HK\$87.2 million, which has increased by approximately 37.5% as compared to approximately HK\$63.4 million in FY 2014. Despite the growth in revenue and gross profit of the Group during FY 2015, the Group recorded a net loss of approximately HK\$477.7 million, which was mainly attributable to the asset impairment of approximately HK\$413.6 million in respect of the oilfields of the Group located in Shaanxi Province and the equity-settled share-based payment expenses of approximately HK\$77.5 million incurred due to the grant of share options under the Company's share option scheme.

LETTER FROM OPTIMA CAPITAL

(b) Financial position

A summary of the audited financial position of the Group as at 31 December 2014 and 2015 respectively, as extracted from the annual reports of the Company, is set out below:

	As at 31 December	
	2014	2015
	<i>HK\$'million</i>	<i>HK\$'million</i>
Property, plant and equipment	226	1,700
Gas exploration and evaluation assets	3,749	–
Intangible assets	228	2,341
Other non-current assets	85	211
	<hr/>	<hr/>
	4,288	4,252
	<hr/>	<hr/>
Trade, notes and other receivables, deposits and prepayments	296	289
Cash and cash equivalents	19	36
Short-term investment	80	77
Other payables and accruals	(160)	(238)
Borrowings classified as current liabilities	(125)	(186)
Convertible notes classified as current liabilities	–	(192)
Other current assets	16	12
Other current liabilities	(4)	(7)
	<hr/>	<hr/>
Net current assets/(liabilities)	122	(209)
	<hr/>	<hr/>
Total assets less current liabilities	4,410	4,043
Borrowings classified as non-current liabilities	(187)	(416)
Convertible notes classified as non-current liabilities	(161)	(93)
Other non-current liabilities	(8)	(31)
	<hr/>	<hr/>
Net assets	<u>4,054</u>	<u>3,503</u>

As at 31 December 2015, the Group had total assets of approximately HK\$4,665.7 million, comprising non-current assets of approximately HK\$4,251.7 million and current assets of approximately HK\$414.0 million.

LETTER FROM OPTIMA CAPITAL

The non-current assets of the Group included (i) property, plant and equipment of approximately HK\$1,699.7 million; (ii) intangible assets of approximately HK\$2,341.4 million; and (iii) other non-current assets of approximately HK\$210.6 million relating to the oilfield exploration business and the Sanjiao Project. As the approval of ODP has been obtained for the Sanjiao Project, the gas exploration and evaluation assets recorded in the balance sheet as at 31 December 2014 were reclassified to intangible assets, property, plant and equipment and other non-current assets of the Group respectively during FY 2015. As explained in the paragraph headed “Financial performance” above, an impairment of approximately HK\$413.6 million (comprising impairment on property, plant and equipment of approximately HK\$204.6 million and impairment on intangible assets of approximately HK\$209.0 million) was made in respect of the oilfields of the Group during FY 2015. Taking into account the aforesaid impairment and expenditures capitalised for the Sanjiao Project of approximately HK\$275.0 million during FY 2015, the total non-current assets of the Group as at 31 December 2015 reduced slightly as compared to that as at 31 December 2014.

The current assets of the Group as at 31 December 2015 mainly included (i) trade, notes and other receivables, deposits and prepayments of approximately HK\$289.1 million; (ii) cash and cash equivalents of approximately HK\$35.6 million; and (iii) short-term investment of approximately HK\$76.7 million. The trade, notes and other receivables, deposits and prepayments mainly represented the deposit of approximately HK\$223.9 million paid for possible acquisition of Canada oil fields (the “**Acquisition**”) as disclosed in the announcements of the Company dated 30 June 2014, 1 September 2014, 28 November 2014, 30 April 2015 and 31 December 2015. As advised by the Management, the Group is conducting due diligence review on the resources and financial aspect of the target groups in relation to the Acquisition.

As at 31 December 2015, the Group had total liabilities of approximately HK\$1,162.4 million, comprising non-current liabilities of approximately HK\$539.6 million and current liabilities of approximately HK\$622.8 million. The non-current liabilities of the Group mainly included (i) borrowings of approximately HK\$416.4 million; and (ii) convertible notes of approximately HK\$93.2 million. The current liabilities of the Group mainly included (i) other payables and accruals of approximately HK\$237.6 million; (ii) borrowings of approximately HK\$186.2 million; and (iii) convertible notes of approximately HK\$192.0 million. The other payables and accruals mainly represented the exploration costs payable of approximately HK\$172.6 million in respect of gas exploration and evaluation assets and oil and gas properties.

Subsequent to 31 December 2015, the Company issued convertible bond with aggregate principal amount of HK\$200 million in February 2016, drawn additional bank loan of approximately HK\$192 million in February 2016 and issued corporate bonds of HK\$59 million between March and May 2016 to finance the general working capital of the Group. In May 2016, the Company issued another convertible bond with an aggregate principal of HK\$160 million, the net proceeds of which are intended to be used to finance the working capital of the Sanjiao Project and repayment of certain financial obligations of the Group.

During the five months ended 31 May 2016, the Company has repaid certain borrowings in the aggregate amount of approximately HK\$97 million, redeemed promissory note of approximately HK\$102 million; and settled convertible bond in the principal amount of HK\$150 million at its maturity date in April 2016.

LETTER FROM OPTIMA CAPITAL

As at 31 May 2016, the aggregate principal amount of debts due to Independent Third Parties amounted to approximately HK\$1,154.6 million. The key terms of these outstanding debts are set forth in the following table:

Debts	Outstanding principal amount as at 31 May 2016 (unaudited) HK\$'000	Maturity date	Interest rate per annum	Effective interest rate per annum (Note)	Conversion price per conversion share HK\$
Secured borrowings due to China Development Bank Financial Leasing Co., Ltd (formerly known as CDB Leasing Co., Ltd) ("CDB Leasing")	374,850	Repayable by quarterly instalments between 2016 and 2020	7.75%	7.75%	Not applicable
Corporate bonds issued to Independent Third Parties	319,700	2022 to 2023	6% to 7%	6% to 7%	Not applicable
Convertible bonds due 2017	100,000	2017	8%	12%	0.207
Convertible bonds due 2018	360,000	2018	8%	12%	0.207
Total debts	<u>1,154,550</u>				

Note: The effective interest rate represents the overall yield of annual return of debts. Under the instruments of the convertible bonds issued by the Company dated 19 June 2015 (as amended and supplemented by a supplemental deed on 5 April 2016), 1 February 2016 and 26 May 2016 respectively, a yield of annual return of 12% per annum is required under the redemption clause for the convertible bonds, assuming the principal amount of the convertible bonds are outstanding in full for redemption on maturity date.

