Gram Capital Limited
嘉林資本有限公司

5 October 2016

*To: The independent board committee of EPI (Holdings) Limited*

Dear Sirs,

**VOLUNTARY CONDITIONAL CASH OFFERS BY
GET NICE SECURITIES LIMITED AND OCTAL CAPITAL LIMITED
FOR AND ON BEHALF OF BILLION EXPO INTERNATIONAL LIMITED
TO ACQUIRE ALL OF THE OUTSTANDING SHARES
IN THE ISSUED CAPITAL OF EPI (HOLDINGS) LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED OR
AGREED TO BE ACQUIRED BY BILLION EXPO INTERNATIONAL LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)
AND
TO CANCEL ALL THE OUTSTANDING SHARE OPTIONS OF
EPI (HOLDINGS) LIMITED**

## INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offers, details of which are set out in the Response Document dated 5 October 2016 issued by the Company to the Shareholders and the Optionholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Response Document unless the context requires otherwise.

On 4 August 2016, Always Profit Development Limited (the "**Previous Offeror**") and the Company jointly announced that GTJA Securities (Hong Kong) Limited would, for and on behalf of the Previous Offeror, make voluntary conditional cash offers (i) to acquire all of the Shares in the entire issued share capital of the Company (other than those Shares already owned or agreed to be acquired by the Previous Offeror and parties acting in concert with it); and (ii) to cancel all the outstanding Options at appropriate prices in compliance with Rule 13 of the Takeovers Code (the "**Previous Offers**").

On 25 August 2016 after trading hours and on 29 August 2016 and 31 August 2016, respectively, the Offeror notified the Board that it has firm intention to make the Offers (in compliance with the Takeovers Code) through GN Securities and Octal Capital (i) to acquire all the outstanding Shares at the Share Offer Price of HK$0.168; and (ii) to cancel all outstanding Options.

Furthermore, with reference to the withdrawal announcement of the Company dated 8 September 2016 that on 8 September 2016, among other things, the Board was informed by the Previous Offeror that the Previous Offeror has applied to the Executive for, and the Executive has granted, its consent to the Previous Offeror's withdrawal of the Previous Offers with effect from the date on which the Offeror posts its Offer Document in respect of the Offers.

With reference to the Offer Document, as at the latest practicable date of the Offer Document, the Offeror, a wholly-owned subsidiary of Premier United, which in turn is wholly and beneficially owned by Mr. Suen, holds an aggregate of 1,287,155,119 Shares, represented approximately 29.47% of the existing issued share capital of the Company.

An Independent Board Committee comprising all the non-executive Directors, namely Mr. Ho King Fung, Eric and Mr. Phen Chun Shing Vincent; and all the independent non-executive Directors, namely, Mr. Qian Zhi Hui, Mr. Teoh Chun Ming and Mr. Zhu Tiansheng has been formed to advise the Independent Shareholders and the Optionholders as to whether the Offers are, or are not, fair and reasonable and as to their acceptance of the Offers. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in this respect, and our opinion herein is solely for the assistance of the Independent Board Committee in connection with its consideration of the Offers pursuant to Rule 2.1 of the Takeovers Code. The appointment of Gram Capital as the Independent Financial Adviser has been approved by the Independent Board Committee.

**BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee, we have relied on the statements, information, opinions and representations contained or referred to in the Offer Document, the Response Document and the information and representations as provided to us by the Directors and the Offeror (where applicable). We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors and the Offeror (where applicable) in the Response Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Response Document, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors and the Offeror (where applicable), which have been provided to us. Our opinion is based on the Directors' and the Offeror's representation and confirmation that



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there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Offers. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules and Rule 2 of the Takeovers Code.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Response Document (other than the information relating to the Offers and the Offeror which is based on the Offer Document), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Response Document have been arrived at after due and careful consideration and there are no other facts not contained in the Response Document, the omission of which would make any statement contained in the Response Document misleading. The Directors only take responsibility for the correctness of the reproduction or presentation of the information relating to the Offers and the Offeror which is based on the Offer Document. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Response Document, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Offeror, or their respective subsidiaries or associates (if applicable), nor have we considered the taxation implication on the Group or the Shareholders as a result of the Offers. The Company has been separately advised by its own professional advisers with respect to the Offers and the preparation of the Response Document (other than this letter).

We have assumed that the Offers will be consummated in accordance with the terms and conditions set forth in the Offer Document without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents as required for the Offers, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Offers. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date. The Independent Shareholders will be notified of any material changes as soon as possible in accordance with Rule 9.1 of the Takeovers Code.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.



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## PRINCIPAL FACTORS AND REASONS CONSIDERED

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

### (1) Background and terms of the Offers

According to the Offer Document, the Offers are made by Get Nice Securities Limited and Octal Capital Limited, for and on behalf of the Offeror, on the following basis:

**The Share Offer**

For each Offer Share .............................. HK$0.168 in cash

**The Option Offer**

For cancellation of each Option with exercise price of HK$1.3277 .................................... HK$0.01 in cash

As at the Latest Practicable Date, there are 4,367,121,822 Shares in issue. On the basis of the share offer price of HK$0.168 per Offer Share (the "**Share Offer Price**") and assuming that no outstanding Options are exercised prior to the Closing Date, the entire issued share capital of the Company is valued at approximately HK$733,676,466.10. According to the Offer Document, as 1,287,155,119 Shares are held by the Offeror and parties acting in concert with it, the Share Offer is valued at approximately HK$517,434,406.10 based on the Share Offer Price and 3,079,966,703 Offer Shares.

