THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Central Development Holdings Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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

CDH

CENTRAL DEVELOPMENT HOLDINGS LIMITED
中發展控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 475)

DISCLOSEABLE AND CONNECTED TRANSACTION INVOLVING THE ISSUE OF CONVERTIBLE BONDS UNDER GENERAL MANDATE IN RELATION TO THE ACQUISITION OF 35% EQUITY INTEREST IN THE TARGET COMPANY

Independent Financial Adviser to the Independent Board Committee and the Shareholders

Gram Capital Limited
嘉林資本有限公司

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed “Definitions” of this circular.

A letter from the Board is set out on pages 5 to 28 of this circular. A letter from the Independent Board Committee is set out on pages 29 to 30 of this circular. A letter from Gram Capital containing its opinion and advice to the Independent Board Committee and the Shareholders is set out on pages 31 to 49 of this circular.

18 November 2022

CONTENTS

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

"AGM"	the annual general meeting of the Company held on 8 September 2022 or 2 September 2021 (if applicable)
"Agreement"	the 35% equity transfer agreement dated 19 August 2022 and supplemental agreement dated 15 November 2022 entered into between the Vendor, the Purchaser and the Target Company in relation to the sale and purchase of the Sale Shares
"associates"; "connected person(s)"; "controlling shareholder(s)"; and "subsidiary(ies)"	each has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Bondholder(s)"	the holder(s) of the Convertible Bonds
"Chengdu Kaibangyuan"	Chengdu Kaibangyuan Trading Co., Limited# (成都凱邦源商貿有限公司), a company incorporated in the PRC with limited liability and an indirect non-wholly-owned subsidiary of the Company
"Company"	Central Development Holdings Limited 中發展控股有限公司 (stock code: 475), a company incorporated in the Cayman Islands with limited liability, the ordinary shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Proposed Acquisition in accordance with the terms and conditions of the Agreement
"Completion Date"	the date of Completion pursuant to the Agreement
"Consideration"	the consideration to be satisfied by the Purchaser to the Vendor for the sale and purchase of the Sale Shares
"Convertible Bonds"	the convertible bonds in the principal amount of HK$52,000,000, to be issued by the Company in favour of the Vendor in accordance with the terms and conditions of the Agreement
"Conversion Price"	the initial conversion price of HK$0.74 per Conversion Share, subject to adjustments, pursuant to the terms of the Convertible Bonds

"Conversion Shares"	70,270,270 new Shares to be allotted and issued by the Company upon the exercise of the conversion rights in respect of the Convertible Bonds
"Director(s)"	the director(s) of the Company
"Dividend"	any dividend or distribution, whether of cash, assets or other property, whenever paid or made and however described
"General Mandate"	the general mandate to allot, issue and deal with Shares granted to the Directors by a resolution of the Shareholders passed at the AGM
"Group"	the Company and its subsidiaries from time to time
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent committee of the Board comprising independent non-executive Directors pursuant to Rule 14A.41 of the Listing Rules being formed for the purpose of advising the Independent Shareholders in relation to the Proposed Acquisition and issue of Convertible Bonds
"Independent Financial Adviser" or "Gram Capital"	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on Corporate Finance) regulated activity under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the Proposed Acquisition and issue of Convertible Bonds
"Independent Shareholders"	Shareholders who are not required to abstain under the Listing Rules from voting if the general meeting of the Company was convened to approve the Proposed Acquisition, issue of Convertible Bonds and the transactions contemplated thereunder
"Issue Date"	the date on which the Convertible Bonds are issued, which shall be within 1 month after the Completion Date unless otherwise agreed by the Company and the Vendor
"JV Company"	Anhui Huagang Bochen New Energy Co., Ltd.# (安徽華港博臣新能源有限公司), a company incorporated in the PRC with limited liability, 50% equity interest in which is owned by the Target Company

"Latest Practicable Date"	17 November 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Main Board"	the main board of the Stock Exchange
"Maturity Date"	the date of maturity of the Convertible Bonds, being the date falling on the 3rd anniversary of the date of issue of the Convertible Bonds
"PRC"	the People's Republic of China, and for the purpose of this circular only, excludes Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
"Proposed Acquisition"	the proposed acquisition of the Sale Shares by the Purchaser subject to and upon the terms and conditions of the Agreement
"Purchaser"	Hainan Huagang New Energy Development Co., Ltd.[#] (海南華港新能源開發有限公司), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
"Resources Rich"	Resources Rich Capital Limited, a company incorporated in the British Virgin Islands with limited liabilities
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Shares"	Shares representing 35% equity interest in the Target Company, which are legally and beneficially owned by the Vendor
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Shareholders"	holders of the Shares
"Shares"	ordinary shares of HK$0.01 each in the capital of the Company
"Sichuan Huahan"	Sichuan Hua Han Source Development Co., Ltd.[#] (四川華漢能源開發有限公司), a company incorporated in the PRC with limited liability
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Target Company"	Chengdu Huahan Energy Co., Ltd.# (成都華漢能源有限公司), a company incorporated in the PRC with limited liability
"Valuer"	Colliers International (Hong Kong) Limited, an independent valuer
"Valuation"	the valuation of 35% equity interest in the Target Company as at 31 July 2022 in the Valuation Report prepared by the Valuer based on discounted cash flow approach
"Valuation Report"	valuation report on the 35% equity interest in the Target Company as at 31 July 2022 prepared by the Valuer based on discounted cash flow approach, the text of which is set out in Appendix I to this circular
"Vendor"	Mr. Zhang Bing, a PRC citizen, who is indirectly interested in 49% of the equity interest in Chengdu Kaibangyuan (an indirect non-wholly owned subsidiary of the Company) through Sichuan Huahan which is wholly owned by Zhongtouhongsheng, the entire equity interest of which is owned by the Vendor
"Zhongtouhongsheng"	Zhongtouhongsheng (Beijing) Investment & Fund Management Co., Ltd.# (中投宏晟(北京)投資基金管理有限公司), a company incorporated in the PRC with limited liability
"%"	per cent.

For the purpose of this circular and for illustrative purpose only, the conversion rate of HK$ to RMB is set at the rate of RMB1.00 for HK$1.1639. No representation is made that any amounts in RMB has been or could be converted at the above rates or at any other rates.

\# *The English translation of Chinese names or words in this circular, where indicated, are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*

CENTRAL DEVELOPMENT HOLDINGS LIMITED
中發展控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 475)

Executive Directors:
Mr. Wu Hao (Chairman)
Mr. Hu Yangjun
Mr. Chan Wing Yuen, Hubert (Chief Executive)

Non-Executive Director:
Mr. Li Wei Qi, Jacky

Independent non-executive Directors:
Mr. Jin Qingjun
Ms. Sun Ivy Connie
Ms. Zhong Yingjie, Christina

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Principal Place of Business in the Hong Kong:
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178 Gloucester Road
Wanchai
Hong Kong

18 November 2022

To the Shareholders

Dear Sir and Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION INVOLVING THE ISSUE OF CONVERTIBLE BONDS UNDER GENERAL MANDATE IN RELATION TO THE ACQUISITION OF 35% EQUITY INTEREST IN THE TARGET COMPANY

INTRODUCTION

References are made to the announcement of the Company dated 19 August 2022 in respect of, among other things, that on 19 August 2022, the Purchaser (after trading hours) entered into the Agreement with the Vendor and the Target Company, pursuant to which, the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Sale Share, representing 35% of the equity interest in the Target Company, at the Initial Consideration of HK$52,000,000, which will be settled by way of issue of the Convertible Bonds. The Purchaser, the Vendor and the Target Company entered into a supplemental agreement dated 15 November 2022.

The purpose of this circular is to provide you with, among other things:

(i) the particulars of the Agreement and the transactions contemplated thereunder;

(ii) a letter from the Independent Board Committee with its recommendation to the Shareholders regarding the Proposed Acquisition and the issue of Convertible Bonds;

(iii) a letter from Gram Capital to the Independent Board Committee and the Shareholders;

(iv) the valuation report dated 18 November 2022 from Colliers International (Hong Kong) Limited;

(v) the report dated 18 November 2022 from the D & Partners CPA Limited on the calculations of the discounted future cash flows used in the Valuation Report, as required by Rules 14.62(2) and 14A.70(9) of the Hong Kong Listing Rules; and

(vi) other information as required under the Listing Rules.

THE AGREEMENT

Date: 19 August 2022 and 15 November 2022 respectively (after trading hours)

Parties:

Purchaser: Hainan Huagang New Energy Development Co., Ltd.

Vendor: Mr. Zhang Bing

Subject matter

Pursuant to the Agreement, the Vendor has agreed to sell and the Purchaser shall acquire the Sale Shares, representing 35% of the equity interest in the Target Company. The Target Company owns 50% of the equity interest in the JV Company.

Consideration

The consideration of HK$52,000,000 for the sale and purchase of the Sale Shares shall be settled by the Purchaser to procure the Company to allot and issue the Convertible Bonds to the Vendor within 1 month after the date of Completion (exclusive of any period that the securities of the Company must not be dealt in under the Listing Rules).

The Consideration was determined after arm's length negotiations between the Company and the Vendor with reference to the Valuation Report dated 18 November 2022 on 35% of the equity interest in the Target Company by Valuer as at 31 July 2022 in the amount of approximately HK$52.0 million. The Valuation was based on discounted cash flows approach. Therefore, the Valuation is regarded as a profit forecast under Rule 14.61 of the Listing Rules and this circular is subject to the requirements under Rule 14A.70(9) of the Listing Rules.

The material assumptions, including commercial assumptions, used in the Valuation includes the following:

Valuation

Principal Assumptions of the Valuation

According to the Valuation, the fair value of the 35% of the equity interest in the Target Company as at 31 July 2022 as appraised by the Valuer, using the discounted cash flow approach as a primary methodology is in the amount of approximately HK$52.0 million. The Valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules. The Valuer is independent and competent. Specifically, the Board notes that as at the Latest Practicable Date, none of the relevant team members of the Valuer had any direct or indirect shareholdings in any member of the Group. The Valuation was prepared based on numerous assumptions, including the following principles and assumptions used by management of the Group for the preparation of the financial forecast of the Target Company:

General Assumptions

The general assumptions used in the valuation analysis included, but were not limited to, the following:

- During the current and future existence of the Target Company and JV Company, relevant laws and regulations, industry policies, fiscal and monetary policies, and economic environment will not undergo material changes;

- There will be no material changes in the relevant corporate tax rate, interest rate and exchange rate which would impact the valuation;

- The Target Company and JV Company will maintain a going concern in the future, and have sufficient operating capital and production capacity to achieve its Financial Projections;

- The Target Company and JV Company have all the necessary licenses for its operations, all other legal and administrative licenses have been obtained and can be extended when required;

- The Target Company and JV Company have fully complied with the prevailing national and local authorities' policies, ordinances, listing rules, environment and other relevant laws and regulations. It is assumed that all transaction conducted by the Target Company and JV Company in related to their assets and the ownership of their assets are in compliance with all relevant legal provisions and other laws or regulations of the relevant superior authority;

- Responsible ownership and competent management are assumed;

- The information provided by the management of the Target Company and JV Company is reliable and we will not verify the accuracy of this information, and assume no responsibility for its accuracy;

- The financial information from the financial statements provided by the management of the Target Company and JV Company is reliable and we will not verify the accuracy of the financial information, and assume no responsibility for its accuracy;

- Where third party expert or specialist information or reports are provided to us or obtained by us, it is assumed that the information is reliable and we will not verify the accuracy of these information or reports, and assume no responsibility for their accuracy; and

- The management of the Target Company and JV Company has provided us, to the best of its knowledge, with a full and frank disclosure of all information and other facts which may affect the service, including all secrecy clauses and side agreements.

Specific Assumptions

The specific assumptions used in the valuation analysis:

- The JV Company will start generating revenue on first quarter of 2023.

- Any cash shortfall in the Financial Projection of the JV Company will be financed by loan from the shareholders of the JV Company, with interest rate at 0%. It is expected that the Company will have sufficient financial resources to finance such cash shortfall.

- The earnings of the Target Company and JV Company had been assumed to be taxed at the statutory income tax rate of 25%.

- As advised by the management of the Target Company and JV Company, the JV Company has a proceeding litigation case. We have evaluated the impact of such case on the valuation and determine the impact as immaterial.

- We assumed that no other litigation cases of the Target Company and JV Company will have material impact on the valuation result.

- A legal opinion will be provided before finalizing the valuation and report. Should there be any material litigation matter which may affect the valuation result of the Target Company, the valuation result and opinion will be further adjusted.

- A 6-month trial operation is required in order for the JV Company to obtain the necessary business license, and it is acceptable for the JV Company to generate revenue during trial operation without holding the necessary business license.

Review by Reporting Accountants

D & Partners CPA Limited, the Company's reporting accountants, has reviewed the discounted future cash flows and is of the opinion that so far as the calculations are concerned, the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions made by the Directors as set out in the Valuation. Please refer to Appendix II to this circular for the report issued by D & Partners CPA Limited according to Rules 14.62(2) and Rule 14A.70(9) of the Listing Rules.

The Consideration was arrived at after arm's length negotiations between the parties to the Agreement. The Directors consider that the terms and conditions of the Proposed Acquisition are fair and reasonable and on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

Principal Terms of the Convertible Bonds

Subject to certain conditions under the Agreement, the Company will issue the Convertible Bonds in an aggregate principal amount of HK$52,000,000 which, unless previously converted, will mature on the date falling three years from the Issue Date, unless extended at the request of the Company. The terms of the Convertible Bonds have been negotiated on an arm's length basis and the principal terms of which are summarised below:

Issuer

The Company

Principal terms of the Convertible Bonds

Principal amount	:	HK$52,000,000
Issue price	:	HK$0.74
Maturity date	:	the date falling on the 3rd anniversary of the date of issuance of the Convertible Bond
Interest rate	:	Nil

Conversion rights : the Bondholder will have the right to convert the whole or part of the principal amount of the Convertible Bond (in integral multiple of HK$1 million or such lesser amount representing the entire outstanding principal amount of the Convertible Bond) into Conversion Shares at any time after JV Company has obtained the Gas Business License, on the date of the grant of the Gas Business License up to the close of business on the date falling 5 business days prior to the Maturity Date, provided that such conversion would not render Shares in the public hands being less than the minimum public float defined under Rule 8.08 of the Listing Rules or other relevant requirements under the Listing Rules and the Bondholder shall not exercise any conversion right unless it provides evidence to the reasonable satisfaction of exercising the conversion right that the Bondholder and persons acting in concert with it (as defined in the Takeovers Code) will not beneficially own 30% or more of the issued shares and/or voting rights of the Company immediately after the conversion and/or trigger any mandatory general offer obligations under the Takeovers Code.

Conversion Price : the initial Conversion Price is HK$0.74 per Conversion Share (subject to adjustment and pursuant to the terms of the Convertible Bonds) and represents:

(i) equal amount to the closing price of HK$0.74 per Share as quoted on the Stock Exchange on 19 August 2022, being the date of the Agreement dated 19 August 2022;

(ii) a premium of approximately 0.82% over the average closing price of HK$0.734 per Share as quoted on the Stock Exchange for the last 5 consecutive trading days immediately preceding the date of the Agreement dated 19 August 2022; and

(iii) a discount of approximately 0.27% over the average closing price of HK$0.742 per Share as quoted on the Stock Exchange for the last 10 trading days immediately preceding the date of the Agreement dated 19 August 2022.

The Conversion Price was determined by the Vendor and the Company on an arm's length basis with reference to the current market price of the Shares as shown above.

The Board considers that the Conversion Price is fair and reasonable.

The net Conversion Price, after deduction of relevant cost and expenses, is approximately HK$0.726, assuming that 70,270,270 Conversion Shares are issued at the conversion price of HK$0.74.

Adjustment to Conversion Price	:	the Conversion Price will be subject to adjustment for events which may have a diluting effect on the share capital of the Company or change the capital structure of the Company, such as consolidation, subdivision or reclassification of Shares, capitalisation of profits and reserves, rights issue of Shares or options over Shares.
Redemption of the Convertible Bonds by the Company	:	unless previously converted, purchased and cancelled, the Company shall pay the outstanding principal amount under the Convertible Bonds by cash on the Maturity Date, the Company may redeem the Convertible Bonds at any time and from time to time before the Maturity Date upon mutual agreement with the Vendor.
Transferability	:	subject to all applicable laws and regulations and prior notification to the Company on the condition that no transfer and/or assignment shall take place before JV Company obtains the Gas Business License, the Convertible Bonds may be assigned or transferred in whole or in part of its principal amount outstanding (in integral multiple of HK$1 million or such lesser amount representing the entire outstanding principal amount of the Convertible Bonds) to independent third parties, other than the connected person(s) of the Company.
Voting rights	:	a Bondholder will not be entitled to receive notice of, attend or vote at any general meetings of the Company by reason only of it being a Bondholder.
Listing	:	the Company will apply to the Stock Exchange for the listing of and permission to deal in the Conversion Shares to be allotted and issued upon exercise of the conversion rights attached to the Convertible Bonds, the Conversion Shares shall be allotted and issued under the General Mandate. No application will be made by the Company for the listing of the Convertible Bonds. No restriction applies to any subsequent sale of Conversion Shares.
Ranking of the Conversion Shares	:	the Conversion Shares, when allotted and issued, will rank *pari passu* in all respects with all other existing Shares outstanding at the date of such allotment and issuance and be entitled to all dividends and other distributions the record date of which falls on a date on or after the date of such allotment and issuance.