Based on the repayment schedule of the debts outstanding as at 31 May 2016, the Group estimated that the repayment of debts (including interests expenses), which are due by 31 December 2016 and 31 December 2017, amounts to approximately HK\$153.9 million and HK\$296.9 million in aggregate respectively. The aggregate amount of approximately HK\$153.9 million due by 31 December 2016 comprises (i) principal and interest on the secured borrowings from CDB Leasing of approximately HK\$110.9 million; (ii) interest on corporate bonds of approximately HK\$20.6 million; and (iii) interest on convertible bonds issued of approximately HK\$22.4 million. The aggregate amount of approximately HK\$296.9 million due by 31 December 2017 comprises (i) principal and interest on the secured borrowings from CDB Leasing of approximately HK\$134.3 million; (ii) interest on corporate bonds of approximately HK\$21.8 million; and (iii) principal and interest on convertible bonds of approximately HK\$140.8 million. Taking into account the payment obligations of debts as described above, the capital required for the ongoing development of the Sanjiao Project and the unaudited cash and cash equivalents balance of approximately HK\$141 million as at 31 May 2016, the Directors consider that it is necessary to raise additional capital to fund the business development of the Group as well as to meet its financial obligations and improve the cash flow position of the Group.

3. Background of and reasons for the issue of the Convertible Bonds

As disclosed in the section headed “Financial information of the Group” above, due to the continuous drop in oil price and the substantial fixed cost incurred, the overall return of the Group’s crude oil business gradually declined and recorded gross loss. In view of this, the Group decided to focus on its core business of exploration, exploitation and production activities of the Sanjiao Project. With the acceleration of the energy reform in China towards the establishment of a modern energy system using clean-and-low-carbon, safe and efficient energy under the “13th Five-Year Plan” of the Chinese Government, the Management foresees that natural gas will become the major energy source used in the country and its consumption by the market will increase.

For FY 2015, the total production and total sales of CBM of the Sanjiao Project were approximately 59.3 million cubic meters and approximately HK\$87.2 million respectively. The Group is currently using three CBM pipelines as its major sales channels, which are connected to (i) Linxian City for residential, commercial and industrial use; (ii) Senze Coal & Aluminium Group, a local coal processor and aluminium manufacturer; and (iii) Lvliang (for gas supply to Xiaoyi and central Shanxi). As advised by the Management, the maximum annual gas transmission capacity of these three pipelines of 1,050 million cubic meters can fully support the transmission of all CBM produced under the Sanjiao Project, which is expected to reach 300 million cubic meters in 2017. The Management expects that the market for CBM for residential, industrial and commercial uses in the Sanjiao block and its surrounding areas will expand along with the geographical coverage of these pipelines. The Group will also explore other sales channels through transmission to other pipelines constructed and invested by third parties located around the Sanjiao block. In light of the above, we concur with the Directors’ view that the Sanjiao Project may generate better return to the Group than the crude oil business and that the reallocation of resources to develop the Sanjiao Project is in the interests of the Company and its Shareholders as a whole.

For the two years ended 31 December 2014 and 2015, the total expenditures capitalised for the Sanjiao Project were approximately HK\$180.0 million and HK\$275.0 million respectively, which were mainly incurred for drilling, ground facility, dewatering and other direct expenses incidental to exploration and development of the Sanjiao Project. As discussed with the Management and based on the latest business plan of the Sanjiao Project prepared by the Company, the Group plans to develop 100 multilateral horizontal wells and 30 vertical wells by the end of year 2018. It is estimated that capital expenditures for the Sanjiao Project attributable to the Group based on its interest in the PSC will amount to approximately RMB1,106 million for the three years ending 31 December 2018, which will comprise drilling expenses of approximately RMB871 million, dewatering expenses of approximately RMB95 million and ground facility and other direct costs of approximately RMB140 million. The estimated construction costs for each well and the estimated annual capital expenditures are determined with reference to the historical costs incurred for the Sanjiao Project after taking into account inflation, improved efficiency in the construction work and lower construction cost per well due to economies of scale.

LETTER FROM OPTIMA CAPITAL

The net proceeds from the issue of the Convertible Bonds, after deducting all relevant costs and expenses, are expected to be approximately US\$128,700,000 (equivalent to approximately HK\$999,999,000), and will be used for the Sanjiao Project, including exploration, drilling, exploitation and production, as well as for general working capital requirements of the Group. Having considered the Group's development plan relating to the Sanjiao Project and the financial position of the Group as described under the section headed "Financial information of the Group" above, we concur with the Director's view that the issue of the Convertible Bonds will provide the necessary funding for the Group to carry out its business plan for the Sanjiao Project which is in the interests of the Company and the Shareholders as a whole.

4. Principal terms of the Subscription Agreement

Pursuant to the Subscription Agreement, the Bondholder has conditionally agreed to subscribe in cash for the Convertible Bonds in the aggregate principal amount of US\$130,000,000. The principal terms of the Subscription Agreement are set out in the letter from the Board contained in the Circular. In assessing whether the terms of the Subscription Agreement are fair and reasonable, we have reviewed the principal terms of the Subscription Agreement as discussed below:

(a) *Conditions precedent*

We note that completion of the Subscription Agreement is subject to a number of conditions precedent. In particular, completion of the Subscription is subject to the approval by the Independent Shareholders of the appointment of Mr. Chen as a non-executive Director and the release of the Company's interest in Orion Energy and Power Great from the security charged to CDB Leasing. The Convertible Bonds would effectively replace the existing facility from CDB Leasing unless the Company is able to provide other securities acceptable to CDB Leasing in place of the share charges.

(b) *Undertakings*

We note that the Subscription Agreement contains provisions whereby the Company undertakes to the Bondholder that so long as the obligations and liabilities of the Company to the Bondholder under the Transaction Documents have not been unconditionally and irrevocably paid and discharged in full, it will, among other things, (i) continue to be interested in 100% of the entire issued share capital of Power Great and Power Great is interested in 100% of the entire issued share capital of Orion Energy; (ii) maintain the Collateral Ratio at not more than 1:2; and (iii) procure each of Orion Energy, Power Great and their subsidiaries not to enter into contract, liability or commitment which would involve expenditure that exceeds HK\$10 million unless with the prior consent of the director of Orion Energy and Power Great nominated by the Bondholder (i.e. Mr. Chen).

We are of the view that the above conditions precedent and undertakings to be normal commercial terms taking into account the following factors: (i) the substantial principal amount of the Convertible Bonds to be issued; (ii) the proceeds from the Subscription are intended to be used principally for the development of the Sanjiao Project; (iii) Orion Energy is the operating entity under the PSC for the Sanjiao Project; (iv) the appointment of Mr. Chen as a non-executive Director and the requirement to obtain prior consent of Mr. Chen for any expenditures of Orion Energy, Power Great and their

LETTER FROM OPTIMA CAPITAL

subsidiaries exceeding HK\$10 million provide the Bondholder a mechanism to monitor the use of proceeds from the Subscription and the repayment ability of the Company of its obligations under the Convertible Bonds; and (v) the undertaking to maintain financial covenants and/or loan to collateral ratio is a common requirement in commercial lendings to enable the lenders to monitor their credit risks. Requirements similar to the Collateral Ratio are included in the terms of existing bank borrowings of the Group and the convertible bonds recently issued by the Company, such as provision of collaterals with sufficient value and/or maintaining the gearing ratio of the Group at a level not exceeding 50%.

