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If you have sold or transferred all your Shares in **Termbay Industries International (Holdings) Limited**, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or to the bank or stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities.



TERMBRAY INDUSTRIES INTERNATIONAL (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

website: termbay.com.hk

(Stock Code: 0093)

CONTINUING CONNECTED TRANSACTIONS

Financial adviser to Termbay Industries International (Holdings) Limited

Piper Jaffray

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**


Optima Capital Limited

A letter from the Board is set out on pages 4 to 12 of this circular. A letter from the Independent Board Committee is set out on page 13 of this circular. A letter from Optima Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 14 to 26 of this circular.

A notice convening the Special General Meeting of the Company to be held at 10:00 a.m., on 13 June 2008, at Flat B, 8th Floor, Waylee Industrial Centre, 30–38 Tsuen King Circuit, Tsuen Wan, New Territories, Hong Kong is set out on pages 36 to 37 of this circular. Whether or not you are able to attend the Special General Meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the head office and principal place of business of the Company at Flat B, 8th Floor, Waylee Industrial Centre, 30–38 Tsuen King Circuit, Tsuen Wan, New Territories, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding such meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you wish.

23 May 2008

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DEFINITIONS

In this circular, the following expressions shall have the following meanings unless the context requires otherwise:

“Annual Caps”	the annual caps for the Continuing Connected Transactions contemplated under the Framework Agreement
“associate”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Bye-laws”	the existing Bye-laws of the Company
“Company”	Termbray Industries International (Holdings) Limited, a company incorporated in Bermuda with limited liability and whose Shares are listed on the main board of the Stock Exchange
“Continuing Connected Transactions”	The transactions between the Company and Petro-king contemplated under the Framework Agreement
“Directors”	the directors of the Company, including its non-executive director and independent non-executive directors
“Framework Agreement”	the framework agreement dated 6 May 2008 entered into between the Company and Petro-king in relation to the provision of services by the Petro-king Group to the Group including (a) evaluation of potential oil assets identified for acquisition; and (b) oilfield operation and management services for the acquired oilfields
“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 People’s Republic of China
“Independent Board Committee”	the committee of the board of the Directors, comprising of independent non-executive Directors, to advise the Independent Shareholders in respect of the Framework Agreement, the Continuing Connected Transactions and the Annual Caps

DEFINITIONS

“Independent Financial Adviser” or “Optima Capital”	Optima Capital Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“Independent Shareholders”	Shareholders other than Mr. Wang Jinlong and his associates
“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner(s), to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons of the Company in accordance with the Listing Rules
“King Shine”	King Shine Group Limited, a company incorporated in the British Virgin Islands
“Latest Practicable Date”	20 May 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Petro-king”	Petro-king Holding Limited, a company incorporated in Hong Kong, which directly holds the entire equity interest in Petro-king HK and Petro-king PRC and is indirectly owned as to 51% by the Company and 49% by King Shine respectively
“Petro-king Group”	Petro-king and its wholly-owned subsidiaries
“Petro-king HK”	Petro-king International Co., Limited, a company incorporated in Hong Kong
“Petro-king PRC”	深圳市百勤石油技術有限公司 (Petro-king Oilfield Technology Limited), a company established in the PRC
“PRC”	the People’s Republic of China
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“Share(s)”	ordinary share(s) of HK\$0.08 each in the share capital of the Company
“Shareholders”	holders of the Shares from time to time
“Special General Meeting”	a special general meeting of the Company to be held to consider the ordinary resolution to be proposed to approve the Framework Agreement, the Continuing Connected Transactions, the Annual Caps and the matters contemplated thereunder
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

LETTER FROM THE BOARD



TERMBRAY INDUSTRIES INTERNATIONAL (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

website: termbray.com.hk

(Stock Code: 0093)

Directors:

Executive Directors:

Lee Lap (*Chairman*)

Leung Lai Ping

Tommy Lee (*Vice Chairman*)

Wang Jinlong (*Chief Executive Officer*)

Wong Shiu Kee

Independent Non-executive Directors:

Chan Siu Kang

Lo Yiu Hee

Tong Hin Wor

Non-executive Director:

Lee Ka Sze, Carmelo

Registered office:

Clarendon House

Church Street

Hamilton HM11

Bermuda

**Head office and principal place
of business:**

Flat B, 8th Floor

Waylee Industrial Centre

30–38 Tsuen King Circuit

Tsuen Wan

New Territories

Hong Kong

23 May 2008

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

As set out in an announcement of the Company dated 6 May 2008, the Board announces that on 6 May 2008, the Company entered into the Framework Agreement with Petro-king, a non wholly-owned subsidiary of the Company, pursuant to which the Petro-king Group will provide the Group with services in relation to (a) evaluation of potential oil assets identified for acquisition; and (b) oilfield operation and management services for the acquired oilfields.

As Petro-king is a connected person of the Company, the signing of the Framework Agreement and the Continuing Connected Transactions would constitute continuing connected transactions of the Company subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules for the Company.

LETTER FROM THE BOARD

The Independent Board Committee comprising all the independent non-executive Directors, namely, Mr. Chan Siu Kang, Mr. Lo Yiu Hee and Mr. Tong Hin Wor, has been established to consider and to advise the Independent Shareholders in relation to the Framework Agreement, the Continuing Connected Transactions and the Annual Caps. Optima Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The purpose of this circular is to provide you, among other things, (i) further details of the Framework Agreement, the Continuing Connected Transactions and the Annual Caps; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Framework Agreement, the Continuing Connected Transactions and the Annual Caps; (iii) a letter of advice from Optima Capital to the Independent Board Committee and the Independent Shareholders on the Framework Agreement, the Continuing Connected Transactions and the Annual Caps; and (iv) a notice of Special General Meeting for the purposes of approving the Framework Agreement, the Continuing Connected Transactions, the Annual Caps and the matters contemplated thereunder by the Independent Shareholders.

THE FRAMEWORK AGREEMENT

Date

6 May 2008

Parties

The Company
Petro-king

Background

Reference is made to the announcement of the Company dated 31 December 2007 in relation to the Group's acquisition of 51% equity interest in Petro-king HK and Petro-king PRC. Upon completion of the acquisition, Petro-king, which directly holds the entire equity interest in Petro-king HK and Petro-king PRC, became a non wholly-owned subsidiary of the Group. The solid experience of the Petro-king Group in oilfield related engineering and consultancy services grants the Group the expertise required to develop in the oil sector including the evaluation of potential oil assets and subsequent operation of oilfields to be acquired. As such, on 6 May 2008, the Company entered into the Framework Agreement with Petro-king, pursuant to which the Petro-king Group will provide the Group with services in relation to (a) evaluation of potential oil assets identified for acquisition; and (b) oilfield operation and management services for the acquired oilfields.

LETTER FROM THE BOARD

Synopsis

Pursuant to the Framework Agreement, the Petro-king Group will provide the Group with services including (a) evaluation of potential oil assets identified for acquisition; and (b) oilfield operation and management services for the acquired oilfields. The Framework Agreement sets out the general guidelines and terms and conditions for the relevant services. Individual specific agreements will be entered into between the relevant members of the Petro-king Group and the relevant members of the Group from time to time for each individual project. Each specific agreement will set out, inter alia, the specific scope of services to be provided, detailed technical and other specifications which may be relevant to those services and other terms and conditions. The terms of the specific agreements will be consistent in all material respects with the guidelines and terms and conditions as set out in the Framework Agreement and the provision of the relevant services shall be conducted based on the Framework Agreement as well as each specific agreement. If there is any discrepancy between the terms of the Framework Agreement and those of the individual specific agreements, the terms of the Framework Agreement shall prevail. The service fees set out in the specific agreements should be determined based on the general pricing principals set out in the Framework Agreement and on arm's length negotiations between the Petro-king Group and the Group.

