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## **PACIFIC PLYWOOD HOLDINGS LIMITED**

**太平洋實業控股有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 767)**

### **THIRD MEMORANDUM OF UNDERSTANDING IN RELATION TO A PROPOSED INVESTMENT**

The Company and MSB have agreed to enter into the Third MOU on 3 March 2011 (after trading hours) to extend the terms of the Second MOU for further three months. In addition, the Parties also express their intention to explore the investment opportunity in another oilfield located in Kazakhstan upon completion of its internal restructuring.

According to the information provided by MSB (including the draft technical report), the First Oilfield is an oilfield located onshore Caspian Sea of the Mangyshlak peninsula in the south-western Mangghystau province, Kazakhstan and is in the stage of pilot production. In the period of January 2007 to December 2010, a total of 121,878 tons light oil have been produced. The reserves of the First Oilfield based on the PRMS include (i) oil/condensate reserves of Proved and Probable and Possible (2P) category amounted to 33.0MMBO; (ii) oil/condensate contingent resources of Proved and Probable and Possible (2C) category amounted to 10.4MMBO; and (iii) gas contingent resources of Proved and Probable and Possible (2C) category amounted to 89.3MMBOE. The estimated post-tax net present value for the proved and probable reserves is approximately USD540 million.

This announcement is made by the Company pursuant to Rule 13.09 of the Listing Rules. Unless otherwise specified, terms used herein shall have the same meanings as defined in the announcements of the Company dated 6 July 2010 (the “**First Announcement**”) and 18 October 2010 (the “**Second Announcement**”).

On 6 July 2010 and 18 October 2010 (after trading hours), the Company entered into the first memorandum of understanding (the “**First MOU**”) and the second memorandum of understanding (the “**Second MOU**”) with MSB respectively in relation to its intention to explore the investment opportunity in an oilfield (the “**First Oilfield**”).

\* *For identification purpose only*

As additional time is required for the due diligence review on the First Oilfield, the Company and MSB (the “**Parties**”) have agreed to enter into the third memorandum of understanding (the “**Third MOU**”) on 3 March 2011 (after trading hours). In addition, the Parties express their intention to explore the investment opportunity in another oilfield located in Kazakhstan (the “**Second Oilfield**”) upon completion of its internal restructuring. (together with the First Oilfield, the “**Oilfields**”)

Under the Third MOU, the Company proposes to invest in the Oilfields (the “**Proposed Investment**”).

The Third MOU sets out the basic terms and conditions under which negotiation on the proposed cooperation on the Oilfields.

To the best of Directors’ knowledge, information and belief, and having made all reasonable enquiries, MSB and its ultimate beneficial owner are independent of and not connected with the Company and its connected persons.

## **MAJOR TERMS OF THE THIRD MOU**

### **Due diligence review**

The Company will perform due diligence review in relation to the Proposed Investment covering financial, legal and taxation aspects of the holding company of the Oilfields and its subsidiaries and affiliates (if any), including valuation reports and technical reports (if necessary) on the Oilfields. MSB undertakes to furnish the Company with all necessary information concerning the Proposed Investment in its possession as the Company may reasonably require and provide all reasonable assistance and access as the Company and its professional consultants may require.

The Company and MSB mutually agree on the professional parties to conduct the due diligence review. MSB will bear the costs and expenses in relation to the due diligence and the Company further agrees to reimburse no more than HK\$10 million, in aggregate, for such costs and expenses in relation to the updating or reviews commissioned by MSB for this due diligence review. The Company’s obligation to reimburse MSB shall subsist and be continuing notwithstanding that the termination of the Third MOU by MSB as contemplated under the Third MOU. The Company shall reimburse such costs and expenses contingent upon the formal agreement (the “**Formal Agreement**”) being signed.

### **Formal Agreement**

The Formal Agreement and any other documents (if any) in relation to the Proposed Investment are expected to be entered into by the relevant parties to finalize the concrete terms for the cooperation with MSB upon acceptance of the due diligence review on the Oilfields and its holding company by the Company.

In the event such Formal Agreement is entered into, the Company and MSB agree that any pricing reference to issue price or conversion price for any shares to be issued by the Company shall be referenced to the closing price of the Shares as traded on the Stock Exchange as at the date of the Third MOU.

### **Term**

The Third MOU will remain in effect for three months (the “**Term**”) (or such longer period as the Company and MSB may mutually agree to in writing) unless the Company gives a written notice to MSB of its intention to abandon further negotiations, or until superseded by the execution of Formal Agreement, whichever is the earlier. Upon expiry of the Third MOU, and save for clause in relation to the binding effect provisions, the Company and MSB shall have no further rights or obligations under the Third MOU, except with respect to any antecedent breaches of the binding provisions.

### **Non-exclusivity**

The Third MOU is non-exclusive to the Company. MSB however agrees not to assist or procure the owner of the Oilfields to execute any binding offer or enter into any agreement relating to the sale or transfer any rights of the Oilfields with any other party during the Term of the Third MOU.

### **Binding effect**

The Company and MSB understand and agree that, save and except for the clauses in relation to the due diligence review, the non-exclusivity, the costs and expenses, assignment of rights, the Term, non-disclosure and the governing law and jurisdiction, which shall be binding and enforceable upon signing of the Third MOU, the Third MOU is not legally binding nor enforceable, does not constitute an offer, a counter-offer, an acceptance and/or a commitment to enter into any transactions, and that any binding commitment shall be subject to the execution and delivery of the Formal Agreement.