The Proposed Acquisition will not result in change in control of the Company.

Ranking of the Convertible Bonds	:	the obligations of the Company arising under the Convertible Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Company and rank and shall at all times rank *pari passu* in all respects among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Company except for obligations accorded preference by mandatory provisions of applicable law.
Restoration	:	If the JV Company cannot obtain the Gas Business License on or before 30 June 2024, the Convertible Bonds will be automatically cancelled on 1 July 2024, the Company will transfer the shares of the Target Company to the Vendor and the Vendor will return the Convertible Bonds to the Company for nil consideration on or before 6 July 2024. If any party is subject to mandatory detention/quarantine/isolation due to government anti-epidemic measures, the dates mentioned herein above will be automatically extended according to the number of days affected. The Company will ensure the restoration will comply with the relevant Listing Rules.
Events of default	:	after the occurrence of an event of default as specified in the terms and conditions of the Convertible Bonds, any Bondholder may give notice to the Company that the Convertible Bonds is immediately due and payable.

The Conversion Shares

Based on the initial Conversion Price of HK$0.74 per Conversion Share (subject to adjustment) and assuming full conversion of the Convertible Bonds, the Convertible Bonds in the aggregate principal amount of HK$52,000,000 will be convertible into 70,270,270 Conversion Shares, representing:

(a) approximately 18.13% of the issued share capital of the Company as at the date of the Agreement dated 19 August 2022;

(b) approximately 15.35% of the issued share capital of the Company as enlarged by the issuance of the Conversion Shares upon full conversion of the Convertible Bonds; and

(c) the aggregate nominal value of HK$702,703.

The Conversion Price

The Conversion Price of HK$0.74 per Conversion Share represents:

(i) a premium of approximately 23.33% to the closing price per Share of HK$0.6 as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) an equal amount to the closing price of HK$0.74 per Share as quoted on the Stock Exchange on 19 August 2022, being the date of the Agreement dated 19 August 2022;

(iii) a premium of approximately 0.82% to the average closing price per Share of HK$0.734 as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding the date of the Agreement dated 19 August 2022;

(iv) a discount of approximately 0.27% to the average closing price per Share of HK$0.742 as quoted on the Stock Exchange for the last ten consecutive trading days immediately preceding the date of the Agreement dated 19 August 2022; and

(v) a premium of approximately 1,133.33% to the consolidated net asset value per Share attributable to the Shareholders as at 31 March 2022 of approximately HK$0.06 per Share calculated based on the consolidated net assets of the Group attributable to the Shareholders of approximately HK$24,196,000 as at 31 March 2022 as extracted from the annual report of the Company for the twelve months ended 31 March 2022 and 387,564,000 Shares in issue as at the Latest Practicable Date.

The Conversion Price were determined on an arm's length basis between the Company and the Vendor with reference to the prevailing market price of the Shares as shown above.

Conditions precedent

Completion is conditional upon fulfilment or, where applicable, waiver of the following conditions:

(a) Obtaining the necessary approvals and consents of the relevant government authorities in Mainland of the PRC for the transfer of ownership of the Target Company (if applicable);

(b) The warranties given under the Agreement shall remain true, accurate, non-misleading in any material aspect, not being breached and not resulting in any material adverse change by the occurrence of any events or situations from the date of the Agreement to the Completion Date;

(c) The representations and warranties made by the Vendor and the Target Company in the transaction documents for the Proposed Acquisition remain true and accurate in all respects and are not misleading;

(d) No requests concerning the Vendor or the Target Company and JV Company have been received from any government departments nor have any requests in relation to the Vendor or the Target Company and JV Company been made to any government departments that could restrict the Proposed Acquisition or result in any material and adverse effects on the Proposed Acquisition;

(e) The Target Company has not been faced with any arbitration, administrative and legal proceeding or dispute mediation, the judgement of which might have any material adverse effect on the Proposed Acquisition, the Vendor or the Target Company;

(f) The Vendor has obtained all necessary internal consents and approvals that the Vendor and the Target Company are required to obtain in relation to the Proposed Acquisition;

(g) No laws, administrative orders or rulings that may restrict the Proposed Acquisition or make it illegal have been implemented or issued;

(h) All necessary consents, registrations, filings, licences and approvals must be obtained by the Vendor and the Target Company in relation to the Proposed Acquisition having been obtained by Vendor;

(i) The net asset value of the Target Company is not less than RMB18 million;

(j) The Target Company owns 50% of the equity interest in the JV Company;

(k) The Target Company does not have any subsidiaries;

(l) A qualified valuer approved by the Purchaser has issued a valuation report on the 35% equity interest in the Target Company, the aggregate value of which shall not be less than RMB44.9 million, and the Purchaser is satisfied with valuation report in terms of its format and content;

(m) The Target Company have obtained its necessary certificates, licenses and approvals for its lawful operations before the Completion Date;

(n) The Purchaser satisfied (in substance) a legal opinion in relation to the Target Company and JV Company issued by a legal adviser, which is qualified to practise in the PRC, engaged by the Purchaser;

(o) The Purchaser, having completed legal, financial, operational and tax-related due diligence review on the Target Company and JV Company and are satisfied with the results of such reviews in all respects;

(p) The business, operations, assets, financial, trading or other conditions, profits or prospects of the Target Company and JV Company have not undergone any material adverse changes or any events or circumstances that may cause such material adverse changes;

(q) The Purchaser receives a confirmation letter with satisfying terms, confirming the approval of the Board without any objections;

(r) The accounts receivable of the Target Company other than operating, construction payments have been fully discharged;

(s) Save and except for any companies not in operation before the Completion Date, the Target Company and JV Company have confirmed with their supplier(s) that there will be sufficient and stable supply within 5 years after the Completion Date to support the Target Company and JV Company to continue to their main operations;

(t) The Shareholder(s) of the Company with more than 50% of the voting rights has/have approved by written resolutions or at a general meeting of the Company the Agreement, the issuance of the Convertible Bonds and the various transactions contemplated thereunder in accordance with the provisions of the articles of association of the Company and the Listing Rules;

(u) The Listing Committee of the Stock Exchange has granted approval or consent to approve the listing and trading of the Conversion Shares on the Stock Exchange (whether or not such approval or consent is subject to any conditions) and transactions under the Agreement, and other matters involving all consents and approvals of the Stock Exchange which have not been withdrawn by the Stock Exchange before the Completion Date;

(v) The transactions under the Agreement do not constitute or trigger any mandatory general offer obligations under The Codes on Takeovers and Mergers and Share Buy-backs issued by the Securities and Futures Commission; and

(w) Any necessary approvals, consents and/or waivers by relevant governmental or regulatory bodies or agencies in Hong Kong or elsewhere (including but not limited to the Stock Exchange) to the benefit of the Purchaser, the Company and/or Vendor pursuant to the Agreement have been obtained in relation to the transaction contemplated under the Agreement, and such approval, consent and/or waiver has not been revoked.

All the above conditions precedents except item (n) are met as at the Latest Practicable Date. Condition precedent (n) will be satisfied on or before the Completion Date, no later than 31 March 2023 in accordance with the terms of the Agreement. Please note that the relevant date should also cover the Completion Date. If any of the above conditions precedent is not satisfied in accordance with terms of the Agreement by 31 March 2023, the Agreement may be terminated by written notice by one party to the other party to the Agreement and no claim shall be brought by the Company against the Vendor thereafter, save and except for any previous breach of the Agreement by the Vendor.

Completion

Completion shall take place after the satisfaction of all conditions precedent in the Agreement (or waiver by the Company pursuant to the terms of the Agreement) and the Company has issued a completion notice to the Vendor, at the place agreed between the Company and the Vendor, but in any event no later than 31 March 2023. Upon the Completion of the relevant registration procedures in relation to the Proposed Acquisition, the Group will be interested in 35% equity interest in the Target Company.

Post-Completion Obligations

The Vendor and the Target Company undertake to the Purchaser various post-completion obligations after the Completion, which include the following:

1. The board of directors of the Target Company shall be composed of 3 persons: 2 persons appointed by the Vendor and 1 person appointed by the Purchaser;

2. The chairman of the Target Company shall be appointed jointly by Vendor and Purchaser;

3. The general manager of the Target Company shall be appointed jointly by Vendor and Purchaser;

4. The authorised representative of the Target Company shall be appointed by Vendor;

5. The supervisor of the Target Company shall be appointed jointly by Vendor and Purchaser;

6. The financial and accounting personnel (including supervisors) of the Target Company shall be jointly appointed by the Vendor and the Purchaser;

7. All authorised person of the bank account(s) of the Target Company shall be jointly designated by the Vendor and the Purchaser;

8. The Vendor and the Target Company undertake to use their commercially reasonable best efforts to make JV Company obtain the necessary certificates, licenses and approvals for their respective lawful operations, including but not limited to the Gas Business Licence (燃氣經營許可證). Even though it is mandatory for the JV Company to obtain the Gas Business License prior to the commencement of gas business operation, as the obtaining of Gas Business License requires a 6-month trial operation, in view of the long trial operation period, the acquisition is to take place first for business operation and management rendering the obtaining of the Gas Business License a post-completion obligation instead of a condition precedent. No transfer and/or assignment of Convertible Bonds will take place before JV Company obtains the Gas Business License. If the JV Company cannot obtain the Gas Business License on or before 30 June 2024, the Convertible Bonds will be automatically cancelled on 1 July 2024, the Company will transfer the shares of the Target Company to the Vendor and the Vendor will return the Convertible Bonds to the Company for nil consideration on or before 6 July 2024. If any party is subject to mandatory detention/quarantine/isolation due to government anti-epidemic measures, the dates mentioned herein above will be automatically extended according to the number of days affected.

   The Board is of the view that the interest of the Company and its shareholders will not be prejudiced as there will be sufficient assurance provided by Purchaser's appointed PRC lawyer in the form of legal opinion pursuant to the condition precedent of the Agreement that there will be no legal impairment obstructing the JV Company from obtaining the Gas Business License. In the event if such legal opinion cannot be provided and the condition precedent is not satisfied in accordance with the terms of the Agreement by 31 March 2023, the Agreement may be terminated by written notice and the consideration (i.e. the Convertible Bonds) will not be issued and paid to the Vendor.

   The Vendor further guarantees to the Company that the conditions for applying for the Gas Business License will be met, various procedures and materials have been approved by the PRC government and the PRC government must grant the Gas Business License if the trial operation is normal. The Vendor has operated the gas business for over 20 years without any material accidents, and the current shareholders of the JV Company have considerable strength and experience in the gas industry. The Board is of the view that there is sufficient assurance provided by the Vendor that there should be no obstacle for the JV Company to obtain the Gas Business License. Therefore, the directors of the Company have fulfilled their fiduciary duties to safeguard the Company's interest when the Board has done all it possibly could to ensure that there will be no legal and procedural impairment arising from the Vendor obstructing the JV Company from obtaining the Gas Business License prior to issuing the Convertible Bonds to the Vendor.

9. The shareholders of the Target Company may transfer all or part of their equity interest to one another;

10. The transfer of shares by the shareholders of the Target Company to persons other than the shareholders of the Target Company shall be subject to the unanimous written consent of all the shareholders of the Target Company. The shareholders of the target company shall notify other shareholders in writing to seek opinions in relation to their share transfers. If other shareholders fail to reply within 30 days from the date of receipt of the written notice, they shall be deemed to agree to the transfer;

11. For the share transfer with the consent of the shareholders of the Target Company, other shareholders of the Target Company have the right of first refusal under the same conditions. If two or more shareholders of the Target Company claim to exercise the right of first refusal, they shall negotiate to determine their respective purchase proportions; if the negotiation fails, the right of first refusal shall be exercised in proportion to their respective capital contributions at the time of transfer;

12. Shareholders of the Target Company shall notify other shareholders in writing of their share transfers to seek opinions from them; and

13. Notwithstanding the above provisions as post-completion obligations under the Agreement, within 2 years after the effective date of the Agreement, without the unanimous written consent of the parties to the Agreement and the shareholders of the Target Company, neither party shall have any right to transfer and pledge its share of capital contribution in the Target Company under the Agreement.

REASONS FOR AND BENEFITS OF THE PROPOSED ACQUISITION

The Group is principally engaged in the energy business and jewelry business. The Group continues to strategically expand its energy business in order to diversify the Group's overall business. As stated in the Company's annual report for the year ended 31 March 2022, the Group has been focusing on identifying more investment opportunities in the energy sector to build and broaden strategic partnerships for long-term stable and healthy development, especially potential investments in natural gas and natural gas-related businesses. With this initiative, the Group will not only fully leverage its operational and management strengths, but will also improve the overall efficiency of the Group's resource allocation and enhance the long-term development potential of its energy business by creating synergies with its existing natural gas and solar photovoltaics businesses.

The Vendor has been engaged in the energy business for years and has extensive experience and resources in the industry. By participating in the Target Company, the Group will be able to build a strong alliance with the Vendor, leveraging the Vendor's existing resources in the industry, brand image, and strong marketing experience, together with the Group's management experience, the strong partnership with the Vendor is expected to accelerate the Group's expansion in energy business.

The Target Company and its JV Company are now building decentralised energy stations that supply piped natural gas to urban areas where the JV Company is located, which will provide industrial steam, residential heating, and natural gas to industrial users via pipelines. In light of the "dual carbon" policy of "peak-carbon and carbon-neutral", the development of decentralised natural gas stations is expected to be a promising future development. In addition to enriching the Group's business portfolio, the proposed acquisition of the Target Company represents an excellent opportunity that will enable the Group to pursue its goal of becoming a supplier of diversified energy solutions and products.

The Directors consider that the Proposed Acquisition will facilitate strategic cooperation between the Group and the Vendor and the Group's business development, expand the customer base of the Group's energy business and further leverage the advantages of industry chain integration. In addition to increasing the market share of the Group's energy business in the PRC, the Proposed Acquisition will diversify the Group's revenue streams. It will also provide a stable source of cash flow for the Group, increase its net profit and thereby creating greater investment value for investors and Shareholders.

Having considered the above reasons, the Directors consider that the terms and conditions of the Agreement are on normal commercial terms and are fair and reasonable and the Proposed Acquisition is in the interests of the Group, the Company and the Shareholders as a whole. The Directors has considered the fairness and reasonableness of the cash flow forecast that formed the basis of the Consideration and take the view that the estimations adopted by the JV Company is reasonable and achievable and the Consideration of HK$52 million is fair and reasonable for reasons stated herein below:

a) Prior to the acquisition in November 2021, as informed by the management of the Target Company, the Vendor has acquaintance with the owners of the JV Company and was approached by them for cooperation during the shortage of funds of the JV Company for consideration of RMB20.0 million (equivalent to approximately HK$23.3 million), including RMB6.0 million paid to the former 50% equity-interest owner and RMB14.0 million further capital injection to the JV Company. The RMB20.0 million stands for 100% of the consideration, the original purchasing cost is RMB7 million (HK$8.1 million), which stands for 35% of the consideration. The consideration of RMB20.0 million (equivalent to approximately HK$23.3 million) was not assessed based on any fair market valuation but it is an appropriate amount for investment during the shortage of funds of the JV Company. With the capital injection provided by the Target Company in November 2021, the JV Company resumes normal operation. The current HK$52 million consideration is higher than the original acquisition cost of HK$8.1 million;

b) A 6-month trial operation is required in order for the JV Company to obtain the necessary business license, and it is acceptable for the JV Company to generate revenue during trial operation without holding the necessary business license; and

c) The JV Company has entered an exclusive licencing agreement with the Housing and Urban-Rural Development Bureau of Mengcheng County. The agreement grants the JV Company a 30-year license to supply heat and steam (except natural gas) to residents and industry, commercial and corporate entities in the Mengcheng County Area. This exclusive licencing agreement, was acquired by the JV Company for operational usage and ensured that the JV Company is the sole supplier of heat and steam (except natural gas) to parties within the Mengcheng Country Area. With no competitors in the market, we found the JV Company's forecasting approach of using the population in the Mengcheng County Area (suggested by the letter of intent signed by the local population) and the market price of surrounding areas to be reasonable.

EFFECT OF PROPOSED ACQUISITION ON THE SHAREHOLDING STRUCTURE

Set out below is the shareholding structure of the Company (a) as at the Latest Practicable Date; and (b) immediately after full conversion of the Convertible Bonds:

Shareholders	**As at the Latest Practicable Date**		**Immediately after completion of allotment and issue of the Convertible Bonds upon exercise of the conversion rights in full** *(Note 1)*	
	Number of Shares	*Approximate percentage (Note 5)*	*Number of Shares*	*Approximate percentage (Note 5)*
Resources Rich	204,718,000 *(Note 2)*	52.82%	204,718,000 *(Note 2)*	44.71%
Mr. Hu Yangjun	3,066,000 *(Note 3)*	0.79%	3,066,000 *(Note 3)*	0.67%
Mr. Hu Yishi	2,736,000 *(Note 4)*	0.71%	2,736,000 *(Note 4)*	0.6%
The Vendor	–	–	70,270,270	15.35%
Public Shareholders	177,044,000	45.68%	177,044,000	38.67%
Total	387,564,000	100%	457,834,270	100%

Note:

1. The numbers are for illustration purpose only. Pursuant to the Agreement, the Vendor will only convert the Convertible Bonds in a manner that will (i) not upset the public float of Shares on the Stock Exchange; and (ii) not trigger any mandatory general offer obligation under Rule 26 of the Takeovers Code.