Scope of services

The scope of services to be provided by the Petro-king Group to the Group under the Framework Agreement includes:

- (a) evaluation of potential oil assets identified for acquisition, such as exploration and oilfield evaluation, wireline-conveyed well logging and magnetic resonance logging and other related services; and
- (b) oilfield operation and management services for the acquired oilfields, which can be further categorised as follows:
 - (i) provision of exploration and support services, such as integrated exploration research seismic data acquisition and processing and overall project management, and other related services; and
 - (ii) provision of oil and gas development, production and support services, such as overall project management, design, construction, installation and tuning of production facilities and sourcing and purchasing material, equipment for the development and production activities and other related services.

LETTER FROM THE BOARD

General pricing principles

The pricing for the services to be provided pursuant to the Framework Agreement will be based on the following general principles:

- (i) the price shall be determined by reference to the relevant market price for the provision of the relevant services as offered by all the Independent Third Parties in the relevant market in the ordinary course of business to the Group; and
- (ii) in the absence of the relevant market price, the price shall be calculated as the reasonable costs incurred by the Petro-king Group in providing the relevant services (including the cost of sourcing or purchasing of the equipment and materials from third parties, direct labor costs and selling, general and administrative expenses) plus a margin of not more than 25%, before interest and any applicable taxes.

The abovementioned 25% of the operating profit margin is agreed based on arm's length negotiations with reference to the operating profit margins of the oilfield engineering services providers listed in Hong Kong, the PRC and Singapore, the Directors consider the basis of the terms is fair and reasonable.

In general, the services provided by the Petro-king Group to the Group shall be of good quality and based on arm's length negotiations between the parties thereto on terms and conditions which are fair and reasonable and no less favourable than those available to the Group from Independent Third Parties.

Term and Termination

The term of the Framework Agreement is initially for three years commencing from 1 June 2008 to 31 May 2011. The Framework Agreement or the relevant services may be terminated by either party from time to time by giving at least one month's prior written notice, which shall specify which kind of services shall be terminated and when such termination shall be effective, to the other party. Termination of such services in the Framework Agreement will not prejudice other rights and obligations of each party under the Framework Agreement or the individual specific agreements (if any) or any relevant agreements confirmed in writing, or the rights and obligations arisen of the Company in other agreements confirmed by the Company in writing before or upon the despatch of the written notice unless otherwise agreed by both parties.

LETTER FROM THE BOARD

Conditions precedent

As the entering into of the Framework Agreement and the Continuing Connected Transactions would constitute continuing connected transactions of the Company, the conditions precedent of the Framework Agreement include:

- (i) the Independent Shareholders' approval; and
- (ii) any other matter for the purposes of complying with the requirements of connected transactions under the Listing Rules.

Other terms

In the event that the total amount of the Continuing Connected Transactions contemplated under the Framework Agreement is foreseen to exceed the annual cap, the parties agree to notify the Stock Exchange and convene the shareholders' meeting to seek the approval by the Independent Shareholders in this regard and disclose such information to the public. In the event that any of the Annual Caps is exceeded, the Company shall re-comply with Rule 14A.35(3) and (4) of the Listing Rules pursuant to Rule 14A.36(1) of the Listing Rules.

ANNUAL CAPS

The Board has considered and proposed that the following maximum aggregate annual values in respect of each service type under the Framework Agreement be set for each of the years ending 31 March 2011.

Proposed Annual Caps of the services under the Framework Agreement for each of the years ending 31 March 2009, 2010 and 2011

Category of services	For the year ending 31 March		
	2009	2010	2011
			(US\$'000)
(a) Evaluation of potential oil assets identified for acquisition	1,500	1,500	1,500
(b) Oilfield operation and management services for the acquired oilfields	13,360	20,560	43,520

BASIS FOR THE ANNUAL CAPS

(a) Evaluation of potential oil assets identified for acquisition

The annual proposed caps in relation to the provision of evaluation services by the Petro-king Group to the Group have been determined with reference to the estimated costs to the Group to be charged by the Petro-king Group for such services, based on

LETTER FROM THE BOARD

factors including the estimated amount of work required to arrive at the evaluation of a typical oilfield of moderate size, the relevant chargeout rates of the personnel required from the Petro-king Group as those charged against Independent Third Parties and the Group for previous services provided, and the market price of the relevant services, for the evaluation of up to ten oil assets per year for each of the years ending 31 March 2009, 2010 and 2011. If the Company completes its acquisition of oilfields earlier than the current plan, the number of evaluation projects of potential oil assets identified for acquisition each year may decrease.

(b) Oilfield operation and management services for the acquired oilfields

The annual proposed caps in relation to the provision of oilfield operation and management services by the Petro-king Group to the Group have been determined with reference to the estimated costs of such services to be charged by the Petro-king Group for the operation and management of a typical oilfield of moderate size, based on factors including the estimated amount of work required for the operation and management of a typical oilfield of moderate size, the transaction amounts in respect of the provision of such services by the Petro-king Group to Independent Third Parties, and the market price of the similar services. As a new comer to the oilfield industry, the Company currently expects to acquire its first oilfield exploration and production project during the year ending 31 March 2009 and begin operation and management of the oilfield during this period. At the same time, the Company will continue to explore potential opportunities in acquiring an additional suitable oilfield during the year ending 31 March 2010 and expects to complete acquisition of its second oilfield during the year ending 31 March 2011. As such, it is expected that the Company will undertake two projects during the year ending 31 March 2011.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The Group is principally engaged in property development, property investment and the provision of oilfield engineering and consultancy services. Petro-king is principally engaged in the provision of oilfield engineering and consultancy services for domestic and overseas oilfields.

It is the Group's ongoing strategy to develop as a natural resources company with well-balanced assets combination of production and reserve as well as strong exploration and production capabilities. Since December 2007, Petro-king has become a non wholly-owned subsidiary of the Group and the solid experience of the Petro-king Group in oilfield related engineering and consultancy services grants the Group the expertise required to develop in the oil sector. In developing its assets base, the Group is actively exploring and reviewing acquisition opportunities of exploring and producing oil and gas assets in countries including but not limited to Central Asia and South-eastern Asia. The entering into of the Framework Agreement allows the Company to leverage on the technical expertise and competence of the Petro-king Group, in the evaluation and acquisition of identified potential oil assets and subsequent operation and management of acquired

LETTER FROM THE BOARD

oilfields. The Group believes that this vertically-integrated model with operations covering upstream and oilfield engineering and management would allow the Group to expand and be successful in the oil sector.

The Directors are of the view that the terms and conditions of the Framework Agreement are determined after arm's length negotiations between the parties thereto and will be no less favourable than terms to or from Independent Third Parties and therefore are fair and reasonable so far as the Shareholders are concerned and the Framework Agreement is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

The Continuing Connected Transactions will be conducted in the ordinary and usual course of business of the Group. These transactions will continue to be agreed on an arm's length basis with terms that are fair and reasonable to the Company.

SPECIAL GENERAL MEETING

Mr. Wang Jinlong, being the executive Director and chief executive officer of the Company, is the connected person of the Company and is entitled to exercise more than 10% of the voting power at any general meeting of Petro-king, being the non wholly-owned subsidiary of the Company, by virtue of his 55.28% equity interest in King Shine which indirectly owns 49% interest of Petro-king, and therefore Petro-king is a connected person of the Company pursuant to Rule 14A.11(5) of the Listing Rules. The signing of the Framework Agreement and the Continuing Connected Transactions will constitute continuing connected transactions of the Company and therefore are subject to the requirements under Chapter 14A of the Listing Rules.