5. Principal terms of the Convertible Bonds

The principal terms of the Convertibles Bonds are set out in the letter from the Board contained in this Circular. In assessing whether the terms of the Convertible Bonds are fair and reasonable, we have reviewed the principal terms of the Convertible Bonds as discussed below:

(a) Conversion Price

Under the terms of the Convertible Bonds, the Bondholder shall have the right to convert the whole or part of the principal amount of the Convertible Bonds into Conversion Shares at the Conversion Price at any time commencing from and including the date from the Issue Date up to the close of business on the Maturity Date.

The initial Conversion Price is HK\$0.207 per Conversion Share, subject to anti-dilution adjustments in the manner provided in the terms and conditions of the Bond Instrument (details of which are disclosed in the section headed “Principal terms of the Convertible Bonds” in the letter from the Board). We have reviewed the adjustment clause in the Bond Instrument including the triggering events and the adjustment mechanisms, and consider such adjustment clauses to be similar to those anti-dilution adjustments for convertible bonds issued by the Company to Independent Third Parties during the past six months immediately prior to the date of the Subscription Agreement and other convertible debt securities of this type in the market.

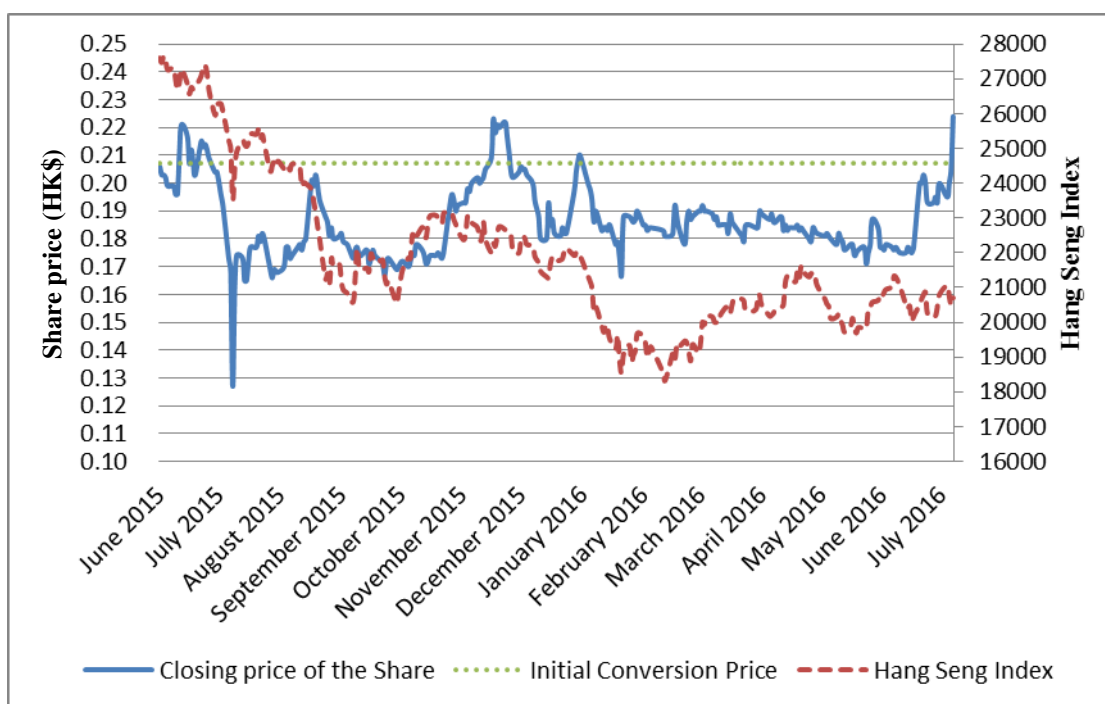
As stated in the letter from the Board, the Conversion Price was determined after arm’s length negotiations between the Company and the Bondholder with reference to the prevailing market price of the Shares. The initial Conversion Price represents:

- (i) a premium of approximately 16.9% over the closing price of HK\$0.177 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 15.0% over the average of the closing prices as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the Last Trading Day of approximately HK\$0.180 per Share;
- (iii) a premium of approximately 16.9% over the average of the closing prices as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the Last Trading Day of approximately HK\$0.177 per Share;

LETTER FROM OPTIMA CAPITAL

- (iv) a discount of approximately 7.6% to the closing price of HK\$0.224 per Share as quoted on the Stock Exchange as at the Latest Practicable Date; and
- (v) a premium of approximately 2.5% over the audited consolidated equity attributable to the Shareholders of approximately HK\$0.202 per Share (based on the audited equity attributable to the Shareholders of approximately HK\$3,488.6 million as at 31 December 2015 and 17,288,725,697 Shares in issue as at the Latest Practicable Date).

In assessing the reasonableness and fairness of the initial Conversion Price, we have reviewed the historical price performance of the Shares. The chart below illustrates the daily closing price of the Shares as quoted on the Stock Exchange from 1 June 2015 to the Last Trading Day, being the 12-month period prior to and up to the date of the Subscription Agreement (the “**Review Period**”), and up to and including the Latest Practicable Date. We consider the length of the Review Period is sufficient to provide an overview of the recent price performance of the Shares.



Source: Bloomberg

During the Review Period, the closing prices of the Shares ranged from HK\$0.127 per Share recorded on 8 July 2015 to HK\$0.223 per Share recorded on 17 November 2015. As confirmed by the Management, they are not aware of any specific reasons for the fluctuation of the performance of the Shares during the Review Period, but note that the fluctuation is in general in line with the performance of the Hang Seng Index. The initial Conversion Price of HK\$0.207 per Conversion Share represents a premium of approximately 63.0% over the lowest daily closing price per Share, and a discount of approximately 7.2% to the highest daily closing price per Share during the Review Period. It is higher than the daily closing prices during most of the Review Period, representing a premium of approximately 11.3% over the average closing price of approximately HK\$0.186 per Share during the Review Period.

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We have further reviewed the trading liquidity of the Shares during the Review Period. The table below sets out the trading volume of the Shares on the Stock Exchange during the Review Period and up to and including the Latest Practicable Date.

Month	Average daily trading volume of the Shares (number of Shares)	Average daily trading volume as a percentage of the total number of issued Shares as at the Latest Practicable Date
<i>2015</i>		
June	76,448,873	0.44%
July	51,021,514	0.30%
August	39,209,183	0.23%
September	10,418,881	0.06%
October	17,019,000	0.10%
November	55,984,532	0.32%
December	24,795,854	0.14%
<i>2016</i>		
January	17,294,348	0.10%
February	20,341,278	0.12%
March	17,200,569	0.10%
April	19,301,866	0.11%
May	31,321,758	0.18%
June	61,637,015	0.36%
July (up to the Latest Practicable Date)	71,130,000	0.41%

Source: Bloomberg and official website of the Stock Exchange

During the Review Period, the trading liquidity of the Company remained low. The average daily trading volume of the Shares in each month ranged from approximately 10,418,881 Shares in September 2015 to approximately 76,448,873 Shares in June 2015, representing approximately 0.06% and 0.44% of the total number of issued Shares respectively as at the Latest Practicable Date. It may be difficult for the Company to pursue sizeable equity financing alternatives in the stock market given the thin liquidity of the Shares.