2. 50% of the entire issued share capital of Resources Rich is owned by Mr. Hu Yangjun while the other 50% is owned by Mr. Hu Yishi. Mr. Hu Yangjun and Mr. Hu Yishi are deemed to be interested in all the Shares in which Resources Rich is interested by virtue of the SFO.

3. Mr. Hu Yangjun had a direct interest of 3,066,000 Shares and a deemed interest of 204,718,000 Shares held by Resources Rich, a company 50% owned by Mr. Hu Yangjun, within the meaning of Part XV of the SFO. Ms. Zhang Qi is the spouse of Mr. Hu Yangjun. Accordingly, she is deemed to be interested in the same number of Shares and underlying Shares in which Mr. Hu Yangjun is interested in pursuant to the SFO.

4. Mr. Hu Yishi had a direct interest of 2,736,000 Shares and a deemed interest of 204,718,000 Shares held by Resources Rich, a company 50% owned by Mr. Hu Yishi, within the meaning of Part XV of the SFO. Ms. Lin Min, Mindy is the spouse of Mr. Hu Yishi. Accordingly, she is deemed to be interested in the same number of Shares and underlying Shares in which Mr. Hu Yishi is interested in pursuant to the SFO.

5. The percentage figures included in this table are subject to rounding adjustment.

6. The figures above assume that other than the Conversion Shares, no further Shares are issued or repurchased by the Company, and no Shares are sold or purchased by the Vendor or his associate(s), in each case on or after the date of this circular and up to the date the allotment and issue of and the Conversion Shares.

The Proposed Acquisition will not result in change in control of the Company.

INFORMATION OF THE TARGET COMPANY, THE JV COMPANY AND THEIR BUSINESSES

The Target Company, the JV Company and their businesses

Target Company is principally engaged in investment holding. Target Company is the beneficial owner of 50% of the entire registered and paid up capital of the JV Company. The JV Company is principally engaged in the construction and operation of natural gas pipeline networks, the operation and maintenance of pipeline corridors, provision of residential heating, and the procurement, transportation and sale of natural gas in Mengcheng County, Anhui Province, the PRC. In 2019, the JV Company entered into a licensing agreement with the Housing and Urban-Rural Development Bureau of Mengcheng County, under which the JV Company was granted a 30-year license to supply heat and steam (except natural gas) to industrial, commercial and corporate entities and urban residents in the county planning area of Mengcheng County. The JV Company is constructing two distributed energy stations, four 20-tonne gas-fired steam boilers, two natural gas gateways and approximately 7 kilometres of heat supply network. As at the date of the Agreement, the JV Company has not commenced sales.

As the Target Company is newly incorporated in January 2021, no financial information for year ended 31 March 2021 on the Target Company is presented in this circular. The Target Company has no business operation since its incorporation other than holding 50% of the equity interest in the JV Company since November 2021 and invested in a subsidiary in January 2022 whose was then disposed by the Target Company in July 2022, the subsidiary therefore was not included in the valuation of the Target Company. The registered capital of the Target Company is RMB60.0 million (equivalent to approximately HK$69.8 million). The JV Company will be treated as investment in joint venture in the book of the Target Company and the results of JV company will not be consolidated into the financial statements of the Target Company. A summary of the financial information of the JV Company derived from the audited financial information for the year ended 31 March 2022 and 31 March 2021 and unaudited financial information for the four months ended 31 July 2022 prepared in accordance with the generally accepted accounting principles in the PRC are as follows:

	Year ended 31 March 2021 *'000* *(audited)*	**Year ended 31 March 2022** *'000* *(audited)*	**For the four months ended 31 July 2022** *'000* *(unaudited)*
Net loss before taxation	RMB(1,316) (equivalent to approximately HK$(1,532))	RMB(1,754) (equivalent to approximately HK$(2,041))	RMB(517) (equivalent to approximately HK$(602))
Net loss after taxation	RMB(1,316) (equivalent to approximately HK$(1,532))	RMB(1,754) (equivalent to approximately HK$(2,041))	RMB(517) (equivalent to approximately HK$(602))
Net asset value	RMB23,614 (equivalent to approximately HK$27,484)	RMB35,859 (equivalent to approximately HK$41,737)	RMB35,343 (equivalent to approximately HK$41,136)

A summary of the financial information of the Target Company derived from the audited financial information for the year ended 31 March 2022 and unaudited financial information for the four months ended 31 July 2022 prepared in accordance with the generally accepted accounting principles in the PRC are as follows:

	Year ended 31 March 2022 *'000* *(audited)*	For the four months ended 31 July 2022 *'000* *(unaudited)*
Net loss before taxation	RMB(902) (equivalent to approximately HK$(1,050))	RMB(723) (equivalent to approximately HK$(842))
Net loss after taxation	RMB(902) (equivalent to approximately HK$(1,050))	RMB(723) (equivalent to approximately HK$(842))
Net asset value	RMB19,236 (equivalent to approximately HK$22,389)	RMB18,369 (equivalent to approximately HK$21,379)

The original investment costs of 35% equity interest in the Target Company by the Vendor were approximately in the amount of RMB7.0 million (equivalent to approximately HK$8.1 million).

The Target Company has incorporated in January 2021 and acquired the 50% of the equity interest in the JV Company in November 2021. The considerations involved is RMB20.0 million (equivalent to approximately HK$23.3 million) being the original acquisition costs of 50% equity interest in the JV Company by the Target Company.

Prior to the acquisition by the Target Company, one of the 50% equity-interest owner of the JV Company unilaterally terminated the capital investment which led to the JV Company under pressures to settle the outstanding expenses and payment to the contractors.

The Vendor has over 25 years of experience in the energy industry and have a strong network connection with people of the same industry. The Vendor has acquaintance with the owners of the JV Company and was approached by them for cooperation during the shortage of funds of the JV Company for consideration of RMB20.0 million (equivalent to approximately HK$23.3 million), including RMB6.0 million paid to the former 50% equity-interest owner and RMB14.0 million further capital injection to the JV Company. The consideration of RMB20.0 million (equivalent to approximately HK$23.3 million) was not assessed based on any fair market valuation but it is an appropriate amount for investment during the shortage of funds of the JV Company. With the capital injection provided by the Target Company in November 2021, the JV Company resumes normal operation and the cash flow forecast as prepared by the management of the JV Company and the Vendor for valuation, indicates that the valuation result of the Target Company is HK$52 million (rounded).

After completion of the Proposed Acquisition, the Target Company and JV Company will not be treated as subsidiaries of the Group and their results will not be consolidated into the consolidated financial statements of the Group.

GENERAL INFORMATION OF THE PARTIES

The Company, the Purchaser and the Group

The Company is an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange. The Purchaser is an indirect wholly-owned subsidiary of the Company through Beijing Jianxinyuan Trading Company Limited (北京建新源貿易有限公司) and incorporated in the PRC with limited liability. The Purchaser is principally engaged in investment holding. The Group is principally engaged in energy business in the PRC, Hong Kong and other countries and jewelry business in the PRC and Hong Kong.

Information of the Vendor

The Vendor is directly interested in 95% and indirectly interested in 5% through Zhongtouhongsheng and Sichuan Huahan of the equity interest in the Target Company. The Vendor is indirectly interested in 49% of the equity interest in Chengdu Kaibangyuan through Sichuan Huahan which is wholly owned by Zhongtouhongsheng, the entire equity interest in which is owned by the Vendor. As such, the Vendor is a substantial shareholder of Chengdu Kaibangyuan, an indirect non-wholly owned subsidiary of the Company. Hence, the Vendor is a connected person of the Company at the subsidiary level under the Listing Rules. The Board understands that there is no agreement, arrangement, understanding or undertaking, whether formal or informal and whether express or implied between (i) the Vendor and its connected person(s) and (ii) Resources Rich and its connected persons(s) other than the Agreement.

Based on the information provided by the Vendor, the Vendor is a merchant and has worked in the energy industry for over 25 years.

Information of shareholder of the remaining 50% interest in the JV Company and its ultimate beneficial owner(s)

The JV Company is owned as to 50% by Huagang Gas Group Co., Ltd whose principal business activities include pipeline gas (natural gas) and bottled gas (liquefied petroleum gas). Huagang Gas Group Co., Ltd is owned as to 51% by Kunlun Energy Company Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited (stock code: 00135.HK) and 49% by Hebei Huayou Collective Assets Investment Management Centre whose principal business activities include managing and operating the collective assets of its parent company, North China Petroleum Administration Co., Ltd. North China Petroleum Administration Co., Ltd is wholly owned by China National Petroleum Corporation who is wholly owned by State-owned Assets Supervision and Administration Commission of the State Council.

THE GENERAL MANDATE

The Conversion Shares upon exercise in full of the Convertible Bonds will be allotted and issued pursuant to the General Mandate.

EQUITY FUND RAISING ACTIVITIES IN THE PAST 12 MONTHS

The Company had not carried out any equity fund raising activities in the 12 months immediately preceding the Latest Practicable Date.

APPLICATION FOR LISTING

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares. The Conversion Shares, when allotted and issued, will rank *pari passu* in all respects with all the existing Shares in issue.

FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

Upon Completion, the Target Company and the JV Company will not become the subsidiaries of the Company and the financial results, assets and liabilities of the Target Company and the JV Company will not be consolidated into the Group's consolidated financial statements.

Earnings

Upon Completion, the financial results of the Target Company and the JV Company will not be consolidated into the consolidated financial statements of the Group. The Group will not be able to enjoy the earnings attributable to the Group of the Target Company and the JV Company. The Target Company shall be accounted for as an associate using the equity method in the consolidated financial statements of the Group. As a result, the investment in the Target Company will initially be recognized in the statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the Target Company.

On initial recognition, the Convertible Bonds shall be recognised as a compound financial instrument with a conversion option, which comprise an equity component and a liability component, on the consolidated financial statements of the Company. The carrying amount of the liability component is first determined by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the equity component is then determined by deducting the fair value of the liability component from the fair value of the Convertible Bonds as a whole. The liability component of the Convertible Bonds is subsequent measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss. The exact amount of the respective fair value of the liability and derivative components of the Convertible Bonds and their financial impacts to the Company will be subject to the review by the auditors of the Company and/or the assessment and valuation by an independent valuer at the time of the issue of the Convertible Bonds.

Assets and Liabilities

Upon Completion, the total assets of the Group would have increased because of the recognition of the investment in the associate at consideration cost. On the other hand, the total liabilities of the Group would have increased because of the issue of the Convertible Bonds to set off the consideration payable. As results, both assets and liabilities of the Group will be increased at the same time, therefore the net asset of the Group is not expected to experience any material impact immediately upon Completion.

LISTING RULES IMPLICATIONS

Discloseable Transaction

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Proposed Acquisition is more than 5% but less than 25%, the Proposed Acquisition constitutes a discloseable transaction of the Group under Chapter 14 of the Listing Rules.

Connected Transaction

As at the Latest Practicable Date, the Vendor, being the ultimate beneficial owner of 49% of the equity interest in Chengdu Kaibangyuan through Sichuan Huahan which is wholly owned by Zhongtouhongsheng, the entire equity interest in which is owned by the Vendor, is a substantial shareholder of the Chengdu Kaibangyuan, an indirect non-wholly owned subsidiary of the Company. Hence, the Vendor is a connected person of the Company at the subsidiary level of the Company under the Listing Rules, and the Proposed Acquisition constitutes a connected transaction of the Group under Chapter 14A of the Listing Rules. The Proposed Acquisition and the issue of Convertible Bonds as Consideration, but for Rule 14A.37 of the Listing Rules, are subject to the reporting, announcement and the independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

The Company has applied for, and on 25 August 2022, the Stock Exchange has granted, a waiver from the requirement for the Company to convene a general meeting under Rule 14A.37 of the Listing Rules on the basis that: (i) to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder had a material interest in the Proposed Acquisition and issue of Convertible Bonds as Consideration, and no Shareholder would be required to abstain from voting if the general meeting of the Company was convened to approve the Proposed Acquisition and issue of Convertible Bonds as Consideration; and (ii) written approvals by Resources Rich which is directly interested in 204,718,000 Shares and such Shares constituted approximately 52.82% of the total number of Shares as at the Latest Practicable Date, had been obtained by the Company for implementing the Proposed Acquisition and issue of Convertible Bonds as Consideration in lieu of convening a general meeting.

None of the Directors has a material interest in the Agreement and the transactions contemplated thereunder and therefore none of the Director was required to abstain from voting on the relevant board resolutions in respects approving the Proposed Acquisition and the issue of Convertible Bonds.

INDEPENDENT BOARD COMMITTEE AND GRAM CAPITAL

The Independent Board Committee comprising Mr. Jin Qingjun, Ms. Sun Ivy Connie and Ms. Zhong Yingjie, Christina, all being independent non-executive Directors, has been formed to give advice to the Shareholders as to whether the transaction contemplated under the Proposed Acquisition and the issue of Convertible Bonds are on normal commercial terms which 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, taking into consideration of the advice to be given by Gram Capital.

Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in respect of the Proposed Acquisition and the issue of Convertible Bonds.

RECOMMENDATION

Your attention is also drawn to the letter from the Independent Board Committee set out on pages 29 to 30 of this circular, and the letter from Gram Capital, the Independent Financial Adviser, to the Independent Board Committee and the Shareholders set out on pages 31 to 49 of this circular in connection with the transactions contemplated under the Proposed Acquisition and the issue of Convertible Bonds and the principal factors and reasons considered by Gram Capital in arriving at such advice.

The Independent Board Committee, having taken into account the advice of Gram Capital, considers that the transactions contemplated under the Proposed Acquisition and the issue of Convertible Bonds, are in the interest of the Company and the Shareholders as a whole. The Independent Board Committee is also of the view that the terms of the Proposed Acquisition and the issue of Convertible Bonds are on normal commercial terms and fair and reasonable so far as the Shareholders are concerned.

The Board (including the independent non-executive Directors) is of the view that although the Proposed Acquisition and the issue of Convertible Bonds are not conducted in the ordinary and usual course of business of the Company, they are in the interests of the Company and the Shareholders as a whole.

The Board (including the independent non-executive Directors) would recommend the Shareholders to vote in favour of the Proposed Acquisition and the issue of Convertible Bonds contemplated by the Agreement if a physical general meeting were to be convened for the purpose of consideration and if thought fit, approving the Proposed Acquisition and the issue of Convertible Bonds contemplated by the Agreement.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Completion of the Proposed Acquisition is conditional upon the fulfilment of the conditions set out under the paragraph headed "Conditions Precedent" in this circular, which may or may not be fulfilled. Accordingly, the Proposed Acquisition may or may not proceed. Shareholders and potential investors of the Company should exercise caution when they deal or contemplate dealing in the Shares and other securities of the Company.

Yours faithfully,
By Order of the Board
Central Development Holdings Limited
Wu Hao
Chairman & Executive Director

The following is the text of the letter of recommendation from Independent Board Committee to Independent Shareholders in relation to the Agreement, the transaction contemplated thereunder, the Proposed Acquisition and the issue of Convertible Bonds for the purpose of incorporation in this circular.

CENTRAL DEVELOPMENT HOLDINGS LIMITED
中發展控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 475)

DISCLOSEABLE AND CONNECTED TRANSACTION INVOLVING THE ISSUE OF CONVERTIBLE BONDS UNDER GENERAL MANDATE IN RELATION TO THE ACQUISITION OF 35% EQUITY INTEREST IN THE TARGET COMPANY

18 November 2022

To the Shareholders

Dear Sir or Madam,

We refer to the circular of the Company dated 18 November 2022 (the "Circular") to the Shareholders, of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used herein.

We have been appointed by the Board to form the Independent Board Committee to consider and advise the Shareholders as to whether, in our opinion, the Acquisition and the issue of Convertible Bonds contemplated under the Agreement are on normal commercial terms, fair and reasonable so far as the Shareholders are concerned and whether it is in the interests of the Company and the Shareholders as a whole. The appointment of Gram Capital as the Independent Financial Adviser to advise you and us in this regard has been approved by us. Details of its advice, together with the principal factors and reasons taken into consideration in arriving at such advice, are set out on pages 31 to 49 of the Circular.

We wish to draw your attention to the "Letter from the Board" and "Letter from Gram Capital" as set out on pages 5 to 28 and pages 31 to 49 to the Circular respectively.