As the applicable percentage ratios will exceed 2.5% on an annual aggregated basis and the aggregated annual cap of the Continuing Connected Transactions is more than HK\$10 million, the Continuing Connected Transactions and the Annual Caps are subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules, the Independent Shareholders' approval under Rules 14A.48 to 14A.54 of the Listing Rules at the Company's general meeting and the annual review requirements by the independent non-executive Directors and the auditors of the Company under Rules 14A.37 to 14A.41 of the Listing Rules. Mr. Wang Jinlong and his associates are required to abstain from voting in respect of the proposed resolution to approve the Framework Agreement, the Continuing Connected Transactions, the Annual Caps and the matters contemplated thereunder. As at the Latest Practicable Date, Mr. Wang Jinlong and his associates hold no Share and therefore, as at the Latest Practicable Date, no Shareholder is required to abstain from voting in respect of the proposed resolution to approve the Framework Agreement, the Continuing Connected Transactions, the Annual Caps and the matters contemplated thereunder.

The Special General Meeting will be held at 10:00 a.m., on 13 June 2008, at Flat B, 8th Floor, Waylee Industrial Centre, 30-38 Tsuen King Circuit, Tsuen Wan, New Territories, Hong Kong to consider and, if though fit, approve, among other matters, the Framework Agreement, the Continuing Connected Transactions, the Annual Caps and the matters contemplated thereunder.

LETTER FROM THE BOARD

A notice convening the Special General Meeting is set out on pages 36 to 37 of this circular. Whether or not you are able to attend the Special General Meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the head office and principal place of business of the Company at Flat B, 8th Floor, Waylee Industrial Centre, 30–38 Tsuen King Circuit, Tsuen Wan, New Territories, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding such meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you wish.

The Independent Board Committee has been constituted to make recommendation to the Independent Shareholders in respect of the ordinary resolution to approve the Framework Agreement, the Continuing Connected Transactions and the Annual Caps. Optima Capital has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Framework Agreement, the Continuing Connected Transactions and the Annual Caps are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

PROCEDURES FOR DEMANDING A POLL

Pursuant to Bye-law 66 of the Bye-laws and the Listing Rules, a resolution put to the vote of a meeting shall be decided on a show of hands unless a poll is required by the Listing Rules or is demanded (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) by:

- (i) the chairman of such meeting; or
- (ii) at least three Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (iii) a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (iv) a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right; or
- (v) if required by the Listing Rules, any Director or Directors who, individually or collectively, hold proxies in respect of Shares representing five per cent (5%) or more of the total voting right at such meeting provided that a meeting votes (on a show of hands) in the opposite manner to that instructed in those proxies.

LETTER FROM THE BOARD

A demand by a person as proxy for a Shareholder or in the case of a Shareholder being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a Shareholder.

RECOMMENDATION

The Independent Board Committee, having taken into account the advice of Optima Capital, considers that the Framework Agreement and the Continuing Connected Transactions are on normal commercial terms and in the ordinary course of business, and the terms of the Framework Agreement, the Continuing Connected Transactions and the Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the Special General Meeting to approve the Framework Agreement, the Continuing Connected Transactions, the Annual Caps and the matters contemplated thereunder.

The Board considers that the Framework Agreement and the Continuing Connected Transactions are on normal commercial terms and in the ordinary course of business, and the terms of the Framework Agreement, the Continuing Connected Transactions and the Annual Caps are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board also recommends the Independent Shareholders to vote in favour of the ordinary resolution in respect of the Framework Agreement, the Continuing Connected Transactions, the Annual Caps and the matters contemplated thereunder to be proposed at the Special General Meeting.

ADDITIONAL MATTERS

Your attention is drawn to the letters from the Independent Board Committee and Optima Capital which are respectively set out on page 13 and pages 14 to 26 of this circular, and the additional information set out in Appendix to this circular.

By Order of the Board
Termbray Industries International (Holdings) Limited
Lee Lap
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



TERMBRAY INDUSTRIES INTERNATIONAL (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

website: termbray.com.hk

(Stock Code: 0093)

23 May 2008

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular (the “Circular”) dated 23 May 2008 issued by the Company 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.

The Independent Board Committee has been formed to advise the Independent Shareholders in respect of the Framework Agreement, the Continuing Connected Transactions and the Annual Caps, details of which are set out in the letter from the Board in the Circular. Optima Capital has been appointed as the independent financial adviser to advise us in this respect. Your attention is drawn to the letter from the Board set out in pages 4 to 12 of the Circular and the letter of advice from the Optima Capital as set out in pages 14 to 26 of the Circular.

The Independent Board Committee, having taken into account the factors and reasons considered by Optima Capital regarding the Framework Agreement, the Continuing Connected Transactions and Annual Caps and its conclusion and advice, considers that the Framework Agreement and the Continuing Connected Transactions are on normal commercial terms and in the ordinary course of business, and the terms of the Framework Agreement, the Continuing Connected Transactions and the Annual Caps to be fair and reasonable so far as the Company and the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. On this basis, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the Special General Meeting to approve the Framework Agreement, the Continuing Connected Transactions, the Annual Caps and the matters contemplated thereunder.

Yours faithfully,
for an on behalf of the

Independent Board Committee

Chan Siu Kang

Lo Yiu Hee

Tong Hin Wor

Independent non-executive Directors

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 prepared for incorporation in this Circular.



Unit 3618, 36th Floor
Bank of America Tower
12 Harcourt Road
Central, Hong Kong

23 May 2008

*To the Independent Board Committee and
the Independent Shareholders of
Termbray Industries International (Holdings) Limited*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Framework Agreement and the transactions and matters contemplated thereunder, details of which are set out in the circular of the Company dated 23 May 2008 (the "Circular") to the Shareholders of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 6 May 2008, the Board announced that the Company has entered into the Framework Agreement with Petro-king pursuant to which the Petro-king Group will provide the Group with services including (a) evaluation of potential oil assets identified for acquisition, and (b) oilfield operation and management services for the acquired oilfields.

Mr. Wang Jinlong, being the executive Director and chief executive officer of the Company, is a connected person of the Company and is entitled to exercise more than 10% of the voting power at any general meeting of Petro-king, being the non wholly-owned subsidiary of the Company, by virtue of his 55.28% equity interest in King Shine which indirectly owns 49% interest of Petro-king, and therefore Petro-king is a connected person of the Company pursuant to Rule 14A.11(5) of the Listing Rules. The signing of the Framework Agreement and the Continuing Connected Transactions would constitute continuing connected transactions of the Company and therefore are subject to the requirements under Chapter 14A of the Listing Rules.

As the applicable percentage ratios of the Continuing Connected Transactions will exceed 2.5% on an annual aggregated basis and the aggregated annual cap of the Continuing Connected Transactions is more than HK\$10 million, the Continuing Connected Transactions contemplated under the Framework Agreement are subject to the reporting and

LETTER FROM OPTIMA CAPITAL

announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules, the Independent Shareholders' approval under Rules 14A.48 to 14A.54 of the Listing Rules at the Company's general meeting and the annual review requirements by the independent non-executive Directors and the auditors of the Company under Rules 14A.37 to 14A.41 of the Listing Rules. Mr. Wang Jinlong and his associates are required to abstain from voting in respect of the proposed resolution to approve the Framework Agreement and the Continuing Connected Transactions contemplated thereunder.