(b) Coupon rate and redemption premium

The Convertible Bonds shall bear interest from and including the Issue Date to the Maturity Date at the rate of 8% per annum. The Company will redeem all the Convertible Bonds on the Maturity Date at such amount that would make up an aggregate internal return rate of 12% per annum on the Convertible Bonds calculated from the Issue Date to (and including) the later of the actual date of payment and the Maturity Date unless previously redeemed, converted, purchased or cancelled. Assuming the entire principal amount of the Convertible Bonds remains outstanding on the Maturity Date and taking into account the redemption clause on Maturity Date, the effective interest rate of the Convertible Bonds is 12% per annum.

LETTER FROM OPTIMA CAPITAL

In assessing the reasonableness of the interest rate of the Convertible Bonds, we have compared the interest rate of the Convertible Bonds against the existing borrowing costs of the Group. We note that all the outstanding convertible bonds as at 31 May 2016, which were issued by the Company to Independent Third Parties during the past twelve months immediately prior to the date of the Subscription Agreement, bear an interest rate of 8% per annum and include a redemption premium at such amount that would make up an aggregate internal return rate of 12% per annum on the convertible bonds. As such, the effective interest rates of all the existing convertible bonds issued by the Company are 12% per annum. We have discussed with the Management and understand that in negotiating the terms of the Convertible Bonds, the Bondholder has made reference to the terms of the convertible bonds recently issued by the Company in February and May 2016. The coupon rate and redemption premium of the Convertible Bonds are the same as those existing convertible bonds issued by the Company.

We have further enquired the Management on the costs of other existing external borrowings of the Group apart from the convertible bonds and note that the secured interest-bearing borrowings carry an interest rate of 7.5% per annum while the corporate bonds carry interest rates ranging from 6.0% to 7.0% per annum. The effective interest rate of the Convertible Bonds is higher than those of the other external borrowings.

(c) *Maturity date*

The Convertible Bonds will mature on the date falling three years from the Issue Date. As advised by the Management, the term of the Convertible Bonds is set to match the development plan and capital expenditure budget of the Sanjiao Project in the coming three years as described in the section headed “Background of and reasons for the issue of the Convertible Bonds” above.

(d) *Security*

The Convertible Bonds shall be secured by the share charges in respect of certain shares of Orion Energy and Power Great held by Power Great and the Company respectively in favour of the Bondholder. Having considered (i) the substantial amount of the fund to be provided by the Bondholder; (ii) that the proceeds of the Convertible Bonds will be used for the Sanjiao Project; and (iii) that Orion Energy, the wholly-owned subsidiary of Power Great, is the party that entered into the PSC with Petro China in relation to the Sanjiao Project, we consider it is normal commercial terms that share charges in respect of Orion Energy and Power Great are required by the Bondholder to secure the repayment obligations of the Company under the Convertible Bonds.

(e) *Other terms of the Convertible Bonds*

The Convertible Bonds are transferrable, except to connected persons (as defined in the Listing Rules) of the Company without prior consent of the Company. The Bondholder will not be entitled to any voting right at any meetings of the Company by reason only of it being a bondholder. The Convertible Bonds constitute direct, secured, unsubordinated and unconditional obligations of the Company and shall rank pari passu and without any preference or priority among themselves. The Conversion Shares, when allotted and issued, will rank pari passu with, and carry the same rights in all aspects as, the other Shares then in issue and outstanding.

LETTER FROM OPTIMA CAPITAL

We consider that the above terms of the Convertible Bonds in relation to transferability, voting rights, status of the Convertible Bonds and ranking of the Conversion Shares are in line with the terms of the convertible bonds/notes of similar kind issued by other listed companies in Hong Kong.

In summary, (i) the initial Conversion Price is set at a premium over the average closing prices of the Shares during the Review Period and the net asset value of the Group per Share; (ii) the effective interest rate of the Convertible Bonds is consistent with the existing convertible bonds issued by the Company to Independent Third Parties in early 2016; (iii) the maturity of the Convertible Bonds matches the timing of the incurrence of capital expenditures for the development of the Sanjiao Project; and (iv) the other terms of the Convertible Bonds in relation to transferability, voting rights, status of the Convertible Bonds and ranking of the Conversion Shares are comparable to the terms of convertible debt securities of similar type in the market. Despite the effective interest rate of the Convertible Bonds is higher than the cost of other existing borrowings of the Group, we consider the issue of the Convertible Bonds provides a prompt financing means better suited to the development schedule of the Sanjiao Project than other sources of financing as discussed in the section headed “Alternative financing methods” below. The unutilised portion of the existing facility from CDB Leasing and funding from other possible source of financing would not be sufficient to cover the capital expenditure requirements in the amount of approximately RMB1,106 million for the next three years for implementing the development plan of the Sanjiao Project, whereas the issue of the Convertible Bonds enables the Company to secure a substantial portion of the fund needed to finance such capital expenditures. As the principal amount and interest under the facility from CDB Leasing is repayable on a quarterly basis, the issue of Convertible Bonds will alleviate the pressure on the Group’s cashflow in connection with the frequent repayment of the existing borrowings from CDB Leasing, as the principal of the Convertible Bonds would only be repayable in one bullet payment upon Maturity. Taking all the aforesaid factors into account and the difficulty in securing other source of financing as discussed in the section headed “Alternative financing methods” below, we are of the view that the terms of the Convertible Bonds including the effective interest rate as a whole are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

6. Alternative financing methods

In order to obtain funding to strengthen the financial position of the Group and to finance the development of the Sanjiao Project for the coming years, the Directors have considered various alternative means of financing apart from the issue of the Convertible Bonds.