RECOMMENDATION

Having considered the terms and conditions of the Proposed Acquisition and the issue of Convertible Bonds contemplated under the Agreement, and taking into account the independent advice from Gram Capital, and in particular, the principal factors and reasons considered and opinion and recommendation as set out in its letter, we are of the opinion that although the Proposed Acquisition and the issue of Convertible Bonds are not conducted in the ordinary and usual course of business of the Company, they are in the interests of the Company and the Shareholders as a whole. The Independent Board Committee is also of the view that the terms of the Proposed Acquisition and the issue of Convertible Bonds contemplated under the Agreement are on normal commercial terms and fair and reasonable so far as the Shareholders are concerned.

As stated in the "Letter from the Board", the Stock Exchange has granted its approval to waive the physical general meeting requirement on 25 August 2022. We would recommend the Shareholders to vote in favour of the Proposed Acquisition and the issue of Convertible Bonds contemplated by the Agreement if a physical general meeting were to be convened for the purpose of consideration and if thought fit, approving the Proposed Acquisition and the issue of Convertible Bonds contemplated by the Agreement.

Yours faithfully,
For and on behalf of the Independent Board Committee
Central Development Holdings Limited

Jin Qingjun	**Sun Ivy Connie**	**Zhong Yingjie, Christina**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and Shareholders in respect of the Transactions for the purpose of inclusion in this circular.

Gram Capital Limited
嘉林資本有限公司

Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

18 November 2022

To: The Independent Board Committee and the Shareholders of Central Development Holdings Limited

Dear Sir/Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in respect of the Proposed Acquisition and the issue of Convertible Bonds (the "**Transactions**"), details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 18 November 2022 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

With reference to the Board Letter, on 19 August 2022 (after trading hours) (the "**Agreement Date**"), the Purchaser (an indirect wholly-owned subsidiary of the Company), the Vendor and the Target Company entered into the Agreement, pursuant to which the Purchaser agreed to purchase and the Vendor agreed to sell the Sale Shares for a total consideration of HK$52,000,000 (the "**Consideration**"). The Consideration shall be settled by the Purchaser procuring the Company to issue the Convertible Bonds to the Vendor within 1 month after the date of Completion (exclusive of any period that the securities of the Company must not be dealt in under the Listing Rules). On 15 November 2022, the Purchaser, the Vendor and the Target Company entered into a supplemental agreement to supplement certain terms of the Agreement.

With reference to the Board Letter, the Proposed Acquisition constitutes a discloseable and connected transaction of the Group. The Company applied for, and on 25 August 2022, the Stock Exchange granted, a waiver from the requirement for the Company to convene a general meeting under Rule 14A.37 of the Listing Rules.

The Independent Board Committee comprising Mr. Jin Qingjun, Ms. Sun, Ivy Connie and Ms. Zhong Yingjie, Christina, being all of the independent non-executive Directors, has been formed to advise the Shareholders on (i) whether the terms of the Transactions are on normal commercial terms and are fair and reasonable; and (ii) whether the Transactions are in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of the business of the Group; and (iii) how the Shareholders should vote in respect of the Transactions if a physical general meeting were to be convened for the purpose of consideration and if thought fit, approving the Transactions. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in this respect.

INDEPENDENCE

We were not aware of any relationships or interests between Gram Capital and the Company during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Transactions. We consider that we have taken sufficient and necessary steps to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

We have not made any independent evaluation or appraisal of the assets and liabilities of the Target Company, and we have not been furnished with any such evaluation or appraisal, save as and except for the Valuation Report as contained in Appendix I to the Circular. The Valuation Report was prepared by Colliers International (Hong Kong) Limited (the "**Valuer**"), an independent valuer. Since we are not experts in the valuation of assets or business, we have relied solely upon the Valuation Report for the appraised value of the 35% equity interest of the Target Company as of 31 July 2022.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement therein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Group, the Vendor, the Target Company, or their respective subsidiaries or associates (if applicable), nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

Information on the Group

With reference to the Board Letter, the Group is principally engaged in the energy business and jewelry business. The Group continues to strategically expand its energy business in order to diversify the Group's overall business.

Set out below are the audited consolidated financial information of the Group for the two years ended 31 March 2022 as extracted from the Company's annual report for the year ended 31 March 2022 (the "**2021/22 Annual Report**"):

	For the year ended 31 March 2022 ("FY2021/22") *RMB'000*	**For the year ended 31 March 2021 ("FY2020/21")** *RMB'000*	**Year-on-year change** *%*
Revenue	193,111	56,220	243.49
– Jewelry business	*18,650*	*17,804*	*4.75*
– Energy business	*174,461*	*38,416*	*354.14*
Gross Profit	8,209	2,180	276.56
Loss for the year attributable to owners of the Company	(13,976)	(24,613)	(43.22)

As illustrated in the above table, the Group's revenue for FY2021/22 increased by approximately 243.49% as compared to that for FY2020/21. With reference to the 2021/22 Annual Report, such increase was mainly due to increase in revenue from both energy business and jewelry business, and led to increase in the Group's gross profit.

The loss attributable to owners of the Company for FY2021/22 decreased by approximately 43.22% as compared to that for FY2020/21. With reference to the 2021/22 Annual Report, such decrease was mainly attributable to the aforesaid increase in gross profit, increase in net other gains and losses and absence of impairment loss on property, plant and equipment and right-of-use assets.

With reference to the 2021/22 Annual Report, while upholding the operating principle of "maintaining a healthy, stable and long-term business", the Group will closely monitor the market situation and continue to adjust its business scale, strategy and costs. Backed by the overall stability and sustainability of the business, the Group will focus on the planning of filling stations and distributed energy stations projects, and at the same time actively develop plans to enhance the long-term development potential of the natural gas business, making preparations ahead of time, and seek new investment and development opportunities with an open mindset.

Information of the Vendor

With reference to the Board Letter, the Vendor is directly interested in 95% and indirectly interested in 5% (through Zhongtouhongsheng and Sichuan Huahan) of the equity interest in the Target Company. The Vendor is also a substantial shareholder of Chengdu Kaibangyuan, an indirect non-wholly owned subsidiary of the Company. Hence, the Vendor is a connected person of the Company at the subsidiary level under the Listing Rules.

Information of the Target Company

With reference to the Circular, the Target Company is principally engaged in investment holding. The Target Company is the beneficial owner of 50% of the entire registered and paid up capital of the JV Company. The JV Company is principally engaged in the construction and operation of natural gas pipeline networks, the operation and maintenance of pipeline corridors, provision of residential heating, and the procurement, transportation and sale of natural gas in Mengcheng County, Bozhou City, Anhui Province, the PRC. In 2019, the JV Company entered into a licensing agreement with the Housing and Urban-Rural Development Bureau of Mengcheng County (the "**Licensing Agreement**"), under which the JV Company was granted a 30-year license to supply heat and steam to industrial, commercial and corporate entities and urban residents in the county planning area of Mengcheng County. The JV Company is constructing two distributed energy stations, four 20-tonne gas-fired steam boilers, two natural gas gateways and approximately 7 kilometres of heat supply network (the "**Construction**"). As at the date of the Agreement, the JV Company has not commenced sales.

Further details of the Target Group are set out in the section headed "The Target Company, the JV Company and their businesses" of the Circular.

Set out below is the financial information of the Target Group for the year ended 31 March 2022 and the four months ended 31 July 2022 prepared in accordance with the generally accepted accounting principles in the PRC as extracted from the Board Letter:

	For the year ended 31 March 2022	**For the four months ended 31 July 2022**
	RMB'000	*RMB'000*
	(audited)	(unaudited)
Net loss before and after taxation	(902)	(723)

	As at 31 March 2022	**As at 31 July 2022**
	RMB'000	*RMB'000*
	(audited)	(unaudited)
Net asset value	19,236	18,369

Reasons for and benefits of the Transactions

With reference to the Board Letter, the Group continues to strategically expand its energy business in order to diversify the Group's overall business. As stated in the 2021/22 Annual Report, the Group has been focusing on identifying more investment opportunities in the energy sector to build and broaden strategic partnerships for long-term stable and healthy development, especially potential investments in natural gas and natural gas-related businesses. With this initiative, the Group will not only fully leverage its operational and management strengths, but will also improve the overall efficiency of the Group's resource allocation and enhance the long-term development potential of its energy business by creating synergies with its existing natural gas and solar photovoltaics businesses.

With reference to the 2021/22 Annual Report, the Group's revenue generated from energy business represents approximately 68% and approximately 90% of the Group's total revenue for FY2020/21 and FY2021/22 respectively.

The Vendor has been engaged in the energy business for years and has extensive experience and resources in the industry. By participating in the Target Company, the Group will be able to build a strong alliance with the Vendor, leveraging the Vendor's existing resources in the industry, brand image, and strong marketing experience, together with the Group's management experience, the strong partnership with the Vendor is expected to accelerate the Group's expansion in energy business.

The Target Company and its JV Company are now building decentralised energy stations that supply piped natural gas to urban areas where the JV Company is located, which will provide industrial steam, residential heating, and natural gas to industrial users via pipelines. In light of the "dual carbon" policy of "peak-carbon and carbon-neutral", the development of decentralised natural gas stations is expected to be a promising future development. In addition to enriching the Group's business portfolio, the Proposed Acquisition represents an excellent opportunity that will enable the Group to pursue its goal of becoming a supplier of diversified energy solutions and products.

In light of the above, we consider that (i) the Group's energy business was a major revenue contributor for the two years ended 31 March 2022 and the Target Group is also engaged in energy business; (ii) the Transactions are in-line with the Group's development strategy; and (iii) the JV Company may contribute economic benefits to the Group upon commencement of full business operation. As acquisition of/investment in equity interest in other companies is not the Group's principal business, we are of the view that, although the Transactions are not conducted in the ordinary and usual course of business of the Company, they are in the interests of the Company and its Shareholders as a whole.

Principal terms of the Transactions

Summarised below are the principal terms of the Transactions under the Agreement, details of which are set out in the Board Letter.

Date

Original agreement:	19 August 2022 (after trading hours)
Supplemental agreement:	15 November 2022 (after trading hours)

Parties

The Purchaser, the Vendor and the Target Company

Assets to be acquired

Pursuant to the Agreement, the Vendor agreed to sell and the Purchaser shall acquire the Sale Shares, representing 35% of the equity interest in the Target Company. The Target Company owns 50% of the equity interest in the JV Company.

Consideration

The Consideration is HK$52 million and shall be settled by the Purchaser procuring the Company to issue the Convertible Bonds to the Vendor within 1 month after the date of Completion (exclusive of any period that the securities of the Company must not be dealt in under the Listing Rules).

With reference to the Board Letter, the Consideration was determined after arm's length negotiations between the Company and the Vendor with reference to the Valuation of HK$52 million as at 31 July 2022.

Original cost

With reference to the Board Letter and as advised by the Directors, the Vendor (through his wholly-owned company) established the Target Company in January 2021. The Vendor and his wholly-owned company contributed RMB20.0 million to the JV's Company paid-up capital. Accordingly, the Vendor's original investment cost of 35% equity interest in the Target Company was approximately RMB7.0 million (the "**Original Cost**"). In November 2021, the Target Company completed acquisition of and capital injection in the JV Company and obtained 50% equity interest in the JV Company (the consideration and capital injection amount were RMB6 million and RMB14 million respectively). The Consideration is higher than the Original Cost.

The Valuation Report

According to the Valuation Report, the Valuation was HK$52 million. The Consideration equals to the Valuation.

To assess the fairness and reasonableness of the Consideration, we obtained the Valuation Report prepared by the Valuer, details of which are set out in Appendix I to the Circular.

For our due diligence purpose, we reviewed and enquired into (i) the terms of engagement of the Valuer with the Company; (ii) the Valuer's qualification in relation to the preparation of the Valuation Report; and (iii) the steps and due diligence measures taken by the Valuer for conducting the Valuation. From the mandate letter and other relevant information provided by the Valuer and based on our interview with them, we were satisfied with the terms of engagement of the Valuer as well as their qualification for preparation of the Valuation Report. The Valuer also confirmed that they are independent to the Group, the Vendor, the Target Company and the JV Company.

With reference to the Valuation Report and as confirmed by the Valuer:

(i) In conducting the valuation, the Valuer considered three generally accepted approaches, namely, market approach, income approach and asset-based approach.

(ii) The Target Company is an investment holding company with its investment in the JV Company as its sole business. The Valuer evaluated (a) 50% of equity interest in the JV Company; and (b) 100% of equity interest in the Target Company, excluding its equity holding of the 50% of equity interest in the JV Company, separately in the Valuation. The final equity value of the Target Company is evaluated under sum-of-parts valuation.

(iii) Given that (1) the JV Company's value is determined by the future economic benefit generated from the assets of it; and (2) the discount rate of the JV Company's future cashflow can be reasonably estimated, the valuation on the JV Company's equity interest was performed based on income approach.

(iv) Since the Target Company does not have its own substantive business, the Valuer adopted asset-based approach to make appropriate adjustments to its balance sheet to reflect its equity value.

In respect of adoption of income approach for assessing the JV Company's value, we noted from the Valuation Report that:

(i) assets-based approach is not adopted because the book value of the JV Company comprises significant portion in operating assets, such as construction-in-progress and property, plant and equipment, in which the book value of them cannot represent the economic benefits that can be generated from them. In contrast, income approach has considered the future benefits from the operation of the JV Company as a whole, and thus is viewed as a more appropriate approach for the valuation of the JV Company;

(ii) market approach is not adopted because the JV Company is still in an early stage with growth potential but has no historical sales and profit as of the valuation date. As a result, market approach, which heavily relies on information from relatively mature listed comparable companies, is not adopted in the valuation of the JV Company; and

(iii) income approach is adopted as it considers the future benefits from the operation of the JV Company which will produce predictable cash flows.

Given the above, we do not doubt the appropriateness of the methodologies adopted in the Valuation Report.

We further reviewed and enquired into the Valuer on the methodologies adopted and the basis and assumptions adopted in the Valuation Report in order for us to understand the Valuation Report. We understood from the Valuer that it considered the following factors/parameters under the income approach assessment on the JV Company's value:

(i) Operation commencement

In 2019, the JV Company entered into the Licensing Agreement with the Housing and Urban-Rural Development Bureau of Mengcheng County, under which the JV Company was granted a 30-year license to supply heat and steam to industrial, commercial and corporate entities and urban residents in the county planning area of Mengcheng County.

One of the conditions precedent to Completion is that the Purchaser satisfied (in substance) a legal opinion in relation to the Target Company and JV Company issued by a legal adviser, which is qualified to practise in the PRC, engaged by the Purchaser.

With reference to the Board Letter, there will be sufficient assurance provided by the Purchaser's appointed PRC lawyer in the form of legal opinion pursuant to the condition precedent of the Agreement that there will be no legal impairment obstructing the JV Company from obtaining the Gas Business License. In the event if such legal opinion cannot be provided and the condition precedent is not satisfied in accordance with the terms of the Agreement by 31 March 2023, the Agreement may be terminated by written notice and the consideration (i.e. the Convertible Bonds) will not be issued and paid to the Vendor. The Purchaser obtained a legal opinion from its PRC legal adviser stating that, provided that there is no non-compliance issue under the JV Company's application procedure for the Gas Business License and the application documents fulfil relevant requirements, there will be no legal impairment obstructing the JV Company from obtaining the Gas Business License.

In addition, as one of the post-completion obligations, the Vendor and the Target Company undertake to use their commercially reasonable best efforts to make JV Company obtain the necessary certificates, licenses and approvals for their respective lawful operations, including but not limited to Gas Business License.

According to the JV Company's development schedule, the Construction is expected to be completed by the first quarter of 2023. As advised by the Directors, the JV Company will commence a 6-month trial operation (the JV Company will start generating revenue) as required for obtaining the Gas Business License.

In light of the above, it is reasonable to assume that the JV Company will start generating revenue in the first quarter of 2023.

(ii) Revenue

Revenue was estimated (a) to be derived from steam and natural gas supply to corporate customers and heat supply to residential customers; and (b) based on sales volume and selling prices (including initial installation fee for heat supply to residential customers).

Sales volume was estimated based on various factors such as estimated number of corporate customers, number of residential customers and their respective demand for steam, natural gas and heat.

Number of corporate customers was estimated based on the JV Company's discussions with potential customers, some of which had signed letters of intent with the JV Company.

Corporate customers' demand was estimated based on discussions between the JV Company's management and potential customers.

It was estimated that the number of corporate customers for steam sales in 2023 will be 9 (two customers had signed letters of intent with the JV Company, which is legally binding according to the advice from the Company's legal advisor), with addition of 3 customers per year from 2024 to 2027. For our due diligence purpose, we obtained copies of the aforesaid signed letters of intent from the Company. Pursuant to the Licensing Agreement, the Housing and Urban-Rural Development Bureau of Mengcheng County will coordinate with relevant departments to gradually ban individual small boilers in the region.

Having also considered that the JV Company is the sole supplier under the Licensing Agreement to supply heat and steam to industrial, commercial and corporate entities and urban residents in the county planning area of Mengcheng County, the JV Company considered that the aforesaid number of corporate customers for steam sales (including growth in number) to be achievable.

