PSL HOLDINGS LIMITED
Company Registration Number: 199707022K
(Incorporated in the Republic of Singapore)

RESPONSE TO THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED'S QUERY ON THE ANNOUNCEMENTS ON 12 MAY 2014 FOR 1Q2014 FIRST QUARTER RESULTS AND ON 14 MAY 2014 ON NON-BINDING MEMORANDUM OF UNDERSTANDING FOR A PROPOSED INVESTMENT IN LONGMEN GROUP LIMTED

The Board of Directors of PSL Holdings Limited (the "**Company**", together with its subsidiaries, the ("**Group**") wishes to provide the following response to the queries raised by Singapore Exchange Securities Trading Limited ("**SGX-ST**") in their email dated 21 May 2014 in respect of the Company's first quarter results announcement on 12 May 2014 ("**1Q2014 Results Announcement**") and the non- binding memorandum of understanding ("**MOU**") for a proposed investment in Longmen Group Limited on 14 May 2014 ("**MOU Announcement**").

All capitalised terms used in the Company's responses to Queries 1 and 2 below shall, unless otherwise defined, have the same meanings as ascribed to them respectively in the 1Q2014 Results Announcement. All capitalised terms used in the Company's responses to Query 3 below shall, unless otherwise defined, have the same meanings as ascribed to them respectively in the MOU Announcement.

1Q2014 Results Announcement

Query 1:

In the Company's 1Q2014 Results Announcement, the Company disclosed that the Group's general and administrative expenses increased by 38.5% in 1Q2014 due to one-off organizational expense. Please provide background for the organizational expense and what it comprises.

Company's response:

With the change in substantial shareholders and key executives, a one-off provision was made based on the 3 months salaries and unutilised contractual annual leave of the ex-executive directors, ex CEO and ex CFO of the Company. The provision is in accordance with their service agreements. The details of their resignations and termination were announced by the Company on 4 March 2014, 11 March 2014 and 1 April 2014.

Query 2

We refer to paragraph 14 of 1Q2014 Results Announcement. It was disclosed that $2.2 million of the net proceeds from the Company rights and warrants issue has been used for general working capital purposes. Please provide a breakdown with specific details on how the proceeds for general working capital purposes have been applied.

Company's response:

Out of the $2.2 million used for working capital purposes, $2.06 million was used to repay creditors and $0.14 million was for staff related costs.

MOU Announcement

Query 3

With respect to the non-binding memorandum of understanding announced on 14 May 2014 entered into by the Company for a proposed investment in Longmen Group Limited ("Longmen"), please provide the following:-

3a) The percentage interest in Longmen which the Company intends to acquire

Company's response:

With reference to paragraph 2.1(a) of the MOU Announcement, the terms and conditions of the proposed cash injection by the Company into Longmen as described therein (the "**Investment**"), including the Investment structure, are still being discussed between the Company and Longmen and are to be agreed and set out in the relevant Definitive Agreements. The main purpose of the MOU is to secure exclusivity for the Company so that the relevant parties to the Proposed Transaction can enter into further discussions on the Proposed Transaction.

The Company and Longmen are discussing the possibility that the Investment may be made by way of convertible bonds issued by Longmen to the Company, which shall be convertible at the option of the Company into a certain equity stake in Longmen. The Company and Longmen are still in discussions as to the conversion price, details and mechanics of the equity stake conversion of these convertible bonds, which in turn impacts the percentage interest in Longmen which the Company will acquire pursuant to the conversion of such convertible bonds (if such conversion right is exercised).

With reference to paragraph 2.1(b) of the MOU Announcement, based on the terms of the MOU, it is envisaged that any acquisition by the Company of the Tranche A Shares and the Tranche B Shares will occur only if Longmen has met certain key production or operational milestones to the Company's satisfaction after completion of the Investment. Such milestones are still under discussion between the Company and Longmen, and will be agreed and set out in the relevant Definitive Agreements.

It is currently envisaged that the Company may eventually acquire 100% of Longmen in the event the convertible bonds are converted by the Company into shares of Longmen, and the acquisition of the Tranche A Shares and the Tranche B Shares are completed.

Further announcement(s) will be made by the Company when the relevant Definitive Agreements are entered into, or as and when appropriate.