(a) Debt financing from bank borrowings

On 23 December 2011, Orion Energy entered into a financing agreement with CDB Leasing, an Independent Third Party, pursuant to which CDB Leasing granted a facility of RMB1 billion to Orion Energy which shall be repayable by instalments over five years. Out of the entire facility amount, RMB200 million was to finance the exploration phase and RMB800 million is to be drawn after obtaining the approval of the ODP in respect of the Sanjiao Project. In 2012, a revised agreement was signed between Orion Energy and CDB Leasing, pursuant to which Orion Energy is allowed to draw loans to the extent of RMB400 million and RMB600 million during the exploration stage and production stage of the Sanjiao Project respectively. The facility is secured

LETTER FROM OPTIMA CAPITAL

by certain oil and gas properties with a carrying amount of HK\$1,235.2 million as at 31 December 2015, a guarantee deposit of HK\$9.78 million as at 31 December 2015, all account receivables from sales generated from the Sanjiao Project, all the shares of Orion Energy held by Power Great, 2,296,000,000 Shares held by certain Directors and Shareholders, personal guarantees of Dr. Dai and his spouse and a corporate guarantee by the Company. As at 31 May 2016, the outstanding loans due to CDB Leasing amounted to approximately RMB315 million (equivalent to approximately HK\$374.9 million). Although the facility from CDB Leasing has not been fully utilised, pursuant to the terms of the facility agreement with CDB Leasing, further collaterals may be required to be provided by the Company when the bank loans are drawn from such facility. In addition, the principal amount and interest under the facility is repayable on a quarterly basis and the unutilised portion of the facility is not sufficient to cover the capital expenditure requirements for the Sanjiao Project for the next three years. In the circumstances, the Directors consider the issue of the Convertible Bonds would be a better means to serve the Company's needs than negotiating for an extended facility with CDB Leasing.

The Company has also considered negotiating with other banks for new bank loans to finance the future capital expenditures of the Sanjiao Project. However, after preliminary discussions with other banks, the Management noted that bank loan applications may be subject to lengthy due diligence and negotiations with banks which could not meet the Group's project development schedule. In addition, as the shares of Orion Energy have already been charged as security for the borrowings from CDB Leasing, it would be difficult for the Company to obtain a borrowing with substantial principal amount without collaterals or to provide other assets as security for the new loans. Having taken into account the financial and debt position of the Group as well as the development schedule of the Sanjiao Project, we concur with the view of the Directors that bank borrowings may not be a preferred means of financing for the Group.

(b) *Other equity financing*

The Directors have considered other equity financing such as placing of new Shares, rights issue or open offer of Shares. However, in light of the recent sluggish stock market sentiment, the less than satisfactory financial performance of the Group in FY 2015 and the thin liquidity of the Shares, the Directors consider that if the Company were to raise the necessary funds by way of a placing or a rights issue or an open offer of new Shares, the subscription price would have to be set at a discount to the prevailing market price of the Shares so as to attract subscription by the investors or Shareholders. In addition, placing or rights issue or open offer of new Shares is subject to underwriting uncertainty and market risk and any arm's length underwriting is normally subject to standard force majeure clause in favour of the underwriter. In light of the above, it may be difficult for the Company to pursue other equity financing alternatives in the stock market to raise additional fund for the Company.

Based on the foregoing, we consider that as compared to debt financing from bank borrowings and other equity financing, the issue of the Convertible Bonds is an appropriate financing means for the Company under current circumstances.

LETTER FROM OPTIMA CAPITAL

7. The Put and Call Option Deed

Pursuant to the Put and Call Option Deed, the Bondholder grants to SOGR an irrevocable and unconditional right (but without obligation) to purchase some or all of the Convertible Bonds at the Call Option Purchase Price during the Call Option Period, and SOGR grants to the Bondholder an irrevocable and unconditional right (without obligation) to require SOGR to purchase some or all of the Convertible Bonds at the Put Option Purchase Price during the Put Option Period. In either case of exercising the Call Option or the Put Option, the purchase price payable by SOGR for the Convertible Bonds shall be at such amount that would make up an aggregate internal return rate on the Convertible Bonds of 12% per annum calculated from the Issue Date to (and including) the date of completion of the sale and purchase of the Convertible Bonds after the exercise of the Call Option or Put Option (as the case may be). On this basis, the return to SOGR under the Convertible Bonds would be the same as that enjoyed by the Bondholder which is an Independent Third Party.

As advised by the Management, the terms of the Put and Call Option Deed between SOGR and the Bondholder are arrived at after arm's length negotiations between the parties thereof. The entering into of the Put and Call Option Deed provides the Bondholder an exit option during the Put Option Period at an assured return equal to that under the Convertible Bonds. It also facilitated the consummation of the Subscription Agreement to bring in the Bondholder which is a reputable and sizeable financial institution as a financial investor and potential Shareholder and enhances the profile of the Company. The entering into of the Put and Call Option Deed also demonstrates Dr. Dai's confidence in and support to the Company.

Assuming the Call Option or the Put Option is exercised in full and the Convertible Bonds are converted in full, 4,879,710,144 Shares will be issued to SOGR. Together with his existing interests in the Shares, Dr. Dai will be beneficially interested in 6,260,955,144 Shares (representing approximately 28.24% of the issued share capital of the Company as enlarged by the allotment and issuance of the Conversion Shares) and become the single largest Shareholder. Given his existing role as the Chairman and Director, we are of the view that the Put and Call Option Deed serves as a means through which Dr. Dai may increase his shareholding interest in the Company and align his management interest with the Company and the Shareholders. We consider the granting of the Call Option and the Put Option is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

8. Possible financial effects of the issuance of the Convertible Bonds on the Group

We have analysed the effects on the net asset value, liquidity and working capital, gearing and earnings of the Group as a result of the issue of the Convertible Bonds. The analysis is for illustrative purposes only and does not purport to represent how the financial position of the Group will be upon completion of the Subscription Agreement.

(a) Net asset value

As disclosed in the 2015 annual report of the Company, the consolidated net asset value of the Group attributable to the Shareholders was approximately HK\$3,488.6 million as at 31 December 2015. Based on the 17,288,725,697 Shares in issue as at the Latest Practicable Date, the net asset value per Share was approximately HK\$0.202 per Share.

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The net proceeds from the issue of the Convertible Bonds are estimated be approximately US\$128.7 million (equivalent to approximately HK\$1,000.0 million). Completion of the Subscription Agreement would lead to an increase in cash and cash equivalents of the Group by the same amount. The non-current liabilities and the convertible equity reserve of the Group will also be increased respectively as a result of the recognition of liability and equity components of the Convertible Bonds. It is expected that the net asset value of the Group will be improved upon the issue of the Convertible Bonds, as the increase in cash and cash equivalents is expected to be higher than the increase in liability component of the Convertible Bonds given that certain portion would be allocated to the equity component of the Convertible Bonds. The exact amount of the respective fair value of the liability and equity components of the Convertible Bonds and their financial impacts to the Group will be subject to the assessment and valuation by a professional valuer at the time of completion of the Subscription Agreement.

The initial Conversion Price of HK\$0.207 represents a premium of approximately 2.5% over the net asset value per Share of approximately HK\$0.202 per Share. Assuming the Convertible Bonds are converted in full at the initial Conversion Price, the outstanding liability component of the Convertible Bonds will be credited to equity. The net asset value per Share and consolidated net asset value of the Group will be increased accordingly.

Based on the above, we are of the view that the issue of the Convertible Bonds would enhance the net asset value of the Group and net asset value per Share.

(b) *Liquidity and working capital*

Based on the audited financial statements of the Group for FY 2015, the Group had net current liabilities of approximately HK\$208.8 million as at 31 December 2015, comprising current assets of approximately HK\$414.0 million and current liabilities of approximately HK\$622.8 million. The cash and cash equivalents of the Group as at 31 December 2015 amounted to approximately HK\$35.6 million.