It was estimated that the number of corporate customers for natural gas sales in 2023 will be 5, based on the JV Company's discussions with potential customers referred by 安徽蒙城經濟開發區管理委員會 (Anhui Mengcheng Economic Development Zone Management Committee*) ("**Mengcheng EDZMC**"). Those customers are existing users of natural gas in the Mengcheng County and currently purchase from suppliers that gasify liquified natural gas (such gas supply is unstable and costly). It was also estimated that there will be an additional customer for natural gas sales from 2024, based on the JV Company's discussion with Mengcheng EDZMC and the JV Company's view on the growing number of new corporations established in Mengcheng County.

Under the guidance of the 14th Five-year Plan of the PRC for renewable energy development, the PRC is experiencing a shift from traditional fossil-based energy to renewable and cleaner energy.

The Mengcheng County government is promoting investment in Mengcheng County.

We noted from an article titled《蒙城工業：做深科技創新持續增強產業發展動能》(Mengcheng industry: Deepen technological innovation and continue to enhance the momentum of industrial development*) published on Mengcheng County government's website in October 2022 that there was 117 sizeable industrial corporations in Mengcheng County. We noted from the《2022年第一季度招商引資工作總結及下一步工作謀劃》(Summary of investment promotion effort and future working plan*) published by 蒙城縣招商服務中心 (Mengcheng County Investment Promotion Service Center*) in May 2022 that, (i) in the first quarter of 2022, there were 16 new industrial projects with signed contracts and total investment amount of RMB6.21 billion; and (ii) the future working plan includes further in-depth research for the directions of investment promotion, broadening investment promotion channels and acceleration of contracts execution.

We noted from an article titled 《蒙城力爭招商引資工作實現新突破》 (Mengcheng strives to achieve new breakthroughs in attracting investment*) published on Bozhou City government's website in February 2022 that, in 2022, Mengcheng County planned to execute at least 30 new industrial projects with value of over RMB100 million, at least 40 new projects with investment from outside Anhui Province and have actual investment amount of at least RMB18 billion from outside Anhui Province.

The above factors support the JV Company's estimation of number of corporate customers and their demand (including their growth).

Number of residential customers (in terms of households) was estimated based on population of Mengcheng County and the percentage of households that will demand heat supply from the JV Company. The population adopted under the estimation was consistent with our findings from latest available public source.

At the end of 2021, Mengcheng County population was around 1.4 million, with around 400,000 residents in urban area. The JV Company currently plans to serve residents in urban area. Under the assumption of 4 people per household, the overall population was translated to 100,000 households. The JV Company assumed (i) a low penetration rate at the JV Company's operation commencement, with about residential customers of 5,000 households in 2023; and (ii) gradual increases in penetration rate and achieving residential customers of 40,000 households in 2027 (representing around 40% of the aforesaid residents in urban area). As the JV Company is the sole supplier under the Licensing Agreement to supply heat and steam to industrial, commercial and corporate entities and urban residents in the county planning area of Mengcheng County, the Valuer considered that it is reasonable for the JV Company to make the above assumptions and thus estimate the number of residential customers (in terms of households) based on Mengcheng County population.

Residential customers' demand was estimated based on expected area occupied by each household.

Selling price of steam to corporate customers was estimated based on the selling price stated under the Licensing Agreement.

Selling price of natural gas to corporate customers was estimated based on the purchase cost of natural gas plus estimated gross profit according to experience of the management of the JV Company in sales of natural gas.

Selling price of heat to residential customers was estimated based on selling price level in nearby regions. The JV Company also expected to receive government subsidy for providing heat supply to residential customers.

(iii) Cost of sales

Cost of sales was estimated based on (a) the units of natural gas to be consumed for supply of steam, natural gas and heat; (b) unit cost of natural gas estimated based on published market information with upward adjustment for transportation cost and seasonal factors; and (c) cost to be incurred under initial installation for heat supply to residential customers.

(iv) Staff cost

Staff cost was estimated based on the planned number of staff and historical average monthly salary of each staff and inflation. For our due diligence purpose, we obtained the historical salary payment records which conformed with the historical average monthly salary of each staff adopted.

(v) Capital expenditure

Capital expenditure was estimated based on unbilled contract amount of on-going construction and necessary future construction items. For our due diligence purpose, we obtained copies of relevant contracts and discussed with the Company regarding the unbilled contract amount thereunder.

(vi) Discount rate

Weighted average cost of capital was used as the discount rate, details of which are set out under the Valuation Report. The required rates of return on equity and debt (i.e. the cost of equity and cost of debt) were weighted according to the industry average capital structure based on the Valuer's analysis.

The cost of equity was determined using the capital asset pricing model ("**CAPM**"), which considers only systematic risk of a company which is captured by beta. The modified CAPM is introduced to incorporates non-systematic risks which are specific to a company, such as relatively small size and risk of not achieving the expected growth rate of the JV Company, thus, adding size premium and company specific risk premium were considered in the modified CAPM.

A company-specific risk premium of 2.00% was applied by the Valuer after taken into account (1) the lack of track record of the JV Company; and (2) the JV Company has not obtained all business licence. For (1), despite the lack of track record period, the Valuer considered that the JV Company entered into the Licensing Agreement which lowered the estimated business risk of the JV Company. For (2), as of the Valuation Date, the JV Company has completed most of the projects' construction. As advised by the Directors, the requirement for the JV Company to obtain the Gas Business License is to have operation in trial operation for a period of 6 months. Thus, it is reasonable for the JV Company not yet obtaining such licence in its current stage. The JV Company can still operate, generate profit and receive cash inflow despite the lack of such license in the trial operation period. Thus, the lack of such business license is under a normal circumstance. Accordingly, the company specific risk premium of 2.00% is considered appropriate for the JV Company.

The cost of debt was determined with reference to the "Above Five Years Benchmark Lending Rate" of the PRC.

In addition, we noticed from the Valuation Report that (i) a minority discount of 10% was applied for assessing the Valuation as the minority interest in a company can be a distinct disadvantage given that minority shareholders have little influence in key decisions and are subject to risk and decisions that might not be beneficial to them; and (ii) a discount for lack of marketability ("**DLOM**") of 20% was applied for assessing the Valuation to reflect the fact that there is no ready market for shares in a closely held corporation (i.e. the equity interest of the Target Company). We noted that the DLOM applied in the Valuation was close to the average discount for all 763 transactions examined in the 2021 edition of the Stout Restricted Stock Study Companion Guide published by Stout Risius Ross, LLC.

During our discussion with the Valuer, we did not identify any major factor which caused us to doubt the fairness and reasonableness of the methodology, principal bases, assumptions and parameters adopted for the Valuation Report.

Having considered our independent work performed on the Valuation Report and that the Consideration equals to the Valuation (which is based on the latest available information and status of the Target Group as at 31 July 2022), despite that the Consideration is higher the Original Cost, we are of the view that the Consideration is fair and reasonable.

Convertible Bonds

As aforementioned, the Consideration shall be settled by the Purchaser procuring the Company to issue the Convertible Bonds to the Vendor within 1 month after the date of Completion (exclusive of any period that the securities of the Company must not be dealt under the Listing Rules).

Principal terms of the Convertible Bonds are set out below:

Issuer

The Company

Principal amount

HK$52 million

Maturity Date

The third anniversary of the date of the issuance of the Convertible Bonds

Interest

Nil

*Conversion rights (the "**Conversion Rights**")*

The Bondholder will have the right to convert the whole or part of the principal amount of the Convertible Bond (in integral multiple of HK$1 million or such lesser amount representing the entire outstanding principal amount of the Convertible Bond) into Conversion Shares at any time after the JV Company has obtained the Gas Business License, on the date of the grant of the Gas Business License up to the close of business on the date falling 5 business days prior to the Maturity Date, provided that such conversion would not render Shares in the public hands being less than the minimum public float defined under Rule 8.08 of the Listing Rules or other relevant requirements under the Listing Rules and the Bondholder shall not exercise any conversion right unless it provides evidence to the reasonable satisfaction of exercising the conversion right that the Bondholder and persons acting in concert with it (as defined in the Takeovers Code) will not beneficially own 30% or more of the issued shares and/or or voting rights of the Company immediately after the conversion and/or trigger any mandatory general offer obligations under the Takeovers Code.

Conversion Price

The Conversion Price will be HK$0.74 per Conversion Share subject to adjustments pursuant to the terms of the Convertible Bonds, which:

(i) represents a premium of approximately 23.33% over the closing price of HK$0.60 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) equals to the closing price of HK$0.74 per Share as quoted on the Stock Exchange on the Agreement Date;

(iii) represents a premium of approximately 0.82% over the average closing price of HK$0.734 per Share as quoted on the Stock Exchange for the last 5 consecutive trading days immediately preceding the Agreement Date; and

(iv) represents a discount of approximately 0.27% over the average closing price of HK$0.742 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days immediately preceding the Agreement Date.

The Conversion Price was determined by the Vendor and the Company on an arm's length basis with reference to the current market price of the Shares as shown above.

Conversion Shares

Based on the Conversion Price of HK$0.74 per Conversion Share, the Convertible Bonds may be convertible into a total of 70,270,270 Shares, representing approximately 18.13% of the issued share capital of the Company as at the Latest Practicable Date or approximately 15.35% of the issued share capital as enlarged by the issuance of the Conversion Shares, respectively.

Redemption

Unless previously converted, purchased and cancelled, the Company shall pay the outstanding principal amount under the Convertible Bonds by cash on the Maturity Date, the Company may redeem the Convertible Bonds at any time and from time to time before the Maturity Date upon mutual agreement with the Vendor.

Transferability

Subject to all applicable laws and regulations and prior notification to the Company on the condition that no transfer and/or assignment shall take place before the JV Company obtains the Gas Business License, the Convertible Bonds may be assigned or transferred in whole or in part of its principal amount outstanding (in integral multiple of HK$1 million or such lesser amount representing the entire outstanding principal amount of the Convertible Bonds) to independent third parties, other than the connected person(s) of the Company.

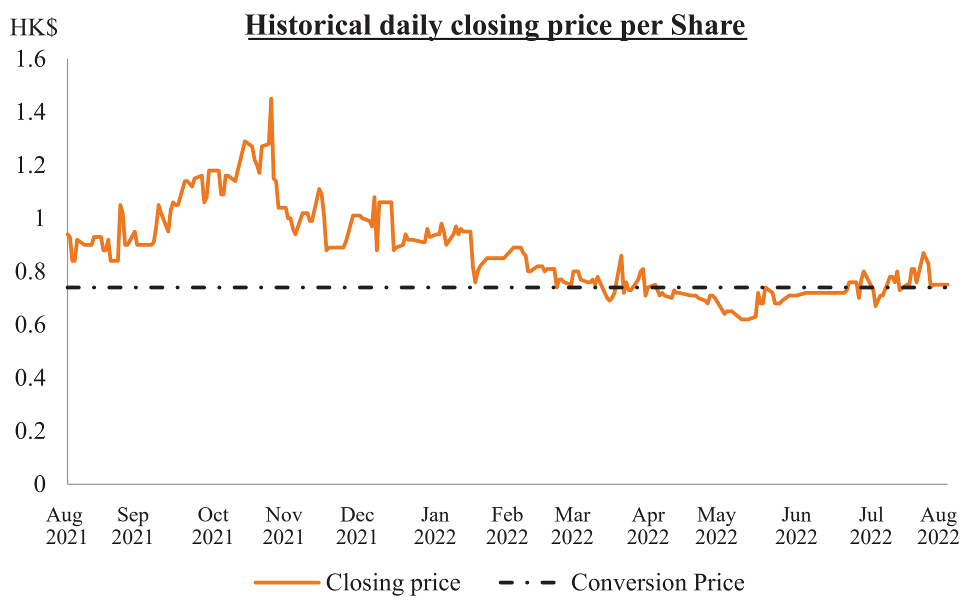
*Restoration (the "**Restoration Clause**")*

If the JV Company cannot obtain the Gas Business License on or before 30 June 2024, the Convertible Bonds will be automatically cancelled on 1 July 2024 and the Company will transfer the shares of the Target Company to the Vendor for nil consideration on or before 6 July 2024. If any party is subject to mandatory detention/quarantine/isolation due to government anti-epidemic measures, the dates mentioned herein above will be automatically extended according to the number of days affected.

We consider that (i) the Vendor can only exercise the Conversion Rights after the JV Company obtaining the Gas Business License; (ii) no transfer and/or assignment of the Convertible Bonds shall take place before the JV Company obtaining the Gas Business License; and (iii) the Restoration Clause can mitigate the risk of the JV Company's failure in obtaining the Gas Business License.

Analysis on the Conversion Price

In order to assess the fairness and reasonableness of the Conversion Price, we reviewed the daily closing price of the Shares as quoted on the Stock Exchange from 1 August 2021 up to and including 19 August 2022 (the "**Review Period**"), being a period of approximately one year prior to the date of the Agreement. The comparison of daily closing prices of the Shares and the Conversion Price is illustrated as follows:



Source: the Stock Exchange's website

During the Review Period, the lowest closing price of the Share as quoted on the Stock Exchange was HK$0.62 per Share recorded on 10, 11, 12 and 13 May 2022 and the highest closing price of the Share as quoted on the Stock Exchange was HK$1.45 per Share recorded on 26 October 2021. The Conversion Price of HK$0.74 is within the range of the lowest and highest closing prices of the Shares as quoted on the Stock Exchange during the Review Period.

As illustrated in the above diagram, the closing prices of the Shares increased significantly from August 2021 to October 2021 and reached its peak of HK$1.45 on 26 October 2021. Thereafter, the closing prices of the Shares followed a general downward trend from late October 2021 to mid-May 2022 and subsequently fluctuated between HK$0.62 and HK$0.87 up to the Agreement Date.

As part of our analysis, we also identified acquisitions involving settlement of consideration (or part of consideration) by way of issuance of convertible bonds/notes which were announced by companies listed on the Stock Exchange during the Review Period (the "**CB Comparables**"). To the best of our knowledge and as far as we are aware of, we found 10 transactions which met the said criteria. Shareholders should note that the businesses, operations and prospects of the Company are not the same as the subject companies of the CB Comparables.

Company name (stock code)	Date of announcement	Maturity (Years)	Interest rate per annum (%)	Conversion price premium/ (discount) to closing price per share on the date of agreement in relation to the transaction
DeTai New Energy Group Limited (559)	9 August 2021	2	Nil	Nil
InvesTech Holdings Limited (1087)	23 September 2021	3	1.50	6.38
Jinxin Fertility Group Limited (1951)	19 October 2021	Approximately 1.5	0.75	17.74
Apex Ace Holding Limited (6036)	21 October 2021 & 25 November 2021	5	0.50	16.67
China Rongzhong Financial Holdings Company Limited (3963)	26 October 2021	3	Nil	19.38
IBO Technology Company Limited (2708)	21 April 2022	2	–	3.32
State Innovation Holdings Limited (8275)	23 May 2022	2	2.50	33.33
SJM Holdings Limited (880)	26 May 2022	5	2.00	35.67
Town Health International Medical Group Limited (3886)	11 July 2022	1 to 3	Nil	53.54
ShiFang Holding Limited (1831)	4 August 2022	Approximately 2 months to 7 months	Nil	Nil
Maximum			2.50	53.54
Minimum			Nil	Nil
Average			0.73	18.60
The Company	19 August 2022	3	Nil	Nil

Source: the Stock Exchange's website

We noted from the above table that the conversion prices of the CB Comparables ranged from nil discount/premium to a premium of approximately 53.54% with average premium of approximately 18.60% to/over the respective closing prices of shares on the last trading day prior to or the date of agreement in relation to the respective transaction (the "**Conversion Price Market Range**"). As such, the Conversion Price, which equals to the closing price of the Shares on the Agreement Date, falls within the Conversion Price Market Range.

Having also considered that the Conversion Price of HK$0.74 is within the range of the lowest and highest closing prices of Shares during the Review Period, we consider the Conversion Price of HK$0.74 to be fair and reasonable.

Analysis on the interest rate

As presented by the table above, the CB Comparables had an annual interest rate from nil to 2.50% (the "**Interest Market Range**") with average of approximately 0.73%. The Convertible Bonds bear no interest and fall within the Interest Market Range and we consider that to be fair and reasonable.

Other terms relating to the Transactions are set out in the Board Letter.

Taking into account the principal terms of the Transactions as set out above, we consider that the terms of the Transactions are fair and reasonable.

Possible dilution effect on the shareholding interests of the public Shareholders

With reference to the shareholding table in the section headed "EFFECT OF PROPOSED ACQUISITION ON THE SHAREHOLDING STRUCTURE" of the Board Letter, the shareholding interests held by the public would be diluted by approximately 7.01 percentage points upon full conversion of the Convertible Bonds (assuming there is no other change in issued Shares). In this regard, taking into account (i) the aforementioned reasons for the Transactions; and (ii) the terms of the Transactions being fair and reasonable, we are of the view that the said level of dilution to the shareholding interests of the public Shareholders as a result of full conversion of the Convertible Bonds is acceptable.

Possible financial effects of the Transactions

With reference to the Board Letter, after completion of the Proposed Acquisition, the Target Company and JV Company will not be treated as subsidiaries of the Group and their results will not be consolidated into the consolidated financial statements of the Group.

With reference to the Company's 2021/22 Annual Report, the audited equity attributable to owners of the Company was approximately HK$24 million as at 31 March 2022. As confirmed by the Directors, the Transactions would not result in material change in the equity attributable to owners of the Company.