As at the Latest Practicable Date, there were a total of 10,556,460 outstanding Options in respect of 10,556,460 Shares. Assuming none of the outstanding Options is exercised prior to the Closing Date, the total amount required to satisfy the cancellation of all the outstanding Options under the Option Offer is HK$105,564.60.

Based on the above and assuming that no outstanding Options is exercised prior to the Closing Date, the Offers are valued at approximately HK$517,539,970.70 in aggregate (on the basis of 3,079,966,703 Offer Shares). Assuming all the outstanding Options are exercised in full by the Optionholders prior to the Closing Date, the maximum value of the Share Offer is approximately HK$519,207,891.38 (on the basis of 3,090,523,163 Offer Shares). In that case, no amount will be payable by the Offeror under the Option Offer.

### (2) Financial information on the Group

The Group is principally engaged in petroleum exploration and production and money lending business.



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Set out below is a summary of the consolidated financial information on the Group for the six months ended 30 June 2016 and each of the two years ended 31 December 2015 as extracted from the interim report of the Company for the six months ended 30 June 2016 (the "**2016 Interim Report**") and annual report of the Company for the year ended 31 December 2015 (the "**2015 Annual Report**"):

| | **For the six months ended 30 June 2016** | **For the year ended 31 December 2015** | **For the year ended 31 December 2014** | **Year on year change** |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *%* |
| **Revenue** | **25,748** | **66,571** | **85,689** | ***(22.31)*** |
| *– Petroleum exploration and production* | 25,302 | 66,571 | 85,689 | (22.31) |
| *– Money lending* | 446 | – | – | N/A |
| **Segment results excluding impairment** | **(276)** | **1,950** | **17,271** | ***(88.71)*** |
| *– Petroleum exploration and production* | (370) | 1,950 | 17,271 | (88.71) |
| – Money lending | 94 | – | – | N/A |
| **Impairment losses** | **–** | **(206,315)** | **(91,049)** | ***126.60*** |
| **Loss for the period/ year** | **(28,516)** | **(276,548)** | **(381,143)** | ***(27.44)*** |

| | **As at 30 June 2016** | **As at 31 December 2015** | **As at 31 December 2014** | **Year on year change** |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *%* |
| Total assets | 544,827 | 92,903 | 361,892 | *(74.33)* |
| Total liabilities | 196,422 | 217,828 | 331,207 | *(34.23)* |

As depicted from the above table, the Group recorded a decrease of approximately 22.31% in revenue for the year ended 31 December 2015 ("**FY2015**") as compared to that for the year ended 31 December 2014 ("**FY2014**"). With reference to the 2015 Annual Report, the decrease in revenue was attributable to the decline of the sales of petroleum in Argentina. The Group also recorded a loss of approximately HK$276.55 million during FY2015 as compared to the loss of approximately HK$381.14 million during FY2014, representing a year-on-year decrease in loss of approximately 27.44%. With reference to the 2015 Annual Report, the loss for FY2015 was mainly due to the provision of impairment losses and the decrease of sales of petroleum. As also depicted from the above table, revenue derived from petroleum exploration and production represented the entire revenue of the Group for the year ended 31 December 2015 and 2014 and approximately 98.3% of the revenue of the Group for the six months ended 30 June 2016.

According to the 2016 Interim Report, the Group recorded an increase of approximately 86.48% in loss for the six months ended 30 June 2016 as compared to that for the six months ended 30 June 2015. As mentioned in the profit warning announcement of the Company dated 11 August 2016, such increase in loss is expected to be primarily attributable to (i) the lack of fair value gain of approximately HK$12.3 million and effective interest expense of approximately HK$6.8 million on convertible notes as a result of the early redemption by the Company in June 2015; (ii) the segment results of petroleum exploration and production turned from a profit of approximately HK$3.1 million for the six months ended 30 June 2015 to a small loss for the same period in 2016; and (iii) the increase in other expenses.

With reference to the 2016 Interim Report and as advised by the Directors, in terms of short-term development plan, the Group will continue to invest in workover on the existing 10 producing oil wells during year 2016; in terms of long-term development plan, the Directors has considered the production estimation up to the expiry of Concessions after a 10-year extension to year 2027.

On 24 August 2016, the Group was notified by the holder (the "**Concessionaire**") of the Concessions that the department of hydrocarbons of the government of Mendoza has been reviewing the fulfilment of the terms and conditions of the 10-year extension of the Concessions till 2027 previously awarded to the Concessionaire, particularly the status of the investment commitment of the Concessionaire. In the event that the extension is withdrawn, the Concessions in the Puesto Pozo Cercado area and the Chañares Herrados area will expire on 26 June 2017 and 24 September 2017 respectively. With reference to the Board Letter, as advised by the Concessionaire, it is currently undertaking discussions with the government of Mendoza in securing the extension of the Concessions. Given that the aforesaid event occurred only recently, the Board is uncertain of the outcome of the discussions between the Concessionaire and the government of Mendoza on maintaining the extension of the Concessions, and therefore, the Board is not in a position to assess the impact on the Group at this stage. The impact could only be assessed after the outcome of such discussions become certain and the Board has been given sufficient information on the status of the extension. The Group will closely monitor the development of the aforesaid event, and will take appropriate action to modify (if it is warranted) the future development plan of its existing Argentina operation.