Immediately upon completion of the Subscription Agreement, the cash and cash equivalents of the Group will be increased by the net proceeds from the issue of the Convertible Bonds amounting to approximately US\$128.7 million (equivalent to approximately HK\$1,000.0 million), and the liability portion of the Convertible Bonds will be treated as non-current liabilities of the Group. The issue of the Convertible Bonds would therefore have a positive effect on the liquidity, current ratio and working capital position of the Group.

(c) *Gearing*

As disclosed in the annual report of the Company for FY 2015, the external borrowings (comprising borrowings and the liability component of convertible notes) and the total assets of the Group amounted to approximately HK\$887.8 million and HK\$4,665.7 million as at 31 December 2015 respectively. The Group had a gearing ratio, being external borrowings over total assets, of approximately 19.0%.

LETTER FROM OPTIMA CAPITAL

The liability component of the Convertible Bonds and the net proceeds from the issue of the Convertible Bonds will respectively increase the external borrowings and the total assets of the Group. On the assumption that the liability component represents more than 19% of the principal amount of the Convertible Bonds, the gearing ratio of the Group upon completion of the Subscription Agreement but before any conversion of the Convertible Bonds would be increased. However, we are not in a position to quantify the magnitude of such increase in gearing ratio because it will depend on the allocation of liability component and equity component of the Convertible Bonds in the consolidated balance sheet of the Group, which is subject to assessment and valuation by a professional valuer at the time of completion of the Subscription Agreement.

The gearing ratio of the Group will decrease if the Convertible Bonds are converted. Immediately upon full conversion of the Convertible Bonds, the outstanding liability component of the Convertible Bonds will be contributed to the total equity and the external borrowings of the Group will be reduced.

(d) *Earnings*

As advised by the Directors, the liability portion of the Convertible Bonds will be carried at amortised cost using the effective interest method. The effective interest expenses of the Convertible Bonds will be charged to the consolidated statement of profit or loss until any conversion and/or redemption of the Convertible Bonds in full. In view of (i) the business prospects and the funding needs of the Group as described in the section of “Background of and reasons for the issue of the Convertible Bonds” above; (ii) the lengthy application procedures in obtaining other alternative sources of bank financing, which may or may not carry a lower interest rate, as mentioned in the section headed “Alternative financing methods” above; and (iii) the difficulties in conducting other equity fund raising activities, we are of the view that the negative effect on earnings caused by the effective interest of the Convertible Bonds is justifiable.

9. Dilution in shareholding

As illustrated in the section headed “Shareholding structure of the Company” in the letter from the Board contained in the Circular, as at the Latest Practicable Date, 12,190,080,697 Shares were held by public Shareholders, representing approximately 70.51% of the issued share capital of the Company. Upon exercise in full of the conversion rights attaching to the Convertible Bonds, the shareholding of the public Shareholders will be decreased to approximately 54.99%, representing a dilution effect of approximately 15.52%.

Having considered (i) the reasons for the issue of the Convertible Bonds and entering into of the Put and Call Option Deed as discussed in the sections headed “Background of and reasons for the issue of the Convertible Bonds” and “The Put and Call Option Deed” respectively above; (ii) the issue of the Convertible Bonds is a preferred means of financing compared with other alternative means of financing as discussed in the section headed “Alternative financing methods” above; and (iii) the positive impact to the net asset value per Share as illustrated in the section headed “Possible financial effects of the issuance of the Convertible Bonds on the Group” above, we are of the view that the dilution effect on the shareholding of the existing public Shareholders is acceptable.

LETTER FROM OPTIMA CAPITAL

OPINION

Having taken into account the principal factors and reasons set out above, we are of the opinion that the terms of the Subscription Agreement and the transactions contemplated thereunder (taking into account of the Put and Call Option Deed) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned. Although the issue of the Convertible Bonds itself is not in the ordinary and usual course of business of the Company, the proceeds to be raised from the Subscription would be applied to finance the capital needs of the Sanjiao Project which is to be incurred in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders and advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the grant of Specific Mandate and taking into account of the Put and Call Option Deed).

* *The English translation of certain Chinese names or words in this letter are included for reference only and should not be regarded as the official English translations of such Chinese names or words.*

Yours faithfully,
for and on behalf of
OPTIMA CAPITAL LIMITED
Beatrice Lung
Managing Director

Ms. Beatrice Lung is a responsible officer of Optima Capital Limited and a licensed person registered with the Securities and Futures Commission to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO. Ms. Lung has participated in the provision of independent financial advisory services for various transactions involving companies listed on the Stock Exchange.

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 Company. 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. SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE SECURITIES

(i) Share Capital

Set out below are the authorised and issued share capital of the Company (i) as at the Latest Practicable Date; (ii) immediately upon the issue of the Conversion Shares (assuming that save for the issue of the Conversion Shares, no new Shares will be issued from the Latest Practicable Date) will be as follows:

Authorized		HKD
40,000,000,000	Shares as at the Latest Practicable Date	400,000,000
<i>Issued and fully paid or credited as fully paid</i>		
17,288,725,697	Shares as at the Latest Practicable Date	172,887,256.97
4,879,710,144	Conversion Shares to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds	48,797,101.44
22,168,435,841		221,684,358.41

All the issued Shares including the Conversion Shares will rank pari passu with each other in all respects including the rights in respect of capital, dividend and voting.

(ii) Share options

As at the Latest Practicable Date, there are outstanding options for subscription of 1,495,000,000 Shares, representing approximately 8.65% of the issued Shares as at the Latest Practicable Date, under the share option scheme adopted by the Company at the annual general meeting of the Company held on 28 May 2010.

(iii) Warrants/convertible securities

As at the Latest Practicable Date, the Company had issued: (a) convertible bonds in the principal amount of HK\$100,000,000 to Harvest Progress International Limited on 19 June 2015, carrying the rights to convert into 483,091,787 Shares; (b) convertible bonds in the principal amount of HK\$200,000,000 to CCB International Overseas Limited on 1 February 2016, carrying the rights to convert into 966,183,574 Shares; and (c) convertible bonds in the principal amount of HK\$100,000,000, HK\$30,000,000 and HK\$30,000,000 to Central China International Investment Company Limited, Central China Blue Ocean Investment Management Co., Ltd and President Securities (Hong Kong) Limited, respectively on 26 May 2016, carrying the rights to convert into 483,091,787 Shares, 144,927,536 Shares and 144,927,536 Shares, respectively.

As at the Latest Practicable Date, the Company had no warrants in issue.

As at the Latest Practicable Date, save as disclosed above, the Company had no other outstanding options, warrants or conversion rights affecting the Shares.