It should be noted that the aforementioned analysis is for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon the Completion.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Transactions are on normal commercial terms and are fair and reasonable; and (ii) although the Transactions are not conducted in the ordinary and usual course of the business of the Company, they are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Transactions and we recommend the Shareholders to vote in favour of the resolution in this regard if a physical general meeting were to be convened for the purpose of consideration and if thought fit, approving the Transactions.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Note: *Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.*

* *For identification purpose only*

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular received from Colliers International (Hong Kong) Limited, an independent valuer, in connection with its valuation as at 31 July 2022 of 35% equity interest in the Target Company.

Colliers International (Hong Kong) Ltd.
Valuation & Advisory Services
Company Licence No: C-006052

Suite 5701 Central Plaza
18 Harbour Road Wanchai
Hong Kong

Our Reference: 22-1177
18 November 2022

Central Development Holdings Limited
Room 2202, 22/F
Chinachem Century Tower
178 Gloucester Road, Wanchai
Hong Kong

Dear Sir/Madam,

1 INTRODUCTION

1.1 Terms of Engagement

In accordance with our terms of engagement with Central Development Holdings Limited (the "Company" or the "Client"), Colliers International (Hong Kong) Limited ("Colliers" or "we") provide our opinion of the fair value of the 35% equity interest in the Chengdu Huahan Energy., Ltd (the "Target Company", or "Chengdu Huahan") for transaction purpose only.

We confirm that we have made relevant enquiries and obtained such further information as deemed necessary to allow us to provide you with our opinion for transaction purpose.

Our report is not the only reference for the Company to make investment decisions. We understand that the Company will conduct independent consideration and assessment before making any investment decision, and will not solely rely on our report, and the report issued by us will not replace other analysis and investigation work that should be carried out by the Client in reaching commercial decision. Our report does not include specific purchase and sale recommendations.

1.2 Valuation Subject

The valuation subject is the 35% equity interest in the Target Company (the "Valuation Subject").

The Target Company is an investment holding company and is the beneficial owner of 50% of the entire registered and paid-up capital of Anhui Huagang Bochen New Energy Co., Ltd. (the "JV Company"). The Target Company and the JV Company (together referred to as the "Target Group") are principally engaged in the construction and operation of natural gas pipeline networks, the operation and maintenance of pipeline corridors, provision of residential heating, and the procurement, transportation and sale of natural gas in Mengcheng County, Anhui Province, the PRC. In 2019, the JV Company entered into a licensing agreement with the Housing and Urban-Rural Development Bureau of Mengcheng County, under which the JV Company was granted a 30-year license to supply heat and steam (except natural gas) to industrial, commercial and corporate entities and urban residents in the county planning area of Mengcheng County.

1.2.1 Background of the transaction

Parties

Purchaser:	Hainan Huagang New Energy Development Co., Ltd. (海南華港新能源開發有限公司), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
Vendor:	Mr. Zhang Bing, a PRC citizen

The acquisition

The Purchaser, a wholly-owned subsidiary of the Company, and the Vendor entered into a sale and purchase agreement (the "Agreement"), details of the principal terms of which are set out below:

Assets to be acquired

The Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the sale shares at HK$52,000,000, which represents 35% of the equity interest in the Target Company upon satisfaction of all conditions precedent in the Agreement or obtain waiver by the Company in accordance with the terms of the Agreement.

Prior to the acquisition in November 2021, as informed by the management of the Target Company, the Vendor has acquaintance with the owners of the JV Company and was approached by them for cooperation during the shortage of funds of the JV Company for consideration of RMB20.0 million (equivalent to approximately HK$23.3 million), including RMB6.0 million paid to the former 50% equity-interest owner and RMB14.0 million further capital injection to the JV Company. The RMB20.0 million stands for 100% of the consideration, the original purchasing cost is RMB7 million (HK$8.1 million), which stands for 35% of the consideration. The consideration of RMB20.0 million (equivalent to approximately HK$23.3 million) was not assessed based on any fair market valuation but it is an appropriate amount for investment during the shortage of funds of the JV Company. With the capital injection provided by the Target Company in November 2021, the JV Company resumes normal operation. The current HK$52 million consideration is higher than the original acquisition cost of HK$8.1 million.

1.3 Valuation Date

The date of valuation is 31 July 2022 (the "Valuation Date"), and this report can only be regarded as representing our opinion of the fair value of the Valuation Subject as at that date.

1.4 Valuation Currency

Unless otherwise stated, all money amounts stated in this report are in Hong Kong Dollar ("HKD").

1.5 Basis of Valuation

Our valuation work is conducted based on international valuation standards. The basis of our valuation is fair value, which is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date".

1.6 Valuation Standards

The valuation has been carried out in accordance with the International Valuation Standards (2020 Edition) published by the International Valuation Standards Council.

1.7 Valuation Scope

Our valuation conclusion is based on the assumptions stated herein and on information provided by the management of the Client and/or the Target Group, and/or their representatives (the "Management").

In the course of our valuation, the following processes have been conducted to evaluate the information provided by the Management:

a) Discussed with the Management and obtained relevant information in respect of the Target Group;

b) Examined the relevant basis and assumptions of the information in respect of the Target Group provided by the Management;

c) Conducted appropriate research to obtain sufficient market data and statistics and prepared the valuation based on generally accepted valuation procedures and practices; and

d) Arrived at our valuation opinion based on the assumptions stated in this report and on information provided by the Management.

1.8 Inspections, Investigations and Information Sources

We confirm that we have made enquiries and obtained such information that we consider necessary to undertake the valuation. The information has been obtained from various sources including the Management, information already in the public domain and our own databases. We have adopted the information without further verification.

No site inspection has been performed but we have interviewed the Management by video conferencing, and we are provided with instant video tour of the production site with the Management, with photo supporting of the production site.

In conducting our valuation of the Valuation Subject, we have considered, reviewed and relied upon the following key information which is available to the public or provided by the Management:

a) Background of the Target Group and relevant corporate information, provided by the Management;

b) Business registration details of the Target Group, provided by the Management;

c) Audited financial statements of the Target Company as at 31 March 2022, provided by the Management;

d) Unaudited financial statements of the Target Company as at the Valuation Date, provided by the Management;

e) Unaudited financial statements of the JV Company as at the Valuation Date, provided by the Management;

f) Financial projections of the JV Company (the "Financial Projections") and information provided by the Management;

g) Business plan in relation to the Financial Projections provided by the Management; and

h) Discussions with the Management on the financial and other information received from the Management, including but not limited to, feasibility study.

2 INDUSTRY OVERVIEW

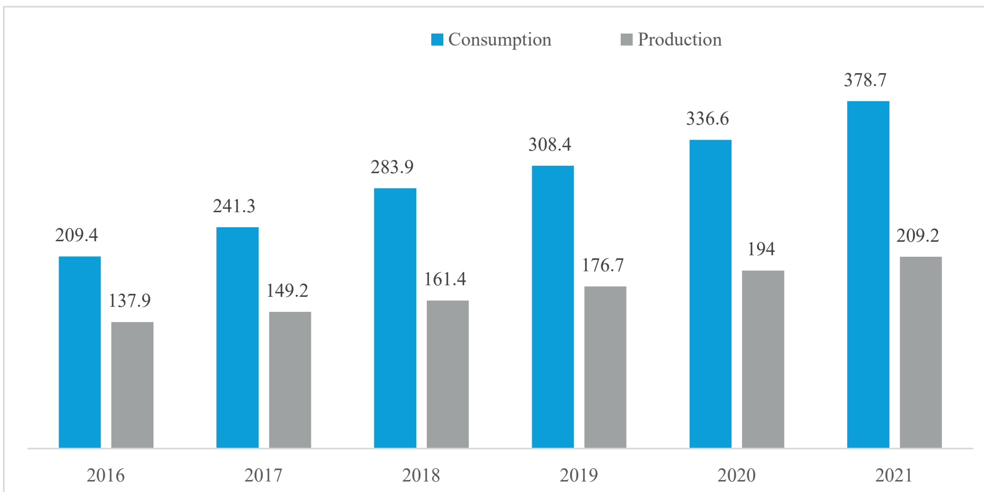
Overview Of China's Macroeconomy

According to the National Bureau of Statistics of China, the Chinese economy grew at a CAGR of 8.9% from 2016 to 2021. According to the International Monetary Fund (IMF), the Chinese economy is forecasted to keep growing at a CAGR of 8.8% from 2021 to 2026.

China's Natural Gas Industry

The China's natural gas consumption in 2021 is at 378.7 billion cubic metres, which grew at a CAGR of 12.6% from 2016 to 2021. China's natural gas production in 2021 is 209.2 billion cubic metres, which grew at a CAGR of 8.7% from 2016 to 2021.

China's Natural Gas Consumption and Production, 2016 – 2021 (in billion cubic metre)



Source: bp Statistical Review of World Energy 2022

Development of LNG Supply Network and Heat Supply in Mengcheng County, Anhui Province, the PRC

According to the Professional Planning of Natural Gas Development in Mengcheng County (Central Region) (蒙城縣(中心城區)天然氣專業規劃), which is published in accordance with the outline of the Plan for Development for the Mengcheng County (2012-2030) (蒙城縣城市總體規劃 2012-2030) as part of Mengcheng County's development strategy in the natural gas pipeline network and heat supply development in the region, has outlined its development goal in from 2016 to 2030. As of 2021, the population of Mengcheng County is approximately 1.4 million.

According to the planning, Mengcheng County target to enhance the utilization of natural gas for residential usage, public utility and transportation usage, as well as the industrial use which can benefit their goal in carbon reduction and enhancing energy efficiency. It also targets to achieve decentralised energy stations and heat supply in the region.

The planning estimates the demand of natural gas in the central region of Mengcheng County to grow from approximately 54.3 million Nm^3 in 2020 to approximately 124.0 million Nm^3 in 2030, implying an annual growth of approximately 8.6% per year. It also estimates that the required reverse of natural gas storage to grow from 0.2 million Nm^3 to 0.5 million Nm^3 from 2020 to 2030.

3 VALUATION ASSUMPTIONS AND RATIONALE

Our work covers discussions with management and collecting information on the Target Group's history, business and development prospects. We also considered industry trends and relevant laws. In order to conduct a detailed review and impartially and independently evaluate, we understand the main operating conditions of the Target Group. Our valuation is based on the contract that has been entered into on or before the Valuation Date and cost budget provided by the Management, and we assume the opinions and statements provided by the entrusting party and its management as well as the information provided during the valuation process are reasonable and accurate. We are not required to audit the business information provided by the management, so we have no reason to doubt the accuracy of the information. However, if the information provided is not consistent with the facts, we reserve the right to modify our valuation.

For the purpose of determining the value of the Valuation Subject, we have considered all the prominent factors affecting the value and assumed, including but not limited to, the following:

General Assumptions

The general assumptions used in the valuation analysis included, but were not limited to, the following:

- During the current and future existence of the Target Group, relevant laws and regulations, industry policies, fiscal and monetary policies, and economic environment will not undergo material changes;
- There will be no material changes in the relevant corporate tax rate, interest rate and exchange rate which would impact the valuation;
- The Target Group will maintain a going concern in the future, and has sufficient operating capital and production capacity to achieve its Financial Projections;
- The Target Group has all the necessary licenses for its operations, all other legal and administrative licenses have been obtained and can be extended when required;
- The Target Group has fully complied with the prevailing national and local authorities' policies, ordinances, listing rules, environment and other relevant laws and regulations. all transaction conducted by the Target Group in related to its assets and the ownership of its assets are in compliance with all relevant legal provisions and other laws or regulations of the relevant superior authority;
- Responsible ownership and competent management are assumed;
- The information provided by the Management is reliable and we will not verify the accuracy of this information, and assume no responsibility for its accuracy;

- The financial information from the financial statements provided by the Management is reliable and we will not verify the accuracy of the financial information, and assume no responsibility for its accuracy;

- Where third party expert or specialist information or reports are provided to us or obtained by us, the information is reliable and we will not verify the accuracy of these information or reports, and assume no responsibility for their accuracy; and

- The Management has provided us, to the best of its knowledge, with a full and frank disclosure of all information and other facts which may affect the service, including all secrecy clauses and side agreements.

Specific Assumptions

The specific assumptions used in the valuation analysis:

- The JV Company will start generating revenue on first quarter of 2023.

- Any cash shortfall in the Financial Projection of the JV Company will be financed by loan from the shareholders of the JV Company, with interest rate at 0%. It is expected that the Company will have sufficient financial resources to finance such cash shortfall.

- The earnings of the Target Group had been assumed to be taxed at the statutory income tax rate of 25%.

- As advised by the Management, the JV Company has a proceeding litigation case. We have evaluated the impact of such case on the valuation and determine the impact as immaterial.

- We assumed that no other litigation cases of the Target Group will have material impact on the valuation result.

- As advised by the management, a legal opinion will be provided before finalizing the valuation and report. Should there be any material litigation matter which may affect the valuation result of the Target Company, we will further adjust our valuation result and opinion.

- A 6-month trial operation is required in order for the JV Company to obtain the necessary business license, and it is acceptable for the JV Company to generate revenue during trial operation without holding the necessary business license.

4 VALUATION APPROACH

According to the International Valuation Standards (2020), relevant and appropriate valuation approaches must take into account consideration in selecting the most appropriate valuation approach. There are three commonly used valuation methods, namely, the market approach, the income approach and the asset-based approach.

Market Approach

Market approach derives the value of the valuation target by benchmarking the similar asset's prevalent market price, which is estimated based on Guideline Public Company Method and/or Comparable Transactions Method with additional adjustments if necessary.

a) Guideline Public Company Method – The Guideline Public Company Method means obtaining the operating and financial information of comparable listed companies that are similar to those of the valuation target, calculating an appropriate value ratio, and accessing the fair value of the valuation target. Valuation indicators widely used in corporate valuation include price-earnings (P/E) ratio, price-to-book (P/B) ratio and price-to-sales (P/S) ratio.

b) Guideline Transaction Method – Under the Guideline Transaction Method, the fair value is derived from the acquisition multiple which is based on what other purchasers in the market have paid for companies that are considered reasonably similar to the valuation target.

Although this approach is widely used in valuation practice, the shortfalls of the approach are, first, there might be insufficient comparable transactions or public companies to choose from; and second, the available comparable transactions and public companies might be significantly different from the valuation target in areas that might affect a company's valuation.

Income Approach

Income approach values an asset based on the income that it is expected to generate in the future. The most commonly applied method is the Discounted Cash Flow method which derives the value of the valuation target by discounting expected future cash flows with a discount rate that reflects both the time value of money and the riskiness of the business. Income approach is a commonly adopted approach in business valuation when the underlying asset or entity is producing predictable cash flows.

Asset-based Approach

The application of the asset-based approach begins with a company's financial statements. Necessary and appropriate adjustments are made to book values to reflect the fair value of the company.

The asset-based approach measures the value of the business entity by making reference to the value of individual assets and liabilities. Adjustments are made to the balance sheet based on the differences between the fair value and book value of the assets and liabilities. The net asset value from the adjusted balance sheet represents the fair value of the business entity.

Adopting Income Approach for Valuation of JV Company

We have considered the three approaches and we concluded that income approach is most appropriate in determining the valuation of the JV Company.

Income approach is adopted as it considers the future benefits from the operation of the JV Company which will produce predictable cash flows.

Assets-based approach is not adopted because the book value of the JV Company comprises significant portion in operating assets, such as construction-in-progress and property, plant and equipment, in which the book value of them cannot represent the economic benefits that can be generated from them. In contrast, income approach has considered the future benefits from the operation of the JV Company as a whole, and thus is viewed as a more appropriate approach for the valuation of the JV Company.

Market approach is not adopted because the JV Company is still in an early stage with growth potential but has no historical sales and profit as of the valuation date. As a result, market approach, which heavily relies on information from relatively mature listed comparable companies, is not adopted in the valuation of the JV Company.

5 VALUATION PROCESS

The Target Group consists of (1) its 50% of equity interest in the JV Company, and (2) Chengdu Huahan as the holding company (the "Holding Company"). We evaluated (1) and (2) separately in this valuation, while the final equity value of the Target Group is evaluated under sum-of-parts valuation.

5.1 The Valuation of the JV Company

5.1.1 Income Approach

For the valuation of the JV Company, the valuation on its fair value is performed based on income approach. The income approach includes three key steps:

1. Estimate the cash flow during the forecast period;

2. Discount the cash flow at a discount rate that reflects its time value and risk level; and

3. Accumulate the present value of cash flow for the forecast period to calculate the fair value.

For valuation of the equity interest in the JV Company, income approach is adopted. Detail of the valuation process is described at the following sections.

5.1.2 Cost of Equity

The cost of equity was determined using the Capital Asset Pricing Model (CAPM), which considers only systematic risk of a company which is captured by beta. The modified CAPM is introduced to incorporates non-systematic risks which are specific to a company, such as relatively small size and risk of not achieving the expected growth rate of the JV Company, thus, adding size premium and company specific risk premium were considered in the modified CAPM. The cost of equity under the modified CAPM was computed using the following formula:

$$Re = Rf + ßl * RPm + RPS + RPu$$

Where:

Re	=	Cost of Equity
Rf	=	Risk-free rate
ßl	=	Beta Coefficient
RPm	=	Equity risk premium
RPS	=	Size premium
RPu	=	Company Specific risk premium

Notes:

1. The risk-free rate of 2.77% adopted represent the yield of the 10-year Chinese government bond, as at the Valuation Date as extracted from Bloomberg.