The Independent Board Committee comprising Mr. Chan Siu Kang, Mr. Lo Yiu Hee and Mr. Tong Hin Wor, all being independent non-executive Directors, has been formed to advise the Independent Shareholders whether the Framework Agreement, the Continuing Connected Transactions and the Annual Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned and as to whether the Framework Agreement, the Continuing Connected Transactions and the Annual Caps are in the interests of the Company and the Shareholders as a whole. In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to provide the Independent Board Committee and Independent Shareholders with an independent opinion and recommendation in this regard.

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular and supplied to us by the Company, and the opinion expressed by and the representations of the Directors and management of the Company. We have assumed that all the information and representations provided to us or contained or referred to in the Circular were true, accurate and complete in all respects at the time they were made and continue to be so up to the date of the Special General Meeting and may be relied upon. We have also assumed that all opinions made by the Directors in the Circular were made reasonably after due and careful enquiry and were based on honestly-held opinion. We have also relied on the responsibility statement set out in the Appendix to the Circular that the Directors collectively and individually accept full responsibility for the accuracy of the information contained in the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have also been advised by the Directors and believe that no material facts have been omitted from the information provided and referred to in the Circular misleading.

We have reviewed currently available information and documents, which are available under the present circumstances, and have performed all reasonable steps to enable us to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have no reason to suspect that any relevant information or reports have been withheld, nor are we aware of any facts or circumstances which would render the information provided and the representations made to us to be untrue, inaccurate or misleading. We have not, however, carried out an independent verification of the information provided, nor have we conducted an independent investigation into the business, affairs, operations, financial position or future prospects of the Company, Petroking and any of their respective subsidiaries or associates.

LETTER FROM OPTIMA CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation regarding the Framework Agreement and the Continuing Connected Transactions contemplated thereunder, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the Framework Agreement

Information of the Group

The Group is principally engaged in property development, property investment and the provision of oilfield engineering and consultancy services.

We note from the latest published interim report of the Company for the six months ended 30 September 2007 ("2007 Interim Report") that the Group plans to diversify its business into natural resources sector besides its core business. The Group's ongoing strategy is to gain a foothold and develop in the natural resources sector by way of exploring different kinds of investment opportunities. As stated in the 2007 Interim Report, the cash and bank balances as at 30 September 2007 amounted to approximately HK\$226 million. The Directors believe that the natural resources sector offers significant development potential and has been considering opportunities in this sector, the Group subsequently acquired Petro-king in 2007 ("Petro-king Acquisition"), details of which are disclosed in the announcement and circular of the Company dated 15 October 2007 and 12 December 2007 respectively. The Company issued the convertible notes with a principal amount of HK\$133,692,000 to King Shine upon completion of acquisition of Petro-king HK which took place on 31 December 2007. The Group remains strong in liquidity position and has no bank borrowing and no material capital expenditure as at the Latest Practicable Date. Petro-king has become a non wholly-owned subsidiary of the Company since December 2007. As Petro-king possesses solid experience in oilfield related engineering and consultancy services, the Group mainly relies on the expertise of Petro-king in its future development in the oil sector.

Information on the Petro-king Group

The Petro-king Group is principally engaged in the provision of oilfield engineering and consultancy services for domestic and overseas oilfields. The Petro-king Group possesses a professional team which gained extensive experiences in the oil industry through working for international renowned oil companies. As advised by the management of the Petro-king Group, it has undertaken projects in various countries including the PRC, Russia, Saudi Arabia, Yemen, Nigeria, Indonesia and Burma.

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Based on the information provided by the Company, we understand that Petro-king specializes in exploration, oil and gas development, oil and gas production, as well as oilfield management and technical services and had been providing such services to both domestic and overseas oil companies since 2003. Since 2003, Petro-king has been working with China Petroleum & Chemical Corporation (together with its subsidiaries, "Sinopec Group") by providing tools selling and renting and engineering service to certain oilfields under Sinopec Group in the PRC. We note that the professional team of the Petro-king Group comprises senior carbonate sedimentologist, geologist, drilling, reservoir engineer, etc. and some of them possess more than 20 years of working experience in the oil industry.

Reasons for and benefits of the Framework Agreement

As stated in the letter from the Board contained in the Circular ("Letter from the Board"), the Group's ongoing strategy to develop as a natural resources company with well-balanced assets combination of production and reserve as well as strong exploration and production capabilities. The Group is actively exploring and reviewing acquisition opportunities of exploring and producing oil and gas assets in countries including but not limited to those in Central Asia and South-eastern Asia in order to develop its assets base. The entering into of the Framework Agreement allows the Group to leverage on the technical expertise and competence of the Petro-king Group, in the evaluation and acquisition of identified potential oil assets and subsequent operation and management of acquired oilfields. The Group believes that this vertically-integrated model with operations covering upstream and oilfield engineering and management, would allow the Group to expand and be successful in the oil sector.

Having considered that (i) the Group is actively exploring and reviewing acquisition opportunities of exploring and producing oil and gas assets so as to develop as a natural resources company; (ii) the Petro-king Group is experienced in the oilfield engineering, consultancy and management businesses; and (iii) the entering into of the Framework Agreement, which we consider to be a reasonable development subsequent to the Petro-king Acquisition, allows the Group to leverage on the technical expertise and competence of Petro-king, in the evaluation and acquisition of identified potential oil assets and subsequent operation and management of acquired oilfields, we concur with the view of the Company that the entering into of the Framework Agreement and the Continuing Connected Transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Framework Agreement

Pursuant to the Framework Agreement, the Petro-king Group will provide the Group with services including (a) evaluation of potential oil assets identified for acquisition; and (b) oilfield operation and management services for the acquired oilfields. The Framework Agreement sets out general guidelines and terms and conditions for the abovementioned services and individual specific agreement(s) will be entered into between the relevant members of the Petro-king Group and the relevant members of the Group from time to time for each individual project to set out, inter alia, the specific scope of services requested, detailed technical and other specifications which may be relevant to those services and other terms and conditions. The terms of the specific agreements will be consistent in all material respects with the guidelines and terms and conditions as set out in the Framework Agreement and the provision of the relevant services shall be conducted based on the Framework Agreement as well as each specific agreement. If there is any discrepancy between the terms of the Framework Agreement and those of the individual specific agreements, the terms of the Framework Agreement shall prevail.

Scope of services

a. Evaluation of potential oil assets identified for acquisition

The services to be provided by the Petro-king Group to the Group include exploration and oilfield evaluation, wireline-conveyed well logging and magnetic resonance logging and other related services.

b. Oilfield operation and management services for the acquired oilfields

The services to be provided by the Petro-king Group to the Group include:

- (1) provision of exploration and support services, such as integrated exploration research seismic data acquisition and processing and overall project management, and other related services; and
- (2) provision of oil and gas development, production and support services, such as overall project management, design, construction, installation and tuning of production facilities and sourcing and purchasing material, equipment for the development and production activities and other related services.

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General pricing principles of the Framework Agreement

The pricing for the services to be provided pursuant to the Framework Agreement and the service fees set out in the specific agreements are based on the following general principles and determined based on arm's length negotiations between the Petro-king Group and the Group:

- (i) the price shall be determined by reference to the relevant market price for the provision of the relevant services as offered by all the Independent Third Parties in the relevant market in the ordinary course of business to the Group; and
- (ii) in the absence of the relevant market price, the price shall be calculated as the reasonable costs incurred by the Petro-king Group in providing the relevant services (including the cost of sourcing or purchasing of the equipment and materials from third parties, direct labor costs and selling, general, and administrative expenses) plus a margin of not more than 25%, before interest and any applicable taxes.