We also noted from the 2015 Annual Report that on 2 September 2015, Xin Wei Limited ("**Xin Wei**"), a wholly-owned subsidiary of the Company, entered into a memorandum of understanding (the "**MOU**") with Zhongli Talesun Solar Technology Company Limited ("**Zhongli**", being a subsidiary of one of the top twenty PV power plant investment companies in the PRC) with respect to a proposed acquisition of a target company which will hold the entire interests in certain solar power plants (the "**Proposed Acquisition**"). On 2 March 2016, Xin Wei and Zhongli mutually agreed to terminate the MOU in relation to the Proposed Acquisition.

According to the prospectus of the Company dated 31 December 2015 the Rights Issue and the announcement of the Company dated 8 June 2016 regarding the change of use of proceeds from the Rights Issue, the gross proceeds from the Rights Issue was approximately HK$509.5 million, among which approximately HK$317.0 million would be utilised for the Proposed Acquisition including the professional fees and transaction costs attributable thereto. If the Group decides not to proceed with the Proposed Acquisition and the Group is not able to identify other suitable solar power plants to acquire from Zhongli, the Group intends to source suitable solar power plants for acquisition from other PV power plants investors in the market. Accordingly, the aforesaid amount of approximately HK$317.0 million which were initially allocated for the Proposed Acquisition (the "**Amounts for Solar Plant Projects**") will instead be applied to the acquisition of suitable solar power plants from other PV power plant investors in the market. Should the Company fail to complete the Proposed Acquisition or other potential acquisition of solar power plants within the 12 months after the completion of the Rights Issue, the Company intends to reallocate the Amounts for Solar Plant Projects as to (i) approximately HK$55.8 million to repay the Company's debt due in November 2018; and (ii) subject to the then market conditions, approximately HK$261.2 million for the drilling of new oil wells and/or investment in workover on existing oil wells to improve the production of oil in the Puesto Pozo Cercado Concession and Chañares Herrados Concession in Cuyana Basin, Mendoza Province of Argentina.

The Group subsequently decided not to proceed with the Proposed Acquisition. As advised by the Directors, notwithstanding that the Proposed Acquisition did not materialise, the Group continues to source other suitable solar power projects in the PRC, and will consider opportunities in other energy related sectors.

As at the Latest Practicable Date, as confirmed by the Directors (i) no investment in solar power plant or other energy related projects had yet been made by the Group; and (ii) the Amounts for Solar Plant Projects had not been utilised or re-allocated for the drilling of new oil wells and/or investment in workover on existing oil wells.

In addition, with reference to the Board Letter, in order to better utilise the portion of proceeds from the Rights Issue in the amount of approximately HK$110.6 million, which was originally earmarked for early repayment of debts due in November 2016 and November 2017, by June 2016, the Board resolved on 7 June 2016 to repay the debts only when they become due and apply such amount towards the operation of the money lending business in the meantime. Subsequently, the Group commenced its money lending business on 8 June 2016. As at the Latest Practicable Date, the Group held a portfolio of short-term loans in the amount of HK$58 million. The Group may consider recruiting additional professionals with relevant experience to assist the Directors in managing the money lending business when the loan portfolio size increases.

With reference to the Board Letter and as confirmed by the Directors, as at the Latest Practicable Date, save as described above, the Company did not have any intention, agreement or negotiation to (i) dispose of the existing business and/or material assets of the Group; and (ii) acquire any new business.

Further details of the information on the Group was set out under the section headed "Information on the Group" of the Board Letter.

***Industry overview***

*Oil*

With reference to the statistical data released by U.S. Energy Information Administration ("**EIA**"), being the statistical and analytical agency within the U.S. Department of Energy, in 2015, total oil production in Argentina was 716,000 barrels per day (b/d), of which 513,000 b/d was from crude oil and 108,000 b/d was from natural gas plant liquids. With reference to Short-Term Energy Outlook (the "**STEO**") as published by EIA on 7 September 2016, the West Texas Intermediate ("**WTI**", being a grade of crude oil used as a benchmark in oil pricing) spot price was approximately US$48.67 per barrel in 2015, representing a decrease of approximately 47.8% as compared to WTI spot price in 2014. The forecast WTI spot price for year 2016 and year 2017 are US$41.92 per barrel and US$50.58 per barrel respectively, representing (i) a decrease of approximately 13.9% and an increase of approximately 3.9% respectively as compared to the WTI spot price for the year 2015; and (ii) a decrease of approximately 55.0% and 45.7% respectively as compared to the WTI spot price for the year 2014.

We noted from BP Statistical Review of World Energy June 2016 published in June 2016 by BP p.l.c. (one of the world's leading integrated oil and gas companies, which has been publishing statistical reviews since 1951 and its statistical reviews are commonly used for reference by market information providers and media such as Bloomberg and Reuters and listed companies in Hong Kong) that Dated Brent (being a major trading classification of sweet light crude oil that serves as a major benchmark price for purchases of oil worldwide) averaged US$52.39 per barrel in 2015, representing a decline of US$46.56 per barrel from the 2014 level; and being the lowest annual average since 2004. Furthermore, we noted from the STEO, the forecast Brent crude oil prices are US$42.54 per barrel for 2016 and US$51.58 per barrel for 2017, respectively, representing a decrease of (i) approximately 18.7% and 1.4% respectively as compared to the average Brent crude oil prices of US$52.32 per barrel for the year 2015 as disclosed in STEO; and (ii) approximately 57.0% and 47.8% respectively as compared to the average Brent crude oil prices of US$98.89 per barrel for the year 2014 as disclosed in the STEO.