2. The relevered beta coefficient was computed using the following formula:

   $$ßl = ßu * [1 + (1 - Tc) * (D/E)]$$

   Where:

ßl	=	Relevered beta
ßu	=	Unlevered beta
Tc	=	Corporate tax rate
D/E	=	Debt-to-Equity ratio

   - The unlevered beta coefficient of 0.58 was adopted, which represents the average adjusted beta of the guideline listed companies as extracted from Bloomberg as at the Valuation Date.

   - The applicable corporate tax rate of 25.00% adopted was the corporate tax rate in China.

   - The debt-to-equity ratio of 58.82% was adopted, which represents the average debt-to-equity of the guideline listed companies as extracted from Bloomberg as at the Valuation Date.

   - By applying the parameters above, the relevered beta is derived as 0.83.

3. The market risk premium adopted was the equity market risk premiums of China as at the Valuation Date as extracted from Bloomberg, which was 11.30%.

4. The size premium of 3.68% adopted was the size premium for similar sized companies with reference to Duff & Phelps Valuation Handbook 2020.

5. The company specific risk premium for unsystematic risk attributable to the specific company is designed to account for additional risk factors specific to reflect the status and business risk of the JV Company as at the Valuation Date. A company-specific risk premium of 2.00% was considered appropriate for the JV Company. The 2% company-specific risk premium has taken into account the (1) lack of track record of the JV Company and (2) the JV Company has not obtained all business licence. For (1), despite the lack of track record period, we have considered that the JV Company has obtain an agreement signed with local government on its sole operation right in the destinate regions. Such arrangement has lowered the estimated business risk of the JV Company. For (2), as of the Valuation Date, the JV Company has completed most of the projects' construction except for obtaining the Gas Business Licence. As advised by the Management, the requirement for the JV Company to obtain such license is to have trial operation in a period of 6 months. Thus, it is reasonable for the JV Company not yet obtaining such licence in its current stage. In addition, the JV Company can still operate, generate profit and receive cash inflow despite the lack of such license in the first 6 months period of the forecast period. Thus, the lack of such business license is under a normal circumstance. Thus, 2% company specific risk is considered appropriate for the JV Company.

Based on the above, the cost of equity under the modified CAPM were calculated as 17.87%.

5.1.3 Cost of Debt

We have adopted 4.9% of before-tax cost of debt, and 3.68% of after-tax cost of debt. As per discussion with the Management, application of the market borrowing of 4.9%, with reference to the China Above 5 Years Benchmark Lending Rate as at the Valuation Date, according to Bloomberg, is a reasonable estimate of its borrowing cost, despite the JV Company did not expect to incur any bank borrowing during the Forecast Period. In addition, as our valuation does not consider any synergy effect of the acquisition, the level of borrowing rate of the Company, as the purchaser, is considered irrelevant to the estimate of borrowing rate of the JV Company in this valuation.

5.1.4 WACC

The Weighted Average Cost of Capital ("WACC") was used as the discount rate. The required rates of return on equity and debt determined as illustrated above have been weighted according to the industry average capital structure based on our analysis. The WACC was computed using the following formula:

$$WACC = Kd^{*} (1-T)^{*} [D/(D+E)] + Ke^{*} [E/(D+E)]$$

Where:

Ke	=	Cost of Equity
Kd	=	Cost of Debt
D/(D+E)	=	Debt-to-Capital Ratio
E/(D+E)	=	Equity-to-Capital Ratio
T	=	Corporate Tax Rate

Based on the calculations above, we have estimated the WACC to be 12.61%.

5.1.5 Valuation of the JV Company

The fair value of 50% equity interest in the JV Company is valued at RMB179,583,662 as at the Valuation Date.

5.2 The Valuation of the Holding Company

Since the Holding Company does not have its own substantive business, we have adopted the asset-based approach to make appropriate adjustments to its balance sheet to reflect the equity value of the Target Group.

Investment in a subsidiary is eliminated in calculation of net asset value of the Holding Company. The fair value of its equity interest in the JV Company is added back during sum-of-parts valuation. Please refer to section 5.5 for details.

Valuation of the Holding Company

As at 31 July 2022
RMB (Unless Otherwise Stated)

	Book Value	**Fair Value Adjustment**	**Fair Value**	*Note*
	RMB	*RMB*	*RMB*	
Assets				
Non-current Assets				
Leasehold Improvement	2,265,958	–	2,265,958	1
Other Fixed Assets	16,390	–	16,390	1
Investment in the JV Company	19,423,398	(19,423,398)	–	2
Total Non-current Assets	**21,705,747**	**(19,423,398)**	**2,282,348**	
Total Current Assets	**58,720**	**–**	**58,720**	1
Total Assets	**21,764,467**	**(19,423,398)**	**2,341,068**	
Liabilities				
Total Current Liabilities	**3,395,825**	**–**	**3,395,825**	1
Total Net Assets	**18,368,642**	**(19,423,398)**	**(1,054,757)**	

1. Book value is adopted as fair value.
2. Investment in the JV Company is eliminated in calculation of net asset value of the Holding Company. The fair value of its equity interest in the JV Company is added back during sum-of-parts valuation.

5.3 Discount for Minority Interest

The minority interest in a company can be a distinct disadvantage as minority shareholders have little influence in key decisions and are subject to risk and decisions that might not be beneficial to them. Therefore, the minority interest value in a company is usually lower than the controlling interest, as controlling shareholders can make discretionary decisions on behalf of shareholders.

In this valuation, we are of the view that applying 10% minority discount to the 35% equity interest in the Target Company is reasonable.

5.4 Discount for Lack of Marketability (DLOM)

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted to cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in a closely held corporation. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company.

In this valuation, we are of the view that applying 20% discount to the 35% equity interest in the Target Company for lack of marketability is reasonable. It is considered that the historical transaction cost of the JV Company and the Target Company are irrelevant to the DLOM applied to the valuation as of the Valuation Date.

5.5 Sum-of-parts Valuation

Based on the valuation methodologies above, the value of the Target Group is the sum of (1) the 50% equity interest in the JV Company calculated using income approach and (2) the equity value of the Holding Company using asset-based approach. The valuation result is summarised below:

Valuation Result	*RMB*
50% of the JV Company	179,583,662
The Holding Company (Excluding value of its investment in the JV Company)	(1,054,757)
The fair value of the Target Group	**RMB178,528,905**
Equity Shareholding (%)	35%
The fair value of the Valuation Subject, before Minority Discount and DLOM	**RMB62,485,117**
Minority Discount (%)	10%
The fair value of the Valuation Subject, after Minority Discount	**RMB56,236,605**
DLOM (%)	20%
The fair value of the Valuation Subject, after Minority Discount and DLOM	**RMB44,989,284**
RMB/HKD as of Valuation Date	1.1639
The fair value of the Valuation Subject, after Minority Discount and DLOM (HKD)	**HKD52,363,028**

The valuation result of the Valuation Subject is HKD52,000,000 (rounded).

5.6 Sensitivity Analysis

The valuation of the Valuation Subject can be very sensitive to the discount rate adopted in our valuation using income approach in our valuation of the JV Company. The valuation results of the Valuation Subject under different discount rates are presented below:

Sensitivity Analysis of the Valuation Subject

Discount Rate (%)	**Valuation Result** *(HKD)*
14.61%	42,000,000
13.61%	47,000,000
12.61%	**52,000,000**
11.61%	59,000,000
10.61%	68,000,000

6 CONFIDENTIALITY AND DISCLAIMERS

The services provided by Colliers comply with professional assessment standards. Our compensation is not contingent upon our conclusions of value. Under the circumstances that we cannot conduct independent verification, we assume the data obtained is accurate. The files and materials obtained or workpapers produced during our work are our property rights. We will retain this data for at least six years.

The valuation is for the purpose indicated only. The report and valuation shall only be used in the form of full text. Without using the full text, no part of this report and valuation shall be used. The report and valuation results shall only be used for the above-mentioned purpose. Owning this report or any copy does not imply the right to copy. Without the prior written consent of our company to use part of the text and form, it is not allowed to use the full text or part of the report or mention the name of our company or publish the full text or part of the report in any file, notice or statement.

This report shall only be used for the specified purpose. Without the written consent of Colliers, any third party shall not use this report. This report may be provided in full text to the third party who needs to review the information therein. No one shall use this report as a substitute for the original due diligence process. Without the written consent of Colliers, it is not allowed to use the full text or part of the report or mention the name of Colliers or publish the full text or part of the report in any file, notice or statement.

The Company has agreed to indemnify us against any relevant losses, claims, lawsuits, damage, costs or obligations, including the attorney fees for this engagement with the Company as subject, in order to ensure that we have no relation with them, nor will it assume any liability for any of our omission. The scope of protection should include any related persons of Colliers, including directors, officers, employees, contractors, branches or agents. Should Colliers have to make compensation for any liability arising from this engagement, the amount of our compensation is only limited to three times of the service fees for this engagement.

We reserve the right to include the client company in our client list, but we will maintain the confidentiality of all conversations, information obtained, and the contents of the reports. These conditions can only be modified by written documents agreed by both parties.

7 VALUATION CONCLUSION

The valuation has been conducted based on generally accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, which not all of which can be easily quantified or ascertained. While the assumptions and consideration of such matters are considered to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the entrusting party or Colliers.

In accordance with the purpose and scope of our engagement set out, the fair value of 35% equity interest in the Target Company, as at the Valuation Date is: **HKD52,000,000 (HONG KONG DOLLAR FIFTY TWO MILLION ONLY)**.

We hereby certify that we have no prospective interests in the Company or the Valuation Subject.

For and on behalf of
Colliers International (Hong Kong) Limited

Jazz Chow
CFA, FRM, LLB, MBA
Director/Head of Business Valuation
Valuation and Advisory Services – Asia

Note: Jazz Chow is a Chartered Financial Analyst and Financial Risk Manager with more than 17 years of extensive business valuation and advisory experience.

APPENDIX I – ANNEXURE A

Financial Projection of the JV Company provided by the management of JV Company:

	Year 2022 RMB'0000	Year 2023 RMB'0000	Year 2024 RMB'0000	Year 2025 RMB'0000	Year 2026 RMB'0000	Year 2027 RMB'0000
Revenue	–	21,015	32,798	37,509	42,141	41,852
– Steam		3,910	5,213	6,517	7,820	9,123
– Residential Heat		1,307	3,922	6,537	9,151	10,459
– Natural Gas		11,898	15,864	16,657	17,371	18,371
– Installation		3,899	7,798	7,798	7,798	3,899
Cost	–	(16,640)	(25,437)	(28,901)	(32,295)	(32,478)
– Steam		(2,641)	(3,521)	(4,401)	(5,282)	(6,162)
– Residential Heat		(941)	(2,822)	(4,704)	(6,585)	(7,526)
– Natural Gas		(10,536)	(14,048)	(14,750)	(15,382)	(16,267)
– Installation		(2,523)	(5,046)	(5,046)	(5,046)	(2,523)
Sales tax and surcharge	–	(39)	(66)	(77)	(89)	(84)
Administrative expenses	(644)	(1,727)	(1,883)	(2,001)	(2,111)	(2,200)
Profit/(loss) before taxation	(644)	2,609	5,412	6,530	7,646	7,090
Income tax	–	(348)	(1,353)	(1,632)	(1,912)	(1,772)
Profit/(loss) after taxation	(644)	2,260	4,059	4,897	5,735	5,317
Add: Depreciation and Amortisation	420	809	809	809	809	809
(Less: Capital expenditure)	(4,956)	(5,235)	(2,055)	(209)	–	–
(Less: Working capital)	(110)	58	31	25	25	18
Operating cash inflow/ (outflow)	(5,291)	(2,107)	2,845	5,523	6,568	6,144

The valuation of the JV Company is performed based on the Financial Projection provided by the JV Company, who has forecasted its key inputs based on the following basis and/or source:

Steam Sales Segment – Revenue

1. The selling price per tonne is RMB274.8. It is estimated to generate revenue from 9 customers with approximately 52 tonnes per customers per day, based on a 330 days per year basis.

   a. The selling price is estimated based on the stated price in the licensing agreement with the Housing and Urban-Rural Development Bureau of Mengcheng County (the "Licencing Agreement").

b. It is estimated that the number of customers in 2023 will be 9, which is partly based on certain letters of intent, which are legally binding according to the advice from the Company's legal advisor, signed by potential customers and oral confirmation with potential customers introduced by the Mengcheng County government. Two potential customers have signed the letters of intent, and the remaining seven have not because the JV Company believes that any customers referred by the Mengcheng County government will honour its oral confirmation to enter into an agreement to order steam from the JV Company after the pipelines have been installed.

   The number of customers is forecasted to grow with additional 3 customers per year from 2024 to 2027. The estimated growth in the number of customers is based on the JV Company's view that, as stated in clause 11.2.3 in the Licencing Agreement, the County Housing and Urban-Rural Development Bureau will coordinate with relevant departments to ban individual small boilers in the region gradually. Thus, the JV Company believe that the estimated growth in the number of downstream customers can be achieved.

c. The output of 52 tonne is estimated based on the current demand recorded by the JV Company in site visit and has considered the capacity of four steamers of the JV Company. Each steamer, on average, is equivalent to output 13 tonne per day, which is approximately 65% of the full capacity of 20 tonnes per day for each steamer.

2. The revenue is calculated by number of customers x tonnes per customer per day x 330 days per year x selling price per tonne, which arrives the pre-VAT (value-added tax) revenue, and further account for the VAT of 9% to arrive the final post-VAT revenue.

   E.g., For forecast revenue in 2023 = (9 x 52.22 x 330 x 274.8) x (1-(0.09/1.09)) = RMB39.10 million

Steam Sales Segment – Cost

3. The unit of natural gas is in cubic meters (or m^3). The estimated unit of natural gas used is $80m^3$ per tonne of steam produced. The unit cost of natural gas is RMB2.32 per m^3.

   a. The required units (m^3) of natural gas per tonne of steam produced adopted in the estimation is aligned with market available data.

   b. The unit cost of natural gas per m^3 is based on the average cost estimated in the feasibility study provided by the JV Company. The feasibility study, which was conducted by a construction consultancy company in Anhui, considered the seasonal difference in the unit cost of natural gas and estimated the average unit cost of natural gas to be RMB2.32 per m^3 in the Mengcheng County Area. It is further elaborated with the information provided by the JV Company that the estimated unit cost of RMB2.32 per m^3 is referenced to the natural gas pricing information of a national-scale natural gas seller and the notice in relation to the nature gas basic gateway cost issued by Nation Development and Reform Commission of the PRC (《安徽省發展改革委轉發國家發展改革委關於調整天然氣基準門站價格的通知》).

Natural Gas Segment – Revenue

4. The selling price per m^3 is RMB2.62. It is estimated to generate revenue from 5 customers (who have verbally agreed to order natural gas from the JV Company, as advised by the JV Company) with approximately 150,000 m^3 per day (i.e., average of 30,000 m^3 per customer per day), based on a 330 days per year basis. The JV Company believes that any customers referred by the Mengcheng County government will honour its oral confirmation to enter into agreement to order natural gas from the JV Company after the pipelines have been installed.

   a. The selling price is comprised of a markup of RMB0.3 per m^3 on the given unit cost of natural gas of RMB2.32 per m^3. Such gross profit of RMB0.3 per m^3 is similar to that of a Chinese listed company in natural gas business, according to recent market research.

   b. It is estimated that the number of customers in 2023 will be 5, which is based on the JV Company's discussions with potential customers. As advised by the JV Company, Anhui Mengcheng Economic Development Zone Management Committee (安徽蒙城經濟開發區管理委員會) ("Mengcheng EDZMC") has referred at least 5 prospective corporate customers and disclosed the demand of certain large referred corporates to the JV Company. Those corporates are existing users of natural gas in the Mengcheng County, they currently purchase from supplier that gasifies the LNG and transport it to them, which the gas supply is unstable and expensive. The Management then contacted and discussed with 5 customers of them accordingly. It is forecasted to grow with an additional 1 customer added in 2024 based on the JV Company's discussion with Mengcheng EDZMC and the JV Company's view on the growing number of new corporates established in Mengcheng.

   c. The total demand of 150,000 m^3 per day is estimated based on the JV Company's discussion with the 5 potential customers on their estimated demand, from the JV Company, for natural gas of approximately 90,000 m^3/day, 45,000 m^3/day, 7,000 m^3/day, 4,800 m^3/day, 3,700 m^3/day, respectively, which is approximately 150,000 m^3 per day in total. Thus, the demand for natural gas is estimated to be, on average, 30,000 m^3 per customer per day.

5. The revenue is calculated by number of customers x m^3 per customer per day x 330 days per year x selling price per m^3, which arrives the pre-VAT (value-added tax) revenue, and further account for the VAT of 9% to arrive the final post-VAT revenue.