## **BACKGROUND INFORMATION ON THE OILFIELDS**

### **Information on the First Oilfield**

According to the information provided by MSB (including the draft technical report prepared under the Petroleum Resources Management System (“**PRMS**”) which is a standards recognized by the Stock Exchange), the First Oilfield is an oilfield located onshore Caspian Sea of the Mangyshlak peninsula in the south-western Mangghystau province, Kazakhstan and is in the stage of pilot production. In the period of January 2007 to December 2010, a total of 121,878 tons light oil have

been produced. The reserves of the First Oilfield based on the PRMS are set out below (as extracted from the draft technical report):

(i) Reserves

	<b>Reserves Category</b>		<b>Amounts</b>
Oil/ Condensate	Proved	1P	5.4 MMBO
	Proved + Probable	2P	33.0 MMBO
	Proved + Probable + Possible	3P	74.9 MMBO

(ii) Contingent Resources

	<b>Reserves Category</b>		<b>Amounts</b>
Oil/ Condensate	Proved	1C	4.6 MMBO
	Proved + Probable	2C	10.4 MMBO
	Proved + Probable + Possible	3C	17.8 MMBO

	<b>Reserves Category</b>		<b>Amounts</b>
Gas	Proved	1C	17.2 MMBOE
	Proved + Probable	2C	89.3 MMBOE
	Proved + Probable + Possible	3C	257.0 MMBOE

*Note:* MMBO, million barrels of oil; and

MMBOE, million barrels of oil equivalent

Based on the above reserves, the draft technical report sets out the preliminary estimation of the First Oilfield as follow:

<b>Reserve Category</b>	<b>Post-Tax Net Present Value (USD million)</b>
Proved	82
Proved + Probable	540

Based on the above reserves and the preliminary estimation of the net present value of the First Oilfield as set out in the draft technical report, the Parties estimate that the consideration for the acquisition of the First Oilfield will be around USD500 million to USD550 million with reference to the final valuation report.

## **Information on the Second Oilfield**

According to the information provided by MSB, the Second Oilfield is located in the northern shore of Mangistau Oblast and situated 277 kilometers to the northeast of Aktau in Kazakhstan. The consideration for the acquisition of the Second Oilfield will be made reference to the valuation report to be prepared by competent person recognized by the Stock Exchange.

The information above is subject to further due diligence review to be conducted by the Company and the Company shall commence negotiation with MSB on the terms and conditions of the Formal Agreement for the possible acquisition of the First Oilfield and the Second Oilfield respectively. In the event that the terms and conditions of the Formal Agreement are finalized, the Company shall comply with the Listing Rules to publish an announcement to inform the Shareholders as soon as practicable.

## **REASONS FOR ENTERING INTO THE THIRD MOU**

The Board has been exploring ways to improve the financial performance of the Group, including the diversification of the Group's operations to new and more profitable businesses. Having considered various proposals, the Board is eager to expand the business of the Group to the oil industry which is expected to provide a favourable and sustainable development opportunity for the Group.

Kazakhstan is located between Russia and China, and has borders with Turkmenistan, Uzbekistan and Kyrgyzstan, ranking the ninth biggest country in area in the world. The geographic proximity of Kazakhstan to Russia, China, Central Asia and the Caspian region makes this oil and gas-producing country an important player in energy exports. Kazakhstan has significant oil and gas reserves and abundant mineral resources, including copper, lead, zinc, iron ore, manganese, titanium, chromium and uranium. Kazakhstan currently ranks in the top 10 countries in oil and gas reserves.

The petroleum industry in Kazakhstan plays an important role in the health of the economy and countries to develop rapidly. The oil and gas sector is the engine that drives Kazakhstan's economy and the government recognizes the need to develop policies and reforms that support sustainable growth.

The Company has identified the Oilfields as having abundant potential, given the quantity of the reserves in the Oilfields and the favourable reports compiled by the professionals on geological exploration. Based on the reports, the Board considers the business overview for the oil industry to be favourable. The Company is of the view that the Proposed Investment as providing the opportunity for the Group to penetrate the oil industry and to diversify its existing business, with the aim of broadening the income base of the Group.

**The Board however wishes to emphasize that the Proposed Investment is subject to, among other things, the signing of the Formal Agreement and the terms and conditions of which are yet to be agreed. As the Proposed Investment may or may not proceed, investors and Shareholders are advised to exercise caution when dealing in the Shares. Further announcement in respect of the Proposed Investment will be made by the Company should any Formal Agreement be entered into as and when appropriate in accordance with the Listing Rules.**

By order of the Board  
**Pacific Plywood Holdings Limited**  
**Huang Chuan Fu**  
*Executive Director and Deputy Chairman*

Hong Kong, 3 March 2011

*In the event of any inconsistency, the English text of this announcement shall prevail over the Chinese text.*

*As at the date of this announcement, the executive Directors are Mr. Liang Jian Hua (Chairman), Mr. Huang Chuan Fu (Deputy Chairman), Ms. Jia Hui and Mr. Jiang Yi Ren and the independent non-executive Directors are Mr. Chan Kin Sang, Mr. Cheng Po Yuen and Mr. Wong Chun Hung.*

*This announcement will remain on the website of The Stock Exchange of Hong Kong Limited and the website of the Company for at least 7 days from the date of its posting.*