The 25% of the operating profit margin is agreed based on arm's length negotiation with reference to the operating profit margins of the oilfield engineering services providers listed in Hong Kong, the PRC and Singapore, the Directors consider the basis of the terms is fair and reasonable.

Base on our discussion with the Directors, we understand that if there is a possible project in connection with either (a) evaluation of potential oil assets identified for acquisition; or (b) oilfield operation and management services for the acquired oilfields, the Company will obtain quotations from the relevant members of the Petro-king Group and other services providers who are Independent Third Parties in the relevant marketplace. The Group will take into account the pricing and related terms and conditions provided by corresponding services providers and ensure that the terms and conditions offer by the relevant members of the Petro-king Group will be no less favourable to the Group than those available from Independent Third Parties.

The Directors confirm that the priority is set from (i) to (ii) such that the pricing principal (ii) will be applied only if (i) is not applicable. Given that the terms offer by the Petro-king Group will be no less favourable to the Group than those available from Independent Third Parties, we consider the aforesaid pricing principles to be fair and reasonable and in the interests of the Company and its Shareholders as a whole.

In order to access the fairness and reasonableness of using operating profit margin of not more than 25% under the pricing principles, we have, to the best of our effort, identified 6 oilfield servicing companies listed on different

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stock exchanges in the Asia market, which are principally engaged in the provision of oilfield exploration and support services, oil and gas development, production and support services (“Comparable Companies”). The Comparable Companies are headquartered in Hong Kong or the PRC, which is similar to the Petro-king Group, and are engaged in similar principal businesses as the Petro-king Group, being provision of oilfield engineering and consultancy services for oilfields.

The table below illustrates the operating profit margins of the Comparable Companies for the year ended 31 December 2007, as extracted from their respective latest publicly available financial information.

Company name	Principal business	Listed in	Stock code	Operating profit margin
Anton Oilfield Services Group – H share	provides high-end oilfield services and products in the areas of well services, drilling services, production services and field services	Hong Kong	3337	27.03
Jutal Offshore Oil Services Limited	provides technical support services in offshore oil and natural gas exploration and production. It also designs, fabricates and sells oil and natural gas processing skid equipment	Hong Kong	3303	16.28
Offshore Oil Engineering Company Limited	provides offshore oil engineering services, including designing, construction, installation, and repair and maintenance services. Its main businesses include oil/gas exploration engineering, subsea pipeline laying, oil/gas equipment testing and maintenance, as well as pressure container and steel structure manufacturing	China	600583	17.80

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Company name	Principal business	Listed in	Stock code	Operating profit margin
China Oilfield Services Limited – A share and H share	provides drilling services, well services, marine support and transportation services, and geophysical services to the oil field industry in the offshore China market	China Hong Kong	601808 2883	30.93
China Oilfield Technology Sevices Group Limited	provides technical solutions in tertiary oil recovery to enhance the extraction of oil. Its services include research, development, manufacture and sales of customised integrated equipment and products, which are used during chemical flooding and treatment of resultant residual liquids	Singapore	COT	65.10
Shenzhen Chiwan Petroleum Supply Base Company Limited	provides logistic services to offshore oil exploration, development, and production. Logistic services provided include material handling and rental of office, customized warehouse, yard, and berthing facilities. It also provides offshore engineering services	China	200053	52.11
			highest	65.10
			average	34.88
			lowest	16.28

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As illustrated in the above table, the operating profit margins of the Comparable Companies ranged from approximately 16.28% to approximately 65.10% and the general pricing principles referred to (ii) above, that is, a margin of not more than 25% (before interest and any applicable taxes) lies within the range and is lower than the average operating profit margins of the Comparable Companies.

We wish to highlight that the above comparisons with the Comparable Companies are for illustrative purposes only as each of the Comparable Companies may not be entirely comparable to Petro-king given their respective geographical spread of activities, scale of operations, asset base, risk profile, track record, composition of their business activities, future prospects and other relevant criteria. All these factors may affect the operating profit margin of the companies as indicated in our comparison. Therefore, in formulating our opinion, we have considered the results of the above Comparable Companies together with all other factors stated in this letter as a whole.

Taking into account the operating profit margins of the Comparable Companies, we considered that a margin of not more than 25% according to the general pricing principles of the Framework Agreement to be fair and reasonable so far as the Independent Shareholders are concerned.

3. Annual Caps

The Annual Caps of the services under the Framework Agreement for each of the years ending 31 March 2009, 2010 and 2011 are set out as follows:

Category of services	For the year ending 31 March		
	2009	2010	2011
	<i>(US\$'000)</i>		
(a) Evaluation of potential oil assets identified for acquisition	1,500	1,500	1,500
(b) Oilfield operation and management services for the acquired oilfields	13,360	20,560	43,520

Basis of the Annual Caps

- (a) Evaluation of potential oil assets identified for acquisition

As set out in the Letter from the Board, the Annual Caps in relation to the provision of evaluation services by the Petro-king Group to the Group have been determined with reference to the estimated costs to the Group to be charged by the Petro-king Group for such services, based on factors including the estimated amount of work required to arrive at the evaluation of a typical oilfield of moderate size, the relevant charge out rates of the personnel required from the Petro-king Group as those charged against Independent Third Parties

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and the Group for previous services provided, and the market price of the relevant services, for the evaluation of up to ten oil assets per year for each of the years ending 31 March 2009, 2010 and 2011.

(b) Oilfield operation and management services for the acquired oilfields

As set out in the Letter from the Board, the Annual Caps in relation to the provision of oilfield operation and management services by the Petro-king Group to the Group have been determined with reference to the estimated costs of such services to be charged by the Petro-king Group for the operation and management of a typical oilfield of moderate size, based on factors including the estimated amount of work required for the operation and management of a typical oilfield of moderate size, the transaction amounts in respect of the provision of such services by the Petro-king Group to Independent Third Parties, and the market price of the similar services.

The Company currently expects to have acquired its first oilfield exploration and production project during the year ending 31 March 2009 and begin operation and management of the oilfield during this period. At the same time, the Company will continue to explore potential opportunities in acquiring an additional suitable oilfield during the year ending 31 March 2010 and expects to complete acquisition of its second oilfield during the year ending 31 March 2011. Accordingly, it is expected that the Company will undertake two projects during the year ending 31 March 2011.

Our discussion

(a) Evaluation of potential oil assets identified for acquisition

We have reviewed a schedule prepared by the Petro-king Group (the "Schedule") based on the current plan of the Group on development of oilfield projects for the period up to the end of March 2011 with the assumption of evaluate up to ten oil assets per year. As advised by the Directors, evaluation of potential oil assets is the beginning step of running an oil business, exploration, development and production work will proceed only if a positive result is obtained from evaluation. Based on the Schedule, the Group intends to devote more resources to exploration activities in the coming three years and targets to evaluate up to a maximum of ten oil assets per year. If the Company completes its acquisition of oilfields earlier than the current plan, the number of evaluation projects of potential oil assets identified for acquisition each year may decrease. We have discussed with the management of the Company on the basis and assumption for determining the Annual Caps of evaluation services. Since there is no historical evaluation services provided to the Group which can be referred to, the Annual Caps are calculated based on (i) the daily charge-out rate of professional members in the evaluation team with different technical level; (ii) the average period for evaluation of a project with one potential oil asset; and (iii) the number of oil assets to be evaluated.