The Directors considered that according to the analysis/forecast shown in STEO, the crude oil prices in 2016 and 2017 are unlikely to rebound to the 2014 crude oil price level.

We further noted from a press release as published by Bloomberg on 13 January 2015 that in Argentina, oil prices are set and regulated by the federal government of Argentina. As advised by the Directors, the local oil selling price (the "**Local Oil Selling Price(s)**") of the Group's Argentina operation remained around US$58 per barrel for the seven months ended July 2016. Despite that the current Local Oil Selling Price is above WTI spot prices and Brent crude oil prices, having considered that (i) the crude oil prices in 2016 and 2017 are unlikely to rebound to the 2014 crude oil price level; and (ii) the Local Oil Selling Prices are set and regulated by the federal government of Argentina, we concur with the Directors that the future Local Oil Selling Prices are uncertain.

*Solar power*

Among the various energy sources, solar energy is a clean and renewable energy which does not generate pollutants, wastes and greenhouse gases.

In December 2011, the National Energy Administration ("**NEA**") issued《國家能源科技「十二五」規劃》(the National Energy Technology Twelfth Five Year Plan*) (the "**NET 12th Five-Year Plan**") which cited that the proportion of solar energy consumption volume to the total energy consumption volume in the world is expected to increase in the future. The NET 12th Five-Year Plan stated that one of the national directions for energy technology development is to reduce reliance on coal energy and shift to use clean, diversified and low-carbon energy. Despite the looming economic pressure in the first half of 2015, NEA considered that the growth of solar power industry in the PRC remained robust. The NEA further published 《關於下達2015年光伏發電建設實施方案的通知》 (Notice About The Implementation of Photovoltaic Power Generation Construction Plan for 2015*) in March 2015. Such notice (i) set out the national target for construction of solar power plants in 2015 including target construction scale for respective provinces in the PRC; (ii) offered priority to certain well-established solar power plants for connecting to the grid; and (iii) encouraged competition in the solar power generation industry by encouraging companies with strong technological support and economic strength to participate in constructing solar power plants so as to reduce the construction costs of solar power plants and subsequently the grid power price.

Furthermore, according to the "Proposal on Formulating the Thirteenth Five-Year Plan (2016-2020) on National Economic and Social Development" as released by Xinhua News Agent on 3 November 2015 that, the PRC will embrace a "green" development model in the next five years, implementing a more exacting environmental protection system to reduce carbon emissions. The PRC will continue to develop wind, solar, biomass, water, geothermal and nuclear energy, as well as explore deposits natural, shale and coal bed gases. Energy-intensive industries, such as power, steel, chemical and architectural material will be subject to carbon emission control regulations.

Despite that the PRC government has continued to promulgate favorable policies to support the development of solar power generation business in the PRC over the years, as at the Latest Practicable Date, no investment in solar power plant had yet been made by the Group.

Having considered (i) the financial performance of the Group for recent years, in particular the Group recorded (a) loss since 2010; and (b) net liabilities as at 31 December 2015; (ii) the future Local Oil Selling Prices are uncertain; and (iii) despite that the PRC government has continued to promulgate favourable policies to support the development of solar power generation business in the PRC over the years, no investment on solar power plant had yet been made by the Group as at the Latest Practicable Date, the Directors were of the view that the outlook of the Group is uncertain. We concurred with the Directors in this regard.

**(3) Information on the Offeror**

To provide Independent Shareholders and the Optionholders with basic information on the background of the Offeror, set out below is the key information on the Offeror as extracted from the "Letter from GN Securities and Octal Capital" of the Offer Document:

The Offeror is an investment holding company incorporated in the British Virgin Islands with limited liability and is a wholly-owned subsidiary of Premier United, which in turn is wholly and beneficially owned by Mr. Suen. Mr. Suen is also the sole director of the Offeror and Premier United. Mr. Suen, aged 55, holds a Master of Business Administration degree from the University of South Australia. Mr. Suen is an executive director and the chairman of, and a controlling shareholder indirectly holding approximately 31.30% of the issued share capital in Enviro Energy International Holdings Limited (stock code: 1102) (**"Enviro Energy"**). Mr. Suen is also indirectly holding approximately 9.89% of the issued share capital in China Strategic Holdings Limited (stock code: 235) (**"China Strategic"**). The shares of both Enviro Energy and China Strategic are listed on the Main Board of the Stock Exchange. Mr. Suen is also indirectly holding approximately 22.89% of the issued share capital of Courage Marine Group Limited (stock code:1145), the shares of which are listed on the Main Board of the Stock Exchange and the Singapore Exchange Securities Trading Limited (Singapore stock code: ATL.SI). Mr. Suen is also the sole ultimate beneficial owner of a company which will become a controlling shareholder of Birmingham International Holdings Limited (stock code: 2309).