3. DISCLOSURE OF INTEREST**Interests of the Directors and chief executive in the Company and its associated corporations**

As at the Latest Practicable Date, the interests and short positions, if any, of each Director and chief executive of the Company in any Shares, underlying Shares and debentures of the Company and any associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) 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 (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

APPENDIX

GENERAL INFORMATION

Name of Director	Long/short position	Interests in Shares/ Underlying Shares	Nature of Interest	Number of Shares/underlying Shares held	Percentage of issued Shares (Note 1)
Dai Xiaobing	Long position	Shares	Beneficial owner	1,381,245,000	7.99%
	Short position	Shares	Beneficial owner	708,000,000	4.10%
	Long position	Share options	Beneficial owner/ Family interest (Note 2)	96,000,000	0.56%
King Hap Lee	Long position	Shares	Interest of controlled corporation/ Beneficial owner (Note 3)	200,010,000	1.16%
	Short position	Shares	Interest of controlled corporation (Note 3)	200,000,000	1.16%
	Long position	Share options	Beneficial owner	66,000,000	0.38%
Wan Tze Fan Terence	Long position	Shares	Beneficial owner	33,660,000	0.19%
	Long position	Share options	Beneficial owner	66,000,000	0.38%
Chen Hua	Long position	Underlying Shares	Interest of controlled corporation (Note 4)	768,971,796	4.45%
	Long position	Share options	Beneficial owner	30,000,000	0.17%
Huang Shaowu	Long position	Shares	Interest of controlled corporation/ Beneficial owner (Note 5)	1,983,730,000	11.47%
	Short position	Shares	Beneficial owner (Note 5)	100,000,000	0.58%
	Long position	Share options	Beneficial owner	17,000,000	0.10%
He Lin Feng	Long position	Shares	Beneficial owner	1,500,000,000	8.68%
	Long position	Share options	Beneficial owner	30,000,000	0.17%
Wong Kwok Chuen Peter	Long position	Share options	Beneficial owner	6,000,000	0.03%
Wong Lung Tak Patrick	Long position	Share options	Beneficial owner	6,000,000	0.03%
Wang Yanbin	Long position	Share options	Beneficial owner	6,000,000	0.03%
Dang Weihua	Long position	Share options	Beneficial owner	3,000,000	0.02%

Notes:

1. The number of issued Shares as at the Latest Practicable Date is 17,288,725,697 Shares.
2. Dr. Dai Xiaobing and his spouse, Ms. Xu Ning, hold 66,000,000 options and 30,000,000 options respectively.
3. Wai Tech Limited owns 200,000,000 Shares and has short position of 200,000,000 Shares. Wai Tech Limited is wholly owned by Petromic Corporation which in turn is wholly and beneficially owned by Mr. King Hap Lee. Pursuant to the SFO, Mr. King is taken to have interests and short position in such Shares. In addition, Mr. King beneficially owns 10,000 Shares.
4. 768,971,796 underlying Shares are owned by 天津京基酒店有限公司, a wholly owned subsidiary of 京基集團有限公司 which is owned as to 90% by Mr. Chen Hua. Pursuant to the SFO, Mr. Chen is taken to be interested in such underlying Shares.
5. 1,883,730,000 Shares are owned by Yuanjing International Limited, a company wholly and beneficially owned by Mr. Huang Shaowu. Pursuant to the SFO, Mr. Huang is taken to be interested in such shares. In addition, Mr. Huang beneficially owns 100,000,000 Shares and has short position of 100,000,000 Shares.

Interests of substantial shareholders and other persons*Long Position in Shares and Underlying Shares*

As at the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of the SFO and, so far as is known to the Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name	Interests in Shares/ Underlying Shares	Nature of Interest	Number of Shares/ Underlying Shares held	Percentage of issued Shares (Note 1)
Substantial Shareholders				
Yuanjing International Limited (Note 2)	Shares	Beneficial owner	1,883,730,000	10.90%
Other persons				
CDB Leasing Co., Ltd. (Note 3)	Shares	Security interest	2,296,000,000	13.28%
CCB International Overseas Limited (Note 4)	Underlying Shares	Beneficial owner	966,183,574	5.59%

Notes:

1. The number of issued Shares as at the Latest Practicable Date is 17,288,725,697 Shares.
2. 1,883,730,000 Shares are owned by Yuanjing International Limited, a company wholly and beneficially owned by Mr. Huang Shaowu (a non-executive Director).
3. Regarding the security interest in 2,296,000,000 Shares being held by CDB Leasing Co., Ltd. (“CDB”), China Development Bank Corporation which holds 88.95% interest in CDB is deemed to have security interest in these Shares.
4. CCB International Overseas Limited owns convertible bonds in the principal amount of HK\$200,000,000 due 2018 carrying the right to convert into the Shares at a conversion price of HK\$0.207 per Share. Based on the conversion price of HK\$0.207 per Share, a maximum of 966,183,574 Shares may be allotted and issued upon exercise of the conversion rights attaching to the convertible bonds in full. CCB International Overseas Limited is therefore interested in 966,183,574 underlying Shares.

CCB International Overseas Limited is a wholly-owned subsidiary of CCB International (Holdings) Limited which in turn is wholly-owned by CCB Financial Holdings Limited (“CCB Financial”). CCB Financial is a wholly-owned subsidiary of CCB International Group Holdings Limited which is in turn wholly-owned by China Construction Bank Corporation which is owned as to 57.31% by Central Huijin Investment Ltd. Pursuant to the SFO, CCB International (Holdings) Limited, CCB Financial, CCB International Group Holdings Limited, China Construction Bank Corporation and Central Huijin Investment Ltd. are deemed to be interested in the underlying Shares held by CCB International Overseas Limited.

5. Excel Cosmo Holdings Limited holds 25 shares in Golden Glow Holdings Limited (“GGHL”), representing 25% of the entire issued shares in GGHL. GGHL is a 75% owned subsidiary of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company was aware of any other person, other than a Director or the chief executive of the Company, who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or which was recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

4. DIRECTORS' INTERESTS

As at the Latest Practicable Date,

- (a) none of the Directors had any interest, either directly or indirectly, in any assets which have, since 31 December 2015 (being the date to which the latest published audited consolidated financial statements of the Group were made up), been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by, or leased to, any member of the Group;
- (b) save for the Put and Call Option Deed dated 31 May 2016 entered into between SOGR and the Bondholder, none of the Directors was materially interested in any contract or arrangement subsisting and which is significant in relation to the business of the Group;

- (c) none of the Directors had any existing or proposed service contract with any member of the Group which will not expire or is not determinable by the employer within a year without payment of compensation (other than statutory compensation); and
- (d) so far as the Directors are aware of, none of the Directors and their respective associates had any interests in business which competes, or are likely to compete, either directly or indirectly, with the businesses of the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules, as if each of them was a controlling Shareholder.

5. EXPERT AND CONSENT

The qualification of the expert who has given its opinion or advice which is contained in this circular is set out below:

Name	Qualification
Optima Capital Limited	a licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO

Optima Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and the references to its name included herein in the form and context in which they respectively appear.