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We have further discussed with the management of the Company and the professional team of Petro-king on the abovementioned assumption, and noted that (i) the daily charge-out rate of professional member assumed in arriving the Annual Caps are set based on the rate so charged by the Petro-king Group in the provision of such evaluation services, and (ii) the average period for evaluation of a project with one potential oil asset assumed in arriving the Annual Caps are set based on their experiences on evaluating a moderated size oilfield. In addition, we have reviewed the information on general charge-out rate obtained from service providers in the market, who are Independent Third Parties, provided by the Petro-king Group and consider the daily charge-out rate of evaluation team from Petro-king is in line with market rate. We concur that the abovementioned basis for arriving at the Annual Caps, which is made with reference to the estimated costs, to be reasonable basis for the determination of the Annual Caps.

(b) Oilfield operation and management services for the acquired oilfields

We have reviewed the Schedule and noted that the oilfield operation and management services mainly comprise two categories: (i) incidental exploration services and (ii) development and production oilfield service. Based on our discussions with the management of the Company and the professional team of Petro-king, we understand that the oilfield operation and management service is a complex project and normally involves many different parties to participate in the entire project. Each party may involve only in a particular part of the project. The costs of each project may vary considerably depending on the size and complexity of the project, technical level requirement, location of the oilfield, offshore or onshore project, local or overseas labor cost, the workload of exploration, the stage of development, etc. Accordingly, the estimated cost of a project charged by the Petro-king Group may not be directly comparable to the past transactions conducted by them and it would not be appropriate to estimate the exploration cost of the oilfields in different places by applying a standard formula.

We noted from the Schedule that the estimated costs of the services to be rendered by the Petro-king Group to the Group in relation to oilfield operation and management services mainly comprised costs of (i) incidental exploration services which involve seismic data evaluation, integrated exploration plan and exploration management; and (ii) development and production oilfield services which involve on site well drilling work. The estimated costs of technical support services are calculated based on the daily charge-out rate of relevant expertise with different technical level to be participated in the project, the estimated number of days and the equipment and tools requirement for conducting the specific scope of work for one oilfield and the estimated number of wells to be drilled for the three years ending 31 March 2011. We have discussed with the professional team of Petro-king and noted that (i) the daily charge-out rate of professional member assumed in arriving the Annual Caps are set based on the rate so charged by the Petro-king

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Group in the provision of such services; and (ii) the estimated number of days and the equipment and tools required for the particular operation under the said services are set based on their experience on performing similar operation in the past. We also note that the increase in the Annual Caps for the two year ending 31 March 2011 is in line with the expected increase in the number of wells to be drilled by the Petro-king Group during such period based on the plan in the Schedule to acquire its first oilfield exploration and production project during the year ending 31 March 2009 and complete acquisition of its second oilfield during the year ending 31 March 2011. We concur that the abovementioned basis for arriving at the Annual Caps, which is made with reference to the estimated costs, to be reasonable basis for the determination of the Annual Caps.

Having considered the basis and assumptions on which the Annual Caps regarding (a) evaluation of potential oil assets identified for acquisition, and (b) oilfield operation and management services for the acquired oilfields were determined as described above, we are of the view that the Annual Caps are fair and reasonable.

Shareholders should be aware that the actual utilization of the Annual Caps figures and the sufficiency of the proposed Annual Caps would depend on considerable factors, including but not limiting to the progress of the Company's business plan, the competitiveness of the services of the Petro-king Group and their performance under the Framework Agreement, which in turn would have a direct bearing on the amount of work that the Petro-king Group would ultimately provide to the Group under the said Schedule. In this regard, we understand from the Directors that the Company will actively monitor the utilization of the Annual Caps to ensure compliance with the Listing Rules from time to time.

RECOMMENDATION

Having taken into account the above principal factors and reasons, in particular that,

- (i) the business strategy of the Group in the year ahead and the plan to diversify its business into natural resources sector;
- (ii) the Group is actively exploring and reviewing acquisition opportunities of exploring and producing oil and gas assets;
- (iii) the professional team of Petro-king Group possesses substantial experience in oilfield related engineering and consultancy services and the charge out rate of the Petro-king Group to the Group is on an arm's length basis and in line with the market price;

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- (iv) the terms of the Framework Agreement, including but not limited to the general pricing principles, being fair and reasonable and no less favourable than those available to the Group from Independent Third Parties; and
- (v) the Annual Caps for the Continuing Connected Transactions contemplated under the Framework Agreement are prepared based on reasonable assumptions,

we are of the opinion that the terms of the Framework Agreement and the Continuing Connected Transactions contemplated thereunder are (i) on normal commercial terms, in the ordinary and usual course of business of the Company; and (ii) fair and reasonable so far as the Company and the Independent Shareholders are concerned; and the entering into the Framework Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders and also recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the Special General Meeting to approve the Framework Agreement, the Continuing Connected Transactions and the Annual Caps.

Yours faithfully,
For and on behalf of
Optima Capital Limited
Gary Mui
Executive Director
Head of Corporate Finance

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of each Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in the Listing Rules, were as follows:

(i) Long positions and short position in Shares, underlying Shares and debentures

Name of Directors	Long position/(Short position)					Total	Type of securities	Percentage of total issued shares
	Personal interest	Family interest	Corporate interest	Other interest				
Mr. Lee Lap	-	-	-	1,252,752,780 (Note 1)	-	1,252,752,780	Shares	63.99%
Mdm. Leung Lai Ping	-	-	-	1,252,752,780 (Note 1)	-	1,252,752,780	Shares	63.99%
Mr. Wang Jinlong	-	-	HK\$133,692,000 (Note 2)	-	HK\$133,692,000	-	Debentures	-
	-	-	111,410,000	-	111,410,000	-	Underlying Shares	5.69%
	-	-	(111,410,000) (Note 3)	-	(111,410,000)	-	Underlying Shares	5.69%

Notes:

- (1) The 1,252,752,780 Shares included under the other interest of Mr. Lee Lap and Mdm. Leung Lai Ping are held by Lee & Leung (B.V.I.) Limited, which is wholly owned by First Trend Management Limited as trustee for Lee & Leung Family Unit Trust. All the units in Lee & Leung Family Unit Trust are held by HSBC International Trustee Limited as trustee. Mr. Lee Lap is the settlor of the Lee & Leung Family Trust. The discretionary beneficiaries of the Lee & Leung Family Trust are Mdm. Leung Lai Ping, the children of Mr. Lee Lap and Mdm. Leung Lai Ping and the offspring of such children.
- (2) King Shine Group Limited is the holder of the convertible notes in the aggregate principal amount of HK\$133,692,000 pursuant to which King Shine Group Limited is entitled to convert into an aggregate of 111,410,000 new Shares upon exercise of the conversion right. King Shine Group Limited is beneficially owned by Mr. Wang Jinlong as to 55.28%. As such, Mr. Wang Jinlong is deemed to be interested in the 111,410,000 underlying Shares pursuant to Part XV of the SFO.
- (3) The convertible notes referred to in Note 2 above is charged to the Company as security for King Shine Group Limited and its guarantors' liabilities in respect of the representation and warranties and the profit guarantee given under the agreement for the acquisition of Petro-king International Co., Limited. For the relationship of King Shine Group Limited and Mr. Wang Jinlong mentioned under Note 2 above, Mr. Wang Jinlong is deemed to have a short position in the 111,410,000 underlying Shares pursuant to Part XV of the SFO.