Save as disclosed in the section headed "Dealings in securities in EPI" of the "Letter from GN Securities and Octal Capital" of the Offer Document, neither the Offeror nor parties acting in concert with it hold any Shares or any outstanding warrants, options or securities of the Company which are convertible into Shares, nor are there any outstanding derivative in respect of securities in the Company entered into by the Offeror or parties acting in concert with it as at the latest practicable date of the Offer Document.

**(4) Intentions of the Offeror in relation to the Group**

To provide Independent Shareholders and the Optionholders with information on the intentions of the Offeror, set out below is the Offeror's intentions on the Group's business as extracted from the "Letter from GN Securities and Octal Capital" of the Offer Document:



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Following the close of the Offers, the Offeror intends to continue the existing principal businesses of the Group. The existing principal business of the Group includes petroleum exploration and production and money lending business. The Offeror will conduct a review on the existing principal businesses and the financial position of the Group for the purpose of formulating business plans and strategies for the future business development of the Group. In this regard, the Offeror may look into business opportunities and consider whether any asset disposals, asset acquisitions, business rationalisation, business divestment, fund raising, restructuring of the business and/or business diversification will be appropriate in order to enhance the long-term growth potential of the Company. Should such corporate actions materialise, further announcement(s) will be made in accordance with the Listing Rules.

Save for the Offeror's intention regarding the Group as set out above, the Offeror has no intention to (i) discontinue the employment of any employees of the Group; or (ii) redeploy the fixed assets of the Company other than those in its ordinary and usual course of business.

**(5) Proposed change of Board composition**

It was stated in the Offer Document that the Offeror intends to nominate Mr. Suen, Mr. Sue Ka Lok, Ms. Chan Yuk Yee, Mr. Yiu Chun Kong, Mr. Zhu Kai and Mr. Chan Shui Yuen as executive Directors and Mr. To Yan Ming, Edmond, Mr. Pun Chi Ping and Ms. Leung Pik Har, Christine as independent non-executive Directors to the Board (together, the "**Nominees**") and such appointments will be subject to the approval of the Board and will not take effect earlier than the date of posting of the Offer Document or such other date as permitted under the Takeovers Code. Any appointments to the Board will be made in compliance with all the applicable regulatory requirements, including the Takeovers Code and the Listing Rules. Please refer to the section headed "Proposed change of board composition" in the letter from GN Securities and Octal Capital contained in the Offer Document for biographic details of the above-mentioned nominees for appointment as executive Directors and independent non-executive Directors. Further details regarding any appointment of Directors as required by Rule 13.51(2) of the Listing Rules will be announced if the aforesaid appointments take effect.

As extracted from the Board Letter, on 27 September 2016, the Board received a letter from the Offeror in relation to the nomination of the Nominees to the Board (the "**Nomination**"). The biographical details of the Nominees set out in the nomination letter are same as those disclosed in the Offer Document. It was stated in the nomination letter that the Offeror requested the Board to appoint the Nominees as Directors with effect from 29 September 2016. In response to the Nomination, the Board replied to the Offeror on 28 September 2016 that the Board will put forward the Nomination to the nomination committee and the remuneration committee of the Board (together, the "**Committees**") for review. The Committees will, in accordance with their respective terms of reference, make recommendation to the Board accordingly. In light of the Company's internal policies and procedures, the appointment of the Nominees as Directors, if they happen, will not likely take effect from 29 September 2016. Further announcement(s) will be made by the Company as and when appropriate.



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**(6) The Share Offer Price**

*Share Offer Price comparison*

The Share Offer Price of HK$0.168 per Offer Share represents:

(i) a discount of approximately 23.29% to the closing price of HK$0.219 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;

(ii) the closing price of HK$0.168 per Share as quoted on the Stock Exchange on 25 August 2016, being the Last Trading Date;

(iii) a premium of approximately 8.39% over the average closing price of approximately HK$0.1550 per Share as quoted on the Stock Exchange for the 5 consecutive trading days immediately prior to and including the Last Trading Date;

(iv) a premium of approximately 11.63% over the average closing price of approximately HK$0.1505 per Share as quoted on the Stock Exchange for the 10 consecutive trading days immediately prior to and including the Last Trading Date;

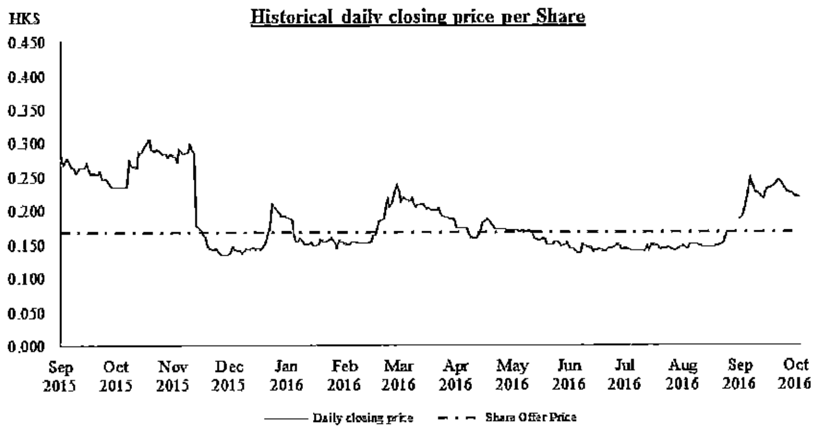
(v) a premium of approximately 13.13% over the average closing price of approximately HK$0.1485 per Share as quoted on the Stock Exchange for the 20 consecutive trading days immediately prior to and including the Last Trading Date;

(vi) a premium of approximately 14.05% over the average closing price of approximately HK$0.1473 per Share as quoted on the Stock Exchange for the 30 consecutive trading days immediately prior to and including the Last Trading Date; and

(vii) a premium of approximately 15.62% over the average closing price of approximately HK$0.1453 per Share as quoted on the Stock Exchange for the 60 consecutive trading days immediately prior to and including the Last Trading Date.