3b) Details of Longmen, including the principal activity, who the controlling shareholders are, their expertise and track records in coal mine gas extraction and in the PRC

Company's response:

The Company understands from Longmen as follows:

Principal Activity

The principal activities of Longmen are the exploration, development and production of coal bed methane ("**CBM**") in the People's Republic of China ("**PRC**").

Longmen owns a participating interest in the Hancheng Block located in the southern portion of the Ordos Basin in Shaanxi Province, PRC. Longmen is the operator of Hancheng Block through a production sharing contract ("**PSC**") with PetroChina Company Limited ("**PetroChina**") that gives Longmen the right to explore for, develop, produce and sell CBM gas on the Hancheng Block. Longmen started activity at Hancheng Block since late 2006.

Longmen also owns an interest in the Sangshuping, Xiayukou and Xiangshan coal mines ("**Hancheng Mines**") which has an agreement with the Hancheng Coal Mine Bureau to develop, produce and sell CBM gas in the Hancheng Mines.

Shareholders

The shareholders of Longmen are mainly financial investors, comprising funds and financial institutions. The controlling shareholder of Longmen is LESS Longmen Co. Ltd. ("**LESS**"). LESS is a strategic fund of funds focused on investing in recycling, renewables, forestry and organic food production. Geographically, the funds are focused in PRC, India, North America, and Europe.

Other shareholders include:

1. CKIF I (HK) Investment Limited:

   It is sponsored by CITIC Group, CITIC Capital Holdings Limited and Kazyna Capital Management JSC (a subsidiary of the sovereign wealth fund "Samruk-Kazyna" of the Republic of Kazakhstan). The fund focuses on infrastructure projects with growth potential and non-energy extraction projects in the Republic of Kazakhstan, Central Asia and PRC.

2. Aloe Environment Fund:

   It is a private equity investment company that specializes in environmental and socially sustainable investments. It focuses on investing in companies that develop technologies in the sectors of clean energy, waste recycling and eco-process.

3. Certain members of the management team of Longmen:

   These comprise the Chief Executive Officer and key management personnel of Longmen.

4. Certain other financial investors.

Expertise and track records

The management team of Longmen is a team with vast experience in the energy sector. Members of the management team have been with Longmen since the founding of Longmen in 2005. Certain key management personnel of Longmen have up to over 20 years working experience with PetroChina before joining Longmen and have considerable expertise in the conventional and unconventional oil and gas sector in terms of exploration, drilling, development, production, marketing and valuation.

3c) Details on how the consideration of US$40 million was determined even before the technical report has been concluded. Please also explain clearly the basis and factors taken into account in arriving at the US$40 million consideration as well as how the proposed acquisition will be funded

Company's response:

The proposed amount of the Investment of up to US$40 million is an indicative amount that the Company envisages that it may invest in Longmen and was arrived at pursuant to preliminary arm's length discussions between the Company and Longmen, taking into consideration the indicative resources and reserves relating to the PSC concession, intended use by Longmen of the amount (which includes the drilling of additional wells at the Hancheng Block), all of which will be the subject of further detailed due diligence by the Company and verification via the technical report as stated in paragraph 2.3 of the MOU Announcement.

As stated above, the Company and Longmen are discussing the possibility that the Investment may be made by way of convertible bonds issued by Longmen to the Company. In the event that the bonds are not converted, it is envisaged that the convertible bonds will be redeemed pursuant to the redemption provisions under the terms of the convertible bonds (to be discussed and agreed).

As stated in paragraph 5.1 of the MOU Announcement, except for certain customary provisions relating to, *inter alia,* the Exclusivity Period and confidentiality obligations of the Company and Longmen, the MOU states that no legally binding obligations will be created between the Company and Longmen until the relevant Definitive Agreements are executed.

Subject to the Definitive Agreements being executed, it is currently envisaged that the Proposed Transaction will be funded via internal resources and the Company may consider undertaking a fund raising exercise, if required.

3d) Details on the coal bed methane concession with Petro China and the coal mine gas extraction with Hancheng Coal Mine Bureau, including their current production level, level of reserves, cash burn and profitability of the company.