As at the Latest Practicable Date, Optima Capital (a) had no shareholding in any member of the Group and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and (b) had no direct or indirect interest in any assets which had been, since 31 December 2015 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired, disposed of by, or leased to any member of the Group, or were proposed to be acquired, disposed of by, or leased to any member of the Group.

6. LITIGATION

As at the Latest Practicable Date, so far as was known to the Directors, none of the members of the Group was engaged in any litigation, arbitration or administration proceedings of material importance and there was no litigation, arbitration or administration proceedings or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

7. MATERIAL CONTRACTS

The members of the Group had, after the date of two years immediately preceding the date of this circular, entered into the following contracts which were or might be material, other than contracts in the ordinary course of business of the Group:

- (a) the non-legally binding memorandum of understanding dated 30 June 2014 entered into between Jade Million Co Ltd and Total Orient Global Limited, a wholly-owned subsidiary of the Company, setting out preliminary understanding in relation to the possible acquisition of the entire equity interest in Capital Ally Corporate Limited;
- (b) the subscription agreements all dated 8 July 2014 entered into between the Company and not less than six subscribers in relation to the subscription for an aggregate of 2,900,000,000 Shares by the six subscribers;
- (c) the non-legally binding memorandum of understanding dated 1 September 2014 entered into between Jade Million Co Ltd and Total Orient Global Limited setting out preliminary understanding in relation to the possible acquisition of the entire equity interest in Easy Capital Global Limited;
- (d) the subscription agreement dated 15 June 2015 entered into between the Company and Harvest Progress International Limited in relation to the issue of and subscription for the convertible bonds in the principal amount of HK\$100,000,000;
- (e) the subscription agreement dated 26 January 2016 entered into between the Company and CCB International Overseas Limited in relation to the issue of and subscription for the convertible bonds in the principal amount of HK\$200,000,000;
- (f) the subscription agreement dated 19 May 2016 entered into between the Company and Central China International Investment Company Limited in relation to the issue of and subscription for the convertible bonds in the principal amount of HK\$100,000,000;
- (g) the subscription agreement dated 19 May 2016 entered into between the Company and Central China Blue Ocean Investment Management Co., Ltd in relation to the issue of and subscription for the convertible bonds in the principal amount of HK\$30,000,000;
- (h) the subscription agreement dated 19 May 2016 entered into between the Company and President Securities (Hong Kong) Limited in relation to the issue of and subscription for the convertible bonds in the principal amount of HK\$30,000,000; and
- (i) the Subscription Agreement.

8. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there had been no material adverse change in the financial or trading position of the Company since 31 December 2015, the date to which the latest published audited consolidated financial statements of the Company have been made up.

9. GENERAL

- (a) The company secretary of the Company is Ms. Yim Siu Hung who is a fellow member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators.
- (b) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.
- (c) The Company's head office and principal place of business in Hong Kong is at Suite 3707-3708, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.
- (d) The branch share registrar of the Company is Computershare Hong Kong Investor Services Ltd., at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (e) The English language text of this circular and the accompanying form of proxy shall prevail over the Chinese language in case of inconsistency.

10. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of each of the following documents will be available for inspection during normal business hours (Saturdays and public holidays excepted) from 10:00 a.m. to 1:00 p.m. and from 2:00 p.m. to 5:30 p.m. at the principal place of business of the Company in Hong Kong at Suite 3707-3708, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong from the date of this circular up to and including the date of the SGM:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" in this circular;
- (c) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;
- (d) the letter of advice from Optima Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from Optima Capital" in this circular;

- (e) the annual reports of the Company for the years ended 31 December 2014 and 31 December 2015;
- (f) the material contracts referred to in the section headed “Material Contracts” of this appendix;
- (g) the written consent of the expert referred to in the section headed “Expert and Consent” of this appendix;
- (h) the Put and Call Option Deed; and
- (i) this circular.

NOTICE OF SGM



NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “**SGM**”) of Sino Oil and Gas Holdings Limited (the “**Company**”) will be held at Capital Conference Services Limited, Suite 2418, 24/F., Jardine House, 1 Connaught Place, Central, Hong Kong on 28 July 2016 at 3 p.m. for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the conditional subscription agreement (the “**Subscription Agreement**”) dated 31 May 2016 and entered into between the Company and Crescent Spring Investment Holdings Limited in respect of the subscription (the “**Subscription**”) for the 8% secured convertible bonds in the aggregate principal amount of US\$130,000,000 due 2019 (the “**Convertible Bonds**”) to be issued by the Company (a copy of which has been produced to the meeting marked “A” and initialed by the chairman of the meeting for identification purpose), and the transactions contemplated thereunder (including but not limited to the grant of specific mandate and taking into account the put and call option deed dated 31 May 2016 and entered into between Sino Oil and Gas Resources Limited and Crescent Spring Investment Holdings Limited (a copy of which has been produced to the meeting marked “B” and initialed by the chairman of the meeting for identification purpose)) be and are hereby approved, ratified and confirmed;
- (b) the creation and issue of the Convertible Bonds by the Company pursuant to the terms of the Subscription Agreement be and are hereby approved;
- (c) the allotment and issue of new shares (the “**Conversion Shares**”) (subject to adjustment) in the capital of the Company upon the exercise of the conversion rights attaching to the Convertible Bonds be and are hereby approved; and the directors of the Company (the “**Directors**”) be and are hereby granted a specific mandate to exercise powers of the Company to allot and issue such number of the Conversion Shares as may be required to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds; and
- (d) any one executive Director be and is hereby generally and unconditionally authorized to do all such acts and things, to sign and execute all such documents for and on behalf of the Company and, if required, under the common seal of the Company, and to take such steps as he may in his absolute discretion considers necessary, appropriate, desirable or expedient to give effect to or in connection with the Subscription and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Convertible Bonds and the Conversion Shares.”

NOTICE OF SGM

2. “**THAT**

- (a) Mr. Jason Chun Tung Chen be appointed as a non-executive Director effective on the date of completion of the Subscription; and
- (b) any one executive Director be authorized to enter into a service contract with him and fix remuneration.”

Yours faithfully,
By order of the Board
Sino Oil and Gas Holdings Limited
Dai Xiaobing
Chairman

Hong Kong, 12 July 2016

Registered office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal place of business in Hong Kong:

Suite 3707-3708, West Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Notes:

- 1 A member of the Company entitled to attend and vote at the SGM convened by the above notice is entitled to appoint one or if he/she is the holder of two or more shares, more than one proxy to attend and, subject to the provisions of the memorandum of association and by-laws of the Company, to vote on his/her behalf. A proxy need not be a member of the Company but must be present in person at the SGM to represent the member. 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.
- 2 In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the office of the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Ltd., at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting. Completion and return of the form of proxy will not preclude a member of the Company from attending and voting in person at the SGM or any adjournment thereof, should he so wish.
- 3 Completion and return of an instrument appointing a proxy will not preclude a member of the Company from attending and voting in person at the meeting and/or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.
- 4 As required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the above resolutions will be decided by way of poll.
- 5 The form of proxy for use at the SGM is enclosed herewith.