*Historical price performance of the Shares*

Set out below is a chart showing the movement of the closing prices of the Shares during the period from 1 September 2015, being approximate one-year prior to the Offer Announcement up to the Latest Practicable Date (the "**Review Period**", which is commonly used for analysis purpose), to illustrate the general trend and level of movement of the closing prices of the Shares.




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

*Notes:*

1. The closing prices of the Shares from 3 August 2015 to 21 December 2015 had been adjusted for the effect of the rights issue, which became effective from 22 December 2015 onwards, on the basis of five (5) rights shares for every one (1) existing share at HK$0.14 per rights share.

2. Trading in the Shares was halted from 26 August 2016 to 31 August 2016 (both days inclusive).

During the Review Period, the lowest and highest closing prices of the Shares as quoted on the Stock Exchange were HK$0.135 per Share recorded on both 27 November 2015 and 30 November 2015, and HK$0.306 recorded on 19 October 2015, respectively. The Share Offer Price of HK$0.168 is within the range of the lowest and highest closing prices of the Shares as quoted on the Stock Exchange during the Review Period.

The closing prices of the Shares has been in a general decreasing trend during the Review Period. The closing price of the Shares fluctuated between the range of HK$0.235 to 0.306 during the period from 1 September 2015 to 19 October 2015. After the closing price of the Shares reached its peak during the Review Period on 19 October 2015, the closing prices of the Shares dropped significantly thereafter and reached the bottom of HK$0.135 per Share on both 27 November 2015 and 30 November 2015. The closing prices of the Shares fluctuated within the range of HK$0.135 to HK$0.239 from 30 November 2015 to 29 February 2016. Thereafter, the closing prices was in a general decreasing trend till the beginning of June 2016 and remained stable from the beginning of June 2016 to the late August 2016. Following the resumption of trading in the Shares on 1 September 2016, the closing prices of the Shares has been substantially increased thereafter and fluctuated between the ranges of HK$0.217 per Share to HK$0.250 per Share from 5 September 2016 to 30 September 2016. We have enquired into the Directors regarding the possible reasons for such sudden increase in the Share price and as confirmed by the Directors, save as (i) the publication of the Offer Announcement and the response announcement (the "**Response Announcement**") regarding the Offers on 31 August 2016 (after



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trading hours); and (ii) the publication of the announcements in respect of the withdrawal of the Previous Offer, the Directors were not aware of any happening which might have affected the Share price.

Given the volatility of the closing prices of the Shares in 2015 and the general downward trend of the closing prices of the Shares during the Review Period, there is no guarantee that the surge in Share price since 1 September 2016 will sustain after the Closing Date.

*Historical trading liquidity of the Shares*

The number of trading days, the average daily number of the Shares traded per month (the "**Average Volume**"), and the respective percentages of the Average Volume as compared to (i) the total number of issued Shares held by the public as at the Latest Practicable Date; and (ii) the total number of issued Shares as at the Latest Practicable Date during the Review Period are tabulated as below:

| Month | No. of trading days in each month | The Average Volume *(Note 1)* | % of the Average Volume to total number of issued Shares held by the public as at the Latest Practicable Date | % of the Average Volume to total number of issued Shares as at the Latest Practicable Date |
|---|---|---|---|---|
| | | *in Shares* | % | % |
| **2015** | | | | |
| September | 20 | 3,899,618 | 0.21 | 0.09 |
| October | 20 | 21,910,301 | 1.20 | 0.50 |
| November | 21 | 26,667,424 | 1.45 | 0.61 |
| December | 22 | 12,419,312 | 0.68 | 0.28 |
| **2016** | | | | |
| January | 20 | 8,119,587 | 0.44 | 0.19 |
| February | 18 | 22,527,952 | 1.23 | 0.52 |
| March | 21 | 11,431,887 | 0.62 | 0.26 |
| April | 20 | 5,789,735 | 0.32 | 0.13 |
| May | 21 | 2,267,658 | 0.12 | 0.05 |
| June | 21 | 3,740,060 | 0.20 | 0.09 |
| July | 20 | 2,331,029 | 0.13 | 0.05 |
| August *(Note 2)* | 18 | 81,333,868 | 4.44 | 1.86 |
| September | 21 | 54,939,721 | 3.00 | 1.26 |
| October (up to and including the Latest Practicable date) | 1 | 8,538,000 | 0.47 | 0.20 |

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

*Notes:*

1. The trading volume of the Shares from 3 August 2015 to 21 December 2015 had been adjusted for the effect of the rights issue which became effective from 22 December 2015 onwards, on the basis of five (5) rights shares for every one (1) existing share at HK$0.14 per rights share.

