1. STATEMENT OF INDEBTEDNESS

At the close of March 31, 2016, the Group had outstanding borrowings of approximately RMB4,964.1 million, comprising secured bank loans of approximately RMB552.6 million and interest bearing notes carrying at a book value of RMB4,411.5 million.

The bank loans totalling RMB121.0 million are secured by the Group's right to receive revenue allocated to the Group under Daan Production Sharing Contract ("PSC") in the Daan oilfield located in Northeast region in the PRC during respective loan agreement periods. The Group's remaining bank loans totalling RMB431.6 million were secured by the Group's bank deposits of approximately RMB463.0 million.

As at March 31, 2016, the Group had no material contingent liabilities or guarantees.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables in the normal course of business, at the close of business on March 31, 2016, the Group did not have any other loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, finance lease commitments, guarantees or other contingent liabilities.

2. WORKING CAPITAL STATEMENT

The Directors are of the opinion that, after taking into account the available financial resources, including internally generally funds, the available loan facilities and the estimated net proceeds from the Disposal, the Group will have sufficient working capital for its business for the next twelve months from the date of this circular in the absence of unforeseen circumstances.

3. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

A race to pump by OPEC crude producers, US shale and Non-OPEC suppliers created an unprecedented global glut that drove oil prices to a second year of steep declines since 2014. While producers have been responding to the low price environment with various measures, the macro fundamentals appear to have carried forward into 2016 and crude oil prices are likely to remain volatile in the near term. When operating under such challenging macro environment, the Group focuses on the ability to react promptly to these drastic changes with flexibility. In 2015, the Group continued to adapt and rebalance in response to the lower commodity prices by way of managing and lowering our operating and administrative costs, while maintaining safe and reliable operations. Capital investments were significantly lowered and we expect further reductions in 2016 as we place liquidity as our top priority.

Accordingly, while the Group continue to closely monitor the development of global oil & gas market and keep abreast of attractive assets that would fit well with the Group's long term development and growth, for 2016 we shall maintain a strategy of reduced Capex, minimal drilling and work programs, as well as focusing on operational efficiency and cost reduction. We plan to drill 23 gross wells, with total budgeted Capex and cash-call approximating US$55 million. The expected net oil production is 9,240 to 10,540 barrels/day and the expected net gas production is 11,100 to 12,100 MSCF/day.