   E.g., For forecast revenue in 2023 = (5 x 30,000 x 330 x 2.62) x (1-(0.09/1.09)) = RMB118.98 million

Natural Gas Segment – Cost

6. The unit cost of natural gas is estimated to be RMB2.32 per m^3, which is consistent to the estimate of unit cost of natural gas adopted for the steam sales segment.

Residential Heat Supply Segment – Revenue

7. It is estimated to have 5,000 households in 2023 and grow to 40,000 households in 2027. The revenue per household per year is based on RMB20.5 of selling price and RMB8 of government subsidy per square meter of household. Initial installation fee of RMB85 per square meter is estimated for each new household installed.

   a. According to the feasibility study and estimate by the JV Company, the population of the operating region is 0.4 million. Based on the estimates of 4 people as one household unit and 40% of the population will be using heat supply, the estimate of 40,000 households in 2027 is adopted in the Financial Projection.

   b. The area of a household is estimated to be 100 square meters.

   c. Selling price is estimated based on the selling price level in nearby regions, and relevant document published by local authorities.

   d. As advised by the JV Company, the government subsidy is estimated based on the JV Company management's discussion with local authorities.

8. The revenue of heat supply service is calculated by number of households x estimated square meters per household per year x selling price per square meters, which arrives the pre-VAT (value-added tax) revenue, and further account for the VAT of 9% to arrive the final post-VAT revenue.

   E.g., For forecast revenue in 2023 = (5,000 x 100 x 28.5) x (1-(0.09/1.09)) = RMB13.07 million

9. The revenue of heat supply installation is calculated by number of households x installation price per new household x estimated square meters per household, which arrives the pre-VAT (value-added tax) revenue, and further account for the VAT of 9% to arrive the final post-VAT revenue.

   E.g., For forecast revenue in 2023 = (5,000 x 85 x100) x (1-(0.09/1.09)) = RMB38.99 million

Residential Heat Supply Segment – Cost

10. The unit cost of natural gas is estimated to be RMB2.32 per m^3. Consumption of natural gas is estimated as 8.84 unit per square meter of the household's area. The cost of initial residential heat installation cost is RMB55 per square meter.

    a. The unit consumption of natural gas is estimated by the JV Company and is aligned with market available data.

    b. The cost of initial installation cost of RMB55 per square meter is estimated by the JV Company and is referenced to nearby market price.

Staff Cost

11. The number of staff is forecasted to be 80 since 2023, with average monthly salary as approximately RMB4,000, which is based on its projection of staff number, and the historical salaries paid, with estimated inflation of 5% per year.

Capital Expenditure

12. For the capital expenditure, it is projected based on the payment schedule for existing construction-in-progress as of the Valuation Date, and the additional forecasted capital expenditure of RMB87 million in pipeline construction estimated by the JV Company. The capital expenditure of RMB87 million is forecasted to be fully paid throughout 2022 to 2025.

Terminal Growth Rate

13. The terminal growth rate is approximately 2%, with reference to inflation data from Bloomberg Terminal.

Additional Information of Forecast Analysis

14. The JV Company has entered an exclusive licencing agreement with the Housing and Urban- Rural Development Bureau of Mengcheng County. Which the agreement grants the JV Company a 30-year license to supply heat and steam (except natural gas) to residents and industry, commercial and corporate entities in the Mengcheng County Area. This exclusive licencing agreement, was acquired by the JV Company for operational usage and ensures that the JV Company to be the sole supplier of heat and steam (except natural gas) to parties within the Mengcheng Country Area. With no competitors in the market, we found that the JV Company's forecasting approach of using the population in the Mengcheng County Area and the market price of surrounding areas to be reasonable. Please refer to Appendix 1, I-16 to I-20 for further details.

15. Forecasting the cash flow projection of serving the residential heat supply segment of the Mengcheng County. The current Mengcheng County population is approximately 1.4 million, with about 400 thousand residents in the urban area. The JV Company builds infrastructures only to serve residents in the urban area. Under the assumption of 4 people per household, which consists of one married couple, 1 elderly and 1 child or one married couple and two children. The overall population can be translated to 100 thousand households. Since time is needed for pipeline network construction work, the JV Company targets to gradually increase the pipeline coverage from 5% to 40% over a four-year period. With a low adaption rate at the beginning of the program, it is assumed that the adaption rate is about 5% of the urban population in 2023, and 15% in 2024 (5,000 and 15,000 households for 2023 and 2024 respectively); the project will finally achieve the final projection of 40% of the urban population (or 40,000 household subscribers) in 2027, which the 40,000 household is calculated based on the predicted production and pipeline capacity that the company is forecasted to achieve in the next four years. It is reasonable to assume that the project will achieve the projected outcome as the JV Company will be the sole heat supplier for residential usage in the region.

16. Under the guidance of the 14th Five - year plan for clean and renewable energy development, the country is experiencing a shift from traditional fossil-based energy to renewable and cleaner energy. This change in national policy will greatly benefit the sales projection for the steam sales and natural gas sales segments of the company, providing evidence for the forecasted sales growth in the respective region.

17. The residential heat supply and installation segments are related. Before the residential customers can enjoy the heating services, they need to have the heating system installed in their household. The estimated installation revenue is calculated based on the incremental increase in subscribed households. Since the forecasted subscribed household for the service is 5,000 household in 2023 and 15,000 household in 2024, the number of customers of residential heat installations in these two years are 5,000 and 10,000 respectively accordingly, and therefore the increase in installation rate across these two years is 100%. Furthermore, there is a forecasted gradual increase in the installation of subscribed household of 5,000 to 10,000 new installation per year until the user base reaches 40,000 household in 2027.

18. The growth of steam sales is primarily attributable to the increase in the number of new corporate customers, while the number of new corporate customers is primarily attributable to the number of new investment projects established in Mengcheng County which adopted centralised steam supply as a cleaner energy solution. In the《2021年蒙城縣政府工作報告》(Report on the Work of Mengcheng County Government in 2021) published by the Mengcheng County government in February 2021, there were 49 new billion-dollar industrial projects with signed contracts established in Mengcheng in 2020. In the 《縣招商服務中心2021年工作總結及2022年工作謀劃》 (Summary on the Work of County Investment Promotion Service Center in 2021 and Work Plan of 2022) published by 蒙城縣招商服務中心 (Mengcheng County Investment Promotion Service Center) in February 2022, there were 42 new industrial projects with signed contracts in 2021 and total investment amounted to RMB16.98 billion. The recent growth in the number of new investment projects and new companies has supported the prospective customers base and market demand. At the same time, the Mengcheng County government is promoting companies and businesses to use cleaner energy in their daily operation in order to achieve the goal of nation energy conservation policy, so it is logical to predict that more companies and businesses will use cleaner energy solutions in their daily operation. The Management forecasts an increase of 3 new corporate customers in 2024 based on the discussion with local authority on the expectation of constructing projects that will be completed in 2024 and planning to use a centralised steam supply. As the JV Company is the sole centralised steam supplier for industrial usage in the region and in view of the above factors, the Management predicts a constant growth of 3 new customers per year from 2025 to 2027, while the annual usage per customer remains stable in the steam sales segment is reasonable.

19. Within the natural gas sales segment, the number of customers is estimated to be 5 in 2023, which is based on the JV Company's discussions with potential customers identified by Mengcheng EDZMC. In 2022, the JV Company has been approved and granted a download port at No.1 of the West-to-East Gas Pipeline by 國家石油天然氣管網集團有限公司 ("China Oil & Gas Pipeline Network Corporation"). This download port from one of the main national gas pipes gave the JV Company a competitive advantage in providing steady energy supply in cleaner and lower cost over the current industrial fuel energy supply, such as coal and liquefied natural gas. Also, it is prohibited the overlapping the construction of natural gas pipelines according to the notice published by Anhui Provincial Energy Bureau (安徽省能源局) in relation to the control of natural gas pipeline's construction (《安徽省能源局安徽省住房城鄉建設廳安徽省應急廳關於進一步強化天然氣管道建設安全源頭管控工作的通知》), and it is a general market practice for pipeline construction companies in China to avoid overlapping of the pipeline network construction, the joint venture will become the only supplier in the region that directly transports natural gas to industrial users by pipeline from the main national natural gas pipeline network. In view of the above factors, the Management predicts 5 customers per year from 2023 and increase 1 customer in 2024 in natural gas sales segment is reasonable.

20. The Management predicts that the number of customers of the natural gas sales segment will increase from 5 to 6 from 2023 to 2024, and the customer base will remain stable for the remainder of the prediction. The annual usage of each customer will increase on an annual basis, from 2023 to 2024, the predicted increase in usage is 11% per customer, and then the annual increase in usage per customer will be below 6% until 2027. This gradual increase in usage is based on the Management's discussion with their customers that the latter will gradually use a greater portion of energy consumption on cleaner energy as opposed to traditional fossil energy. In view of the estimated 8.6% average annual growth rate of the demand for natural gas according to the development goal from 2016 to 2030 in 《蒙城縣(中心城區)天然氣專業規劃》 (Professional Planning of Natural Gas Development in Mengcheng County (Central Region)), the overall growth rates predicted by the Management is reasonable.

D & PARTNERS
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT ASSURANCE REPORT ON CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF THE 35% EQUITY INTEREST IN CHENGDU HUAHAN ENERGY CO., LTD

TO THE DIRECTORS OF CENTRAL DEVELOPMENT HOLDINGS LIMITED

We have examined the calculations of the discounted future estimated cash flows on which the valuation prepared by Colliers International (Hong Kong) Limited dated 18 November 2022, of the 35% equity interest in Chengdu Huahan Energy Co., Ltd as at 31 July 2022 (the "Valuation") is based. The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and will be included in a circular of Central Development Holdings Limited (the "Company") dated 18 November 2022 in connection with the proposed acquisition of 35% equity interest in Chengdu Huahan Energy Co., Ltd (the "Circular"). The Valuation is set out in Appendix I of the Circular.

Directors' Responsibility for the Discounted Future Estimated Cash Flows

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the directors and set out on pages 7 to 8 of the Circular (the "Assumptions"). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibility

Our responsibility is to express an opinion on the accounting policy and arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the Valuation is based and to report solely to you, as a body, as required by Rules 14.62(2) and 14A.70(9) of the Listing Rules, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Our engagement was conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the Assumptions. Our work was limited primarily to making inquiries of the Company's management, considering the analyses and assumptions on which the discounted future estimated cash flows are based and checking the arithmetic accuracy of the compilation of the discounted future estimated cash flows. Our work does not constitute any valuation of the 35% equity interest in Chengdu Huahan Energy Co., Ltd.

Because the Valuation relates to discounted future estimated cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express any opinion whatsoever thereon.

Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the Assumptions.

D & PARTNERS CPA LIMITED
Certified Public Accountants
Hong Kong

18 November 2022

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL OF THE COMPANY

The authorised and issued share capital of the Company (i) as at the Latest Practicable Date; and (ii) immediately after the issue and allotment of the Conversion Shares (assuming there is no other change to the share capital of the Company prior to the issue and allotment of the Conversion Shares) will be as follows:

(i) As at the Latest Practicable Date

Authorised:		*HK$*
10,000,000,000	Shares of HK$0.01 each	100,000,000
Issued and fully paid or credited as fully paid:		
387,564,000	Shares of HK$0.01 each	3,875,640

(ii) Immediately after the allotment and issue of the Conversion Shares upon the exercise in full of the conversion rights attached to the Convertible Bonds (assuming there is no other change to the share capital of the Company prior to the issue and allotment of the Conversion Shares)

Authorised:		*HK$*
10,000,000,000	Shares of HK$0.01 each	100,000,000
Issued and fully paid or credited as fully paid:		
387,564,000	Shares of HK$0.01 each	3,875,640
70,270,270	Conversion Shares to be allotted and issued upon the exercise of the conversion rights attached to the Convertible Bonds in full	702,703
457,834,270	Total	4,578,343

All the Shares in issue rank *pari passu* with each other in all respects, including the rights as to dividends, voting and return of capital. The Conversion Shares to be allotted and issued will, when issued and fully paid, rank *pari passu* in all respects with the then existing Shares in issue on the date of allotment and issue of the Conversion Shares.

No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or the Conversion Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

3. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 to the Listing Rules, were as follows:

(i) Interest in Shares of the Company

Long Positions

Ordinary Shares of HK$0.01 each

Name of Director	Capacity	Number of Shares held	Number of underlying Shares	Total interest	Approximate percentage total issued Shares
Mr. Hu Yangjun	Interests of controlled corporation and personal interest	207,784,000[(1)]	–	207,784,000	53.61%
Mr. Wu Hao	Personal interest	6,036,000	–	6,036,000	1.56%
Mr. Chan Wing Yuen, Hubert	Personal interest	3,300,000	–	3,300,000	0.85%
Mr. Li Wei Qi, Jacky	Personal interest	2,736,000	330,000[(2)]	3,066,000	0.79%
Mr. Jin Qingjun	Personal interest	–	330,000[(2)]	330,000	0.09%

Notes:

(1) Mr. Hu Yangjun had a direct interest of 3,066,000 Shares and a deemed interest of 204,718,000 Shares held by Resources Rich, a company 50% owned by Mr. Hu Yangjun, within the meaning of Part XV of the SFO.

(2) These interests represented the interests in underlying Shares in respect of share options granted to the Directors under the Share Options Scheme.

Save as disclosed above, as at the Latest Practicable Date, no other Directors and chief executive of the Company had any interests and short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which 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 and short positions which any such Director was taken or deemed to have under such provisions of the SFO); or which was required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which was required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(ii) Other Directors' interest

At the Latest Practicable Date, save as disclosed above, none of the Directors was a director or employee of a company which had or was deemed to have an interest or short position in the Shares or underlying shares in respect of equity derivatives of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation, other than statutory compensation).

5. DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date and which is significant in relation to the business of the Group.

6. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to (or are proposed to be acquired or disposed of by or leased to) any member of the Group since 22 June 2022, being the date of the latest published audited financial statements of the Group. None of the Directors or any of their respective associates was materially interested in any contract or arrangement which was significant in relation to the business of the Group subsisting as at the Latest Practicable Date.

7. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this circular and are or may be material:

(i) the Agreement;

(ii) the Supplemental Agreement; and

(iii) the Convertible Bond Instrument.

8. LITIGATION

As at the Latest Practicable Date, the Company was not engaged in any material litigations or claims and no litigations or claims of material importance is pending or threatened against the Company.

9. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or any of their respective associates had any interests in businesses, which compete or are likely to compete, either directly or indirectly, with the business of the Group.

10. EXPERTS AND CONSENTS

The following is the qualifications of the experts who have given opinions or advice which are contained in this circular:

Name	Qualification
Gram Capital Limited	a licensed corporation to carry out Type 6 (advising on Corporate Finance) regulated activity under the SFO
D & Partners CPA Limited	Certified Public Accountant and under Professional Accountant Ordinance (Cap. 50) and Registered Public Interest Entity Auditor under Financial Reporting Council Ordinance (Cap. 588)
Colliers International (Hong Kong) Limited	Independent valuer

(i) As at the Latest Practicable Date, each of the above experts had no 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.

(ii) As at the Latest Practicable Date, each of the above experts did not have any interest, direct or indirect, in any assets which have been, since 31 March 2022 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to, any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

(iii) Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or report (as the case may be) and references to its name in the form and context in which it appears.

(iv) The letter or report (as the case may be) from the above experts is given as of the date of this circular for incorporation therein.

11. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2022, being the date to which the latest published audited financial statements of the Group were made up.

12. GENERAL

(i) Unless otherwise stated, the English text of this circular shall prevail over the Chinese text in case of inconsistency.

(ii) The company secretary of the Company is Mr. Chow Chi Shing ("Mr. Chow"). Mr. Chow graduated with a bachelor's degree in accounting from the Hong Kong University of Science and Technology. Mr. Chow is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom.

(iii) The registered office of the Company is situated at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

(iv) The head office is situated at Room 2202, 22/F., Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong.

(v) The principal share registrar of the Company is Suntera (Cayman) Limited at Suite 3204, Unit 2A, Block 3, Building D, P.O. Box 1586, Gardenia Court, Camana Bay, Grand Cayman, KY1-1100, Cayman Islands.

(vi) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

13. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the website of the Stock Exchange (www.hkexnews.hk) and the Company (www.475hk.com) in accordance with the Listing Rules from the date of this circular up to and including the date which is 14 days from the date of this circular:

(i) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix;

(ii) the written consents referred to in the paragraph headed "Experts and Consents" in this Appendix;

(iii) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" of this circular;

(iv) the letter from the Independent Board Committee as set out from pages 29 to 30 in this circular;

(v) the letter from Gram Capital, the Independent Financial Adviser, as set out from pages 31 to 49 in this circular;

(vi) the Valuation Report on the fair value of the 35% equity interests in the Target Company as at 31 July 2022 prepared by Colliers International (Hong Kong) Limited, the text of which is set out in Appendix I to this circular;

(vii) the report from D & Partners CPA Limited in relation to the calculation of discounted future cash flows in the Valuation Report, the text of which is set out in Appendix II to this circular; and

(viii) this circular.