(ii) Long positions in shares of associated corporations

Name of Directors	Name of subsidiary	Number of non-voting deferred shares held <i>(Note)</i>	% of total issued non-voting deferred shares
Mr. Lee Lap	Applied Industrial Company Limited	1,000	40%
	Lee Plastics Manufacturing Company Limited	250,000	50%
	Magnetic Electronics Limited	5,000	100%
	Termbray Electronics Company Limited	7,000	70%
Mdm. Leung Lai Ping	Applied Industrial Company Limited	1,500	60%
	Lee Plastics Manufacturing Company Limited	250,000	50%
	Termbray Electronics Company Limited	3,000	30%

Note: All the above non-voting deferred shares are held by the above Directors personally as beneficial owner.

Name of Directors	Name of subsidiary	Number of ordinary shares	% of total issued ordinary shares
Mr. Wang Jinlong	Termbray Petro-king Oilfield Services (BVI) Limited (formerly known as Termbray Oilfield Services (BVI) Ltd.)	98	49.00%
	Petro-king Holding Limited (formerly known as Termbray Oilfield Services Limited)	10,000	100.00%
	Petro-king International Co. Limited	100	100.00%
	深圳市百勤石油技術有限公司	5,000,000	100.00%

Note: The above 49% ordinary shares in Termbray Petro-king Oilfield Services (BVI) Limited (formerly known as Termbray Oilfield Services (BVI) Ltd.) are held directly by King Shine Group Limited, which is beneficially owned by Mr. Wang Jinlong as to 55.28%. Termbray Petro-king Oilfield Services (BVI) Limited (formerly known as Termbray Oilfield Services (BVI) Ltd.) is interested in 100% of the issued shares of Petro-king Holding Limited (formerly known as Termbray Oilfield Services Limited), which in turn is interested in 100% of the issued shares of Petro-king International Co. Limited and 深圳市百勤石油技術有限公司 respectively. Mr. Wang Jinlong is therefore deemed to be interested in 49% of the issued shares of Termbray Petro-king Oilfield Services (BVI) Limited (formerly known as Termbray Oilfield Services (BVI) Ltd.), and 100% of the issued shares of Petro-king Holding Limited (formerly known as Termbray Oilfield Services Limited), Petro-king International Co. Limited and 深圳市百勤石油技術有限公司 respectively.

(iii) *Long positions in share options*

Name of Director	Number of share options as at the Latest Practicable Date	Approximate percentage of the Company's issued share capital (%)
Mr. Wang Jinlong (<i>Note</i>)	20,000,000 (<i>Note 1</i>)	1.02%
	17,000,000 (<i>Note 2</i>)	0.87%

Notes:

- On 3 March 2008, the Company granted to Mr. Wang Jinlong the options in 20,000,000 new Shares at the exercise price of HK\$1.20 per Share (subject to adjustment) pursuant to the share option agreement (the "Share Option Agreement") entered into between Mr. Wang Jinlong and the Company on 14 January 2008.
- The options in 17,000,000 new Shares were granted to Mr. Wang Jinlong at an aggregate consideration of HK\$1 on 14 March 2008 under the share option scheme of the Company. The exercise price of the options is HK\$1.25 per Share.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in the Listing Rules.

(b) Persons or corporations who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders

So far as is known to each Director or the chief executive of the Company, as at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) or corporations had an interest or short position in the Shares and 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/which 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 members of the Group and the amount of each of such person's/corporate's interest in such securities, together with particulars of any options in respect of such capital, were as follows:

Name of Shareholders	Capacity	Long position in number of Shares	Long position/ (Short position) in number of underlying Shares	Percentage of the issued share capital of the Company
Lee & Leung (B.V.I.) Limited (note 1)	Beneficial owner	1,252,752,780	–	63.99%
First Trend Management Limited (note 1)	Held by controlled corporations as trustee for Lee & Leung Family Unit Trust	1,252,752,780	–	63.99%
HSBC International Trustee Limited (note 1)	Held by controlled corporation as trustee for Lee & Leung Family Trust	1,252,752,780	–	63.99%
Cosmo Telecommunication Inc. (note 2)	Beneficial owner	151,202,960	–	7.72%
Ms. Jing Xiao Ju	Interest of controlled corporation	151,202,960	–	7.72%
East Glory Trading Limited (note 3)	Beneficial owner	103,397,540	–	5.28%
Master Winner Limited (note 3)	Interest of controlled corporation	103,397,540	–	5.28%
Mr. Yuan Qinghua	Interest of controlled corporation	103,397,540	–	5.28%
King Shine Group Limited (note 4)	Beneficial owner	–	111,410,000 (111,410,000)	5.69% (5.69%)

Notes:

- (1) These 1,252,752,780 Shares are held by Lee & Leung (B.V.I.) Limited, which is wholly owned by First Trend Management Limited as trustee for Lee & Leung Family Unit Trust. All the units in Lee & Leung Family Unit Trust are held by HSBC International Trustee Limited as trustee. Mr. Lee Lap is the settlor of the Lee & Leung Family Trust. The discretionary beneficiaries of the Lee & Leung Family Trust are Mdm. Leung Lai Ping, the children of Mr. Lee Lap and Mdm. Leung Lai Ping and the offspring of such children.
- (2) Cosmo Telecommunication Inc. is a wholly owned by Ms. Jing Xiao Ju.
- (3) East Glory Trading Limited is wholly owned by Master Winner Limited, which in turn is wholly owned by Mr. Yuan Qinghua.
- (4) King Shine Group Limited is the holder of the convertible notes in the aggregate principal amount of HK\$133,692,000 pursuant to which King Shine Group Limited is entitled to convert into an aggregate of 111,410,000 new Shares upon exercise of the conversion right.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company was aware of any other person or corporation who had an interest or short position 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/which 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 any options in respect of such capital.

3. SERVICE CONTRACTS

Mr. Chan Siu Kang, Mr. Lo Yiu Hee and Mr. Tong Hin Wor, being the independent non-executive Directors, have entered into an appointment letter with the Company pursuant to which each of Mr. Chan Siu Kang and Mr. Lo Yiu Hee is appointed for service with the Company as an independent non-executive Director from 1 January 2007 to 31 December 2008 and that of Mr. Tong Hin Wor is from 22 February 2008 to 31 December 2008, which appointment shall terminate on the earlier of (i) 31 December 2008; or (ii) the date on which the Director concerned ceases to be an independent non-executive Director for any reasons pursuant to the Bye-laws or any other applicable laws. Each of the aforesaid independent non-executive Directors shall be entitled to a director fee to be determined by the Board or shareholders of the Company, as appropriate, from time to time.

Mr. Wang Jinlong has entered into a service contract with the Company pursuant to which Mr. Wang is appointed for service with the Company as an executive Director for a term of three years from 31 December 2007 to 30 December 2010. Mr. Wang will not be entitled to any remuneration for his service as the executive Director of the Company. Mr. Wang Jinlong has further entered into a service contract with the Company pursuant to which Mr. Wang is appointed as the chief executive officer of the Company with effect from 22 February 2008 for a term of three years. Apart from the above, Mr. Wang Jinlong

has entered into a service contract with Petro-king HK under which he is appointed as an executive director and chief executive of Petro-king HK for a term of three years with effect from 1 January 2008, and has entered into a service contract with Petro-king PRC under which he is appointed as the chief executive of Petro-king PRC for a term of three years with effect from 1 January 2008. Mr. Wang will be entitled to an annual remuneration of HK\$1,200,000 payable by the Company, which amount will represent the total remuneration receivable by him for all positions held with members of the Group which shall include the remuneration receivable by him pursuant to his service contracts with Petro-king HK and Petro-king PRC respectively.