Company's response:

The Company understands from Longmen as follows:

Concessions

1. PSC Concession with PetroChina

   The concession area covers an area of 406.1 square km in Hancheng, PRC. The area comprises of 2 blocks; (i) the north block (234.3 square km) and (ii) the south block (171.8 square km). The production sharing arrangement is 60/40 in favour of Longmen and is effective for 30 years from March 2007.

2. Gas Extraction Contract

   Longmen also owns an interest in the Sangshuping, Xiayukou, and Xiangshan coal mines pursuant to an agreement with the Hancheng Coal Mine Bureau to develop, produce and sell CBM gas in the Hancheng Mines. The total covering area of the Hancheng Mines is 93.86 square kilometres. The aforementioned agreement is valid for 20 years from 2007.

Reserves

Based on preliminary estimates obtained from Longmen (which will be the subject of due diligence by the Company and verification via the technical report as stated in paragraph 2.3 of the MOU Announcement), the Company understands that the estimated reserves in respect of the Hancheng Block and the Hancheng Mines are as follows:

	Net Gas Reserves (bcf)	Present worth @10% (US$ million)
Proved (1P)	12.4	76.1
Proved + Probable (2P)	190.8	916.7
Proved + Probable + Possible (3P)	506.3	2,402.2

Exploration and development status

As of December 2013, Longmen has drilled 108 wells in the areas of the PSC concession, including 8 active vertical wells producing at commercial rates and 15 inactive wells reaching commercial level. Commercial development of the Hancheng Mines is intended to commence after the PSC concession enters into full scale commercial production.

The Company understands from Longmen that it remains unprofitable to-date. However, Longmen has already commenced trial production of CBM gas at the Hancheng Block.

The Company wishes to highlight that the information contained in the Company's response to this Query 3d) has been provided by Longmen and has not been checked or verified by the Company and its advisers. The Company will conduct due diligence at a later stage.

3e) Details of independent qualified person preparing the technical report, including his qualification and experience in valuing such asset and whether the independent qualified person meets the requirements in Listing Rule 210(9)(b).

Company's response:

(i) As stated in paragraph 2.3 of the MOU Announcement, the Proposed Transaction will be subject to the satisfaction of such conditions precedent as may be agreed by the relevant parties and set out in the Definitive Agreements, which shall include, *inter alia*, the receipt by the Company of a satisfactory technical report with regard to the resources and reserves relating to the PSC concession (the "**Relevant CP**").

The Company understands from Longmen that Netherland, Sewell & Associates, Inc. ("**NSAI**") has been engaged by Longmen to prepare the technical report in relation to the reserves at the Hancheng Block and the Hancheng Mines.

The Company further understands from Longmen that NSAI was established in 1961 and has offices located in Dallas and Houston, and NSAI performs consulting petroleum engineering services under Texas Board of Professional Engineers Registration No. F-2699 and has conducted reserves certifications, technical studies economic evaluations and advisory work throughout the world.

The Company wishes to highlight that the identity of the person preparing the technical report will be one of the key considerations that the Company will take into

account in determining if the final technical report is satisfactory to the Company for the purposes of satisfying the Relevant CP, having regard to the requirements of the Listing Manual of the SGX-ST (the "**Listing Manual**") (including Rule 210(9)(b) of the Listing Manual). The Company is still in the course of assessing the qualification and experience of NSAI for the purposes of the Relevant CP, including whether such qualification and experience meets the requirements of the Listing Manual (including Rule 210(9)(b) of the Listing Manual).

(ii) In addition, with reference to paragraph 2.1 of the MOU Announcement, based on the terms of the MOU, it is envisaged that any acquisition by the Company of the Tranche A Shares and the Tranche B Shares will occur only if Longmen has met certain key production or operational milestones to the Company's satisfaction after completion of the Investment. Such milestones are still under discussion between the Company and Longmen, and will be agreed and set out in the relevant Definitive Agreements.

(iii) The Company wishes to highlight again that, as stated in paragraph 5.1 of the MOU Announcement, except for certain customary provisions relating to, *inter alia,* the Exclusivity Period and confidentiality obligations of the Company and Longmen, the MOU states that no legally binding obligations will be created between the Company and Longmen until the relevant Definitive Agreements are executed. Accordingly, there can be no assurance that the Proposed Transaction will materialise.

BY ORDER OF THE BOARD

Tang Yew Quan
Executive Director

23 May 2014