2. Trading in the Shares was halted from 26 August 2016 to 31 August 2016 (both days inclusive).

3. As at the Latest Practicable Date, based on the available public information, the total number of issued Shares held by the public was 1,832,848,853.

4. The total number of issued Shares was 4,367,121,822 as at the Latest Practicable Date.

We noted from the above table that the trading in the Shares had been thin during the Review Period. Save for August 2016 and September 2016, the volume of Shares traded during the Review Period was below 1% of the total number of issued Shares as at the Latest Practicable Date. We have enquired into the Directors regarding the possible reasons for such sudden increase in the trading volume in August 2016 and September 2016 as confirmed by the Directors, save as (i) the publication of the Offer Announcement and the Response Announcement on 31 August 2016 (after trading hours); (ii) the publication of the announcements in respect of the withdrawal of the Previous Offer; and (iii) the increase in the shareholding of the Offeror in the Company in 24 August 2016, 25 August 2016 and 1 September 2016, the Directors were not aware of any happening which might have affected the trading volume of the Shares. As the Shares are illiquid, disposal of large block of Shares held by the Shareholders in the open market may trigger price slump of the Shares.

Taking into account that there is no guarantee that (i) the surge in Share price since 1 September 2016 will sustain; and (ii) the relatively higher trading volume of the Shares in August 2016 will continue, we are of the view that Independent Shareholders (especially those with relatively sizeable shareholdings) may not be able to realise their investments in the Shares at a price higher than the Share Offer Price, in particular when they are going to dispose of their entire holdings at a fixed cash price without disturbing the market price. We, therefore, consider that the Share Offer provides an exit alternative to the Independent Shareholders who would like to realise their investments in the Shares.

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

Furthermore, those Independent Shareholders who, after reading through the 2016 Interim Report, the 2015 Annual Report, the Offer Document and the Response Document, are optimistic about the future financial performance of the Group (detailed analysis on the Group's business is set out under the above section headed "Financial information on the Group") after the Offers, may, having regard to their own circumstances, consider retaining all or any part of their Shares.

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

*Comparison with other comparable companies*

We noted that the trading multiples analysis, such as price to earnings ratio ("**PER**"), price to book ratio ("**PBR**") and price to sales ratio ("**PSR**"), is a commonly adopted valuation method in the market. Given that the Group had been loss making for the year ended 31 December 2015, we consider the PER analysis to be inapplicable. For this reason, to assess the fairness and reasonableness of the Share Offer Price, we have performed the PSR and PBR analysis.

In light of the information on the Group as mentioned above, in particular, (i) the Group commenced its money lending business on 8 June 2016; and (ii) revenue derived from petroleum exploration and production represented the entire revenue of the Group for the year ended 31 December 2015 and 2014 and approximately 98.3% of the revenue of the Group for the six months ended 30 June 2016, we have searched for companies listed in Hong Kong which (i) are engaged in similar line of business as Group, being principally engaged in petroleum exploration and production; and (ii) derive a majority of their turnover from such business based on their respective latest published financial information for comparison. We found that only New Times Energy Corporation Ltd. (166) and Shanghai Dasheng Agriculture Finance Technology Co, Ltd. (1103) could meet our selection criteria. To facilitate the trading multiples analysis with sufficient comparables and having considered that according to "The Origins of Oil and Gas" as published on the website of Shell Global, being a global group of energy and petrochemical companies with an average of 93,000 employees in more than 70 countries, that oil and gas are generally trapped together. Hence, we have extended our search to include companies listed in Hong Kong which (i) are principally engaged in petroleum and natural gas exploration and production and classified into the same segment; and (ii) derive a majority of their turnover from such business based on their respective latest published financial information for comparison, we found 7 Hong Kong listed companies which met the said criteria (the "**Comparables**"). Shareholders should note that the businesses, operations and prospects of the Company are not the same as the Comparables.

Set out below are the PSRs and PBRs of the Comparables based on their respective closing prices as at the Latest Practicable Date and their respective latest published financial information:

| **Company name (Stock code)** | **Principal business** | **Year end date** | **PSR** *(Note 1)* | **PBR** *(Note 2)* |
|---|---|---|---|---|
| New Times Energy Corporation Ltd. (166) | Trading of oil products; exploration, exploitation, production and sale of natural resources. | 31 December 2015 | 15.45 | 0.47 |
| China Petroleum & Chemical Corporation (386) | Exploration, development and production of crude oil and natural gas; refining, transportation, storage and marketing of crude oil and petroleum product; and production and sale of chemicals. | 31 December 2015 | 0.29 | 0.73 |
| United Energy Group Ltd. (467) | Sales and production of crude oil, condensate, gas and liquified petroleum gas and provision of patented technology supporting services to oilfields. | 31 December 2015 | 1.81 | 1.31 |
| Pearl Oriental Oil Ltd. (632) | Processing and sales of recycling materials, oil and natural gas and petroleum exploration, exploitation and production in certain natural gas and oilfield located in Uinta Basin, Uintah County, Utah, the United States of America. | 31 December 2015 | 949.20 | 2.18 |
| CNOOC Ltd. (883) | Exploration, development, production and sales of crude oil and natural gas and other petroleum products. | 31 December 2015 | 2.17 | 1.00 |