Other than the aforesaid, as at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

4. COMPETING INTEREST

Pursuant to paragraph 8.10 of the Listing Rules, the Company hereby discloses that Mr. Lee Lap and Mdm. Leung Lai Ping are interested in companies engaged in property investment and development in the People's Republic of China and Hong Kong (the "Competing Business").

The Board has established procedures to identify any conflicts of interest due to the aforesaid interests of Mr. Lee Lap and Mdm. Leung Lai Ping. If conflict of interest arises, Mr. Lee Lap and Mdm. Leung Lai Ping will abstain from participating in making any decisions. The Company is therefore capable of carrying on its business independently of, and at arm's length from the Competing Business.

Save as disclosed in this Circular, as at the Latest Practicable Date, none of the Directors nor their respective associates had any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

5. MATERIAL ADVERSE CHANGE

Save for the matters as disclosed in the announcement of the Company dated 14 May 2008, as at the Latest Practicable Date, the Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31 March 2007, the date to which the latest published audited accounts of the Group were made up.

6. EXPERT AND CONSENT

- (a) The following is the qualification of the expert who has given opinions and advice which are included in this circular:

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

- (b) Optima Capital does not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) Optima Capital has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of the references to its name and/or its opinion in the form and context in which they are included.
- (d) Optima Capital does not have any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 March 2007, the date to which the latest published audited financial statements of the Group were made up.

7. MISCELLANEOUS

- (a) The registered office of the Company is located at Clarendon House, Church Street, Hamilton, HM 11, Bermuda.
- (b) The head office and principal place of business of the Company in Hong Kong is at Flat B, 8th Floor, Waylee Industrial Centre, 30–38 Tsuen King Circuit, Tsuen Wan, New Territories, Hong Kong.
- (c) The secretary of the Company is Mr. Lo Tai On, who is an associate member of the Hong Kong Institute of Certified Public Accountants.
- (d) The qualified accountant of the Company is Mr. Wong Shiu Kee, who is a fellow member of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.
- (e) The Company's branch registrar and transfer office in Hong Kong is Tricor Standard Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

- (f) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.
- (g) As at the Latest Practicable Date, there was no contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date in which any Director was materially interested and which was significant in relation to the business of the Group save for the following:
- (i) the convertible notes in the principal amount of HK\$133,692,000 which were issued by the Company on 31 December 2007 in favour of King Shine Group Limited, a company beneficially owned by Mr. Wang Jinlong as to 55.28%, which is convertible into an aggregate of 111,410,000 new Shares in the company upon the exercise of the conversion rights under the Convertible Notes;
 - (ii) the Share Option Agreement between Mr. Wang Jinlong and the Company in relation to the 20,000,000 share options referred to under the heading of "Disclosure of Interests" in this Appendix;
 - (iii) the service contracts between the Directors and the Company and/or the Group referred to under the heading of "Service Contracts" in this Appendix; and
 - (iv) the Framework Agreement dated 6 May 2008 entered into between the Company and Petro-king in relation to the provision of services by the Petro-king Group to the Group including (a) evaluation of potential oil assets identified for acquisition; and (b) oilfield operation and management services for the acquired oilfields.
- (h) As at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any assets which had been acquired, disposed of or leased to, or which are proposed to be acquired, disposed of or leased to, the Company or any of its subsidiaries since 31 March 2007, the date to which the latest published audited financial statements of the Company were made up.
- (i) Mr. Lee Ka Sze, Carmelo, the non-executive Director, is a partner of Woo Kwan Lee & Lo, legal adviser to the Company with respect to Hong Kong law in connection with the Lease Agreement, which firm will receive normal professional fees.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the head office and principal place of business of the Company at Flat B, 8th Floor, Waylee Industrial Centre, 30–38 Tsuen King Circuit, Tsuen Wan, New Territories, Hong Kong, up to and including the date of the Special General Meeting.

- (a) a copy of the Framework Agreement;
- (b) the letter of recommendation from the Independent Board Committee containing its advice to the Independent Shareholders, the text of which is set out in the section headed “Letter from the Independent Board Committee” in this circular;
- (c) the letter from Optima Capital containing its advice 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;
- (d) the letter of consent of Optima Capital referred to under the paragraph headed “Expert and Consent” in this Appendix; and
- (e) a copy of each of the service contracts referred to under the heading of “Service Contracts” in this Appendix.

NOTICE OF SPECIAL GENERAL MEETING



TERMBRAY INDUSTRIES INTERNATIONAL (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

website: termbray.com.hk

(Stock Code: 0093)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting of Termbray Industries International (Holdings) Limited (the "Company") will be held at Flat B, 8th Floor, Waylee Industrial Centre, 30–38 Tsuen King Circuit, Tsuen Wan, New Territories, Hong Kong on 13 June 2008 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution as ordinary resolution of the Company, with or without amendments:

ORDINARY RESOLUTION

"THAT:

- (a) the framework agreement (the "Framework Agreement", a copy of which marked "A" has been produced to the meeting and signed by the Chairman of the meeting for the purpose of identification) dated 6 May 2008 entered into between Termbray Industries International (Holdings) Limited (the "Company") and Petrol-king Holding Limited ("Petrol-king"), pursuant to which Petrol-king and its wholly-owned subsidiaries (the "Petrol-king Group") shall provide to the Company and its subsidiaries services including the evaluation of potential oilfield assets identified for acquisition and oilfield operation and management services for the acquired oilfields, and the transactions and matters contemplated thereunder be and are hereby approved, ratified and confirmed, and the proposed annual caps in relation to the Framework Agreement being US\$14,860,000, US\$22,060,000 and US\$45,020,000 for the three years ending 31 March 2009, 31 March 2010 and 31 March 2011 respectively be and are hereby approved; and
- (b) any one director of the Company (or if execution under the common seal of the Company was required, any two directors of the Company) be and is (are) hereby authorised for and on behalf of the Company to sign and, where required, to affix the common seal of the Company to any documents, instruments or agreements and to do all such other things as any one director of the Company might deem necessary or expedient for the purpose of or in connection with the Framework Agreement and the transactions contemplated

NOTICE OF SPECIAL GENERAL MEETING

thereunder and all other documents necessary for completion of the Framework Agreement and the transactions.”

By order of the Board
Termbray Industries International (Holdings) Limited
Lee Lap
Chairman

Hong Kong, 23 May 2008

Notes:

- (1) The ordinary resolution in relation to the Framework Agreement to be considered at the meeting will be decided by poll.
- (2) A member of the Company entitled to attend and vote at the meeting is entitled to appoint one or, if he is the holder of two or more shares, more than one proxy to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company.
- (3) Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share, shall alone be entitled to vote in respect thereof.
- (4) A form of proxy for use at the meeting is enclosed.
- (5) To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority, must be deposited at the head office and principal place of business of the Company at Flat B, 8th Floor, Waylee Industrial Centre, 30-38 Tsuen King Circuit, Tsuen Wan, New Territories, 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 members from attending and voting in person at the meeting.
- (6) As at the date of this notice, the executive directors of the Company are Mr. Lee Lap, Mdm. Leung Lai Ping, Mr. Tommy Lee, Mr. Wang Jinlong and Mr. Wong Shiu Kee; the non-executive director of the Company is Mr. Lee Ka Sze, Carmelo; and the independent non-executive directors of the Company are Mr. Chan Siu Kang, Mr. Lo Yiu Hee and Mr. Tong Hin Wor.