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| Company name (Stock code) | Principal business | Year end date | PSR *(Note 1)* | PBR *(Note 2)* |
|---|---|---|---|---|
| Shanghai Dasheng Agriculture Finance Technology Co, Ltd (1103) | Road and bridge construction business, petrochemical products supply chain services and agricultural financial business. | 31 December 2015 | 0.58 | 1.51 |
| MIE Holdings Corporation (1555) | Exploration, development, production and sale of oil and other petroleum products in the PRC, the Kazakhstan, and the USA. | 31 December 2015 | 1.92 | 2.84 |
| | | **Maximum** | **949.20** | **2.84** |
| | | **Minimum** | **0.29** | **0.47** |
| | | **Average** | **138.77** | **1.43** |
| | | **Average (excluding outlier)** | **3.70** | **N/A** |
| **The Share Offer** | | | **11.02** *(Note 3)* | **2.11** *(Note 4)* |

*Notes:*

1. The PSRs of the Comparables were calculated based on their respective closing price per share as at the Latest Practicable Date, their respective number of issued shares as at the Latest Practicable Date and their latest full year revenue as per their respective latest published annual results.

2. The PBRs of the Comparables were calculated based on their respective closing price per share as at the Latest Practicable Date, their respective number of issued shares as at the Latest Practicable Date and their latest net assets value as per their respective latest published annual results, quarterly results or interim results (as the case may be).

3. The implied PSR of the Share Offer was calculated based on the Share Offer Price and the revenue of the Group for the year ended 31 December 2015 as extracted from the 2015 Annual Report over the total number of issued Shares as at the Latest Practicable Date.

4. The implied PBR of the Share Offer was calculated based on the Share Offer Price and the net asset value of the Group per Share as at 30 June 2016 as extracted from the 2016 Interim Report over the total number of issued Shares as at the Latest Practicable Date.

As depicted from the above table, the PSRs of the Comparables ranged from approximately 0.29 times to 949.20 times or approximately 0.29 times to 15.45 times excluding the outlier (being Pearl Oriental Oil Ltd. (632), the PSR of which was exceptionally high as compared with those of the other Comparables), with an average of approximately 138.77 times or approximately 3.70 times excluding the outlier.

Given that the PSR of the Share Offer is approximately 11.02 times, the PSR of the Share Offer is (i) within the range of; (ii) above the majority of; and (iii) above the average of the PSRs of the Comparables (excluding the outlier).

In addition, the PBRs of the Comparables ranged from approximately 0.47 times to 2.84 times, with an average of approximately 1.43 times. Given that the PBR of the Share Offer is approximately 2.11 times, the PBR of the Share Offer is (i) within the range of; (ii) above the majority of; and (iii) above the average of the PBRs of the Comparables.

Having considered that both the PSR and PBR of the Share Offer are (i) within the range of; (ii) above the majority of; and (iii) above the average of the PSRs (excluding the outlier) and PBRs of the Comparables respectively, we consider that the Share Offer Price is fair and reasonable.

### (7) The Option Offer Price for each Option

The option offer price to cancel all the outstanding Options is a nominal cash offer, namely HK$0.01 (the "**Option Offer Price**") for each Option. As at the Latest Practicable Date, the exercise price of the outstanding Options is HK$1.3277, which is out-of-money. Moreover, in view of that the exercise price of the Options is higher than the Share Offer Price and thus the "see through" price is zero, we consider the Option Offer Price to be fair and reasonable so far as the Optionholders are concerned.

## RECOMMENDATION

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

(i) as mentioned in the section headed "Financial information on the Group" of this letter, the outlook of the Group is uncertain;

(ii) the Share Offer Price of HK$0.168 is within the range of the lowest and highest closing prices of the Shares as quoted on the Stock Exchange during the Review Period;

(iii) given the volatility of the closing prices of the Shares in 2015 and the general downward trend of the closing prices of the Shares during the Review Period, there is no guarantee that (a) the surge in Share price since 1 September 2016 will sustain; and (b) the relatively higher trading volume of the Shares in August 2016 will continue;

(iv) disposal of large block of Shares held by the Independent Shareholders in the open market may trigger price slump of the Shares as a result of the thin trading volume of the Shares;



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(v) both the PSR and PBR of the Share Offer are (a) within the range of; (b) above the majority of; and (c) above the average of the PSRs (excluding the outlier) and PBRs of the Comparables respectively; and

(vi) the exercise price of the outstanding Options is (a) out-of-money as at the Latest Practicable Date; and (b) higher than the Share Offer Price and thus the "see through" price is zero,

we consider that the terms of the Offers (including the Share Offer Price and the Option Offer Price) are fair and reasonable. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders and the Optionholders to accept the Offers.

**However, given that the Share Offer Price represents discounts to the recent market prices of the Shares (including but not limited to the closing price of the Shares as at the Latest Practicable Date) but due to the low trading liquidity of the Shares, disposal of large block of Shares by the Independent Shareholders in the open market would likely to trigger price slump of the Shares, we would also like to remind the Independent Board Committee to remind the Independent Shareholders to closely monitor the market price and liquidity of the Shares during the Offer Period, and consider selling their Shares in the open market, where possible, instead of accepting the Share Offer, if the net proceeds from such sales exceed the net amount receivable under the Share Offer.**

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

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

Yours faithfully,
For and on behalf of
**Gram Capital Limited**

**Graham Lam**
*Managing Director*

* *for identification purposes only*