
LETTER FROM THE BOARD



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)

Mr. Zhang Bing

Registered office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Non-Executive Director:

Mr. Li Wei Qi, Jacky

Principal Place of Business in the

Hong Kong:

Room 2202, 22/F.

Chinachem Century Tower

178 Gloucester Road

Wanchai

Hong Kong

Independent non-executive Directors:

Mr. Jin Qingjun

Ms. Sun Ivy Connie

Ms. Zhong Yingjie, Christina

3 July 2024

To the Shareholders

Dear Sir and Madam,

**MATERIAL VARIATION OF THE TERMS OF 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 announcements of the Company dated 19 August 2022, 15 November 2022 and 5 December 2022 (the “Announcements”) respectively in relation to the acquisition of 35% equity interest in the Target Company (the “Acquisition”) and the issue of Convertible Bonds under the General Mandate. The Acquisition was completed on 5 December 2022.

Reference is also made to the announcement of the Company dated 12 June 2024. The Target Company has advised the Company that the JV Company cannot obtain the Gas Business License by the deadline of 30 June 2024, as originally stated in the First Supplemental Agreement, and anticipates that the JV Company can only obtain the Gas Business License on or before 30 November 2025. On 12 June 2024, the Purchaser (after trading hours) entered into the Second Supplemental Agreement with the Vendor and the Target Company, in order to, among others, amend the post-completion obligations of the

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Acquisition. Under the Second Supplemental Agreement, if the JV Company cannot obtain the Gas Business License on or before 30 November 2025, the Convertible Bonds will be automatically cancelled on 1 December 2025, the Company will re-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 December 2025.

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

- (i) the particulars of the Second Supplemental Agreement and the variation contemplated thereunder;
- (ii) a letter from the Independent Board Committee with its recommendation to the Shareholders regarding the Second Supplemental Agreement and the variation contemplated thereunder;
- (iii) a letter from Gram Capital to the Independent Board Committee and the Shareholders; and
- (iv) other information as required under the Listing Rules.

THE SECOND SUPPLEMENTAL AGREEMENT

Date: 12 June 2024 (after trading hours)

Parties:

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

Vendor: Mr. Zhang Bing

Target Company: Chengdu Huahan Energy Co., Ltd.

Consideration

The Acquisition was completed on 5 December 2022. The consideration of HK\$52,000,000 for the sale and purchase of the Sale Shares was settled by the Company allotting and issuing the Convertible Bonds to the Vendor on 5 December 2022. The Convertible Bonds have not been converted as they are subject to the condition that no transfer and/or assignment of Convertible Bonds shall take place before JV Company obtains the Gas Business License.

Post-completion obligations of the Acquisition

The Target Company has advised the Company that the JV Company cannot obtain the Gas Business License by the deadline of 30 June 2024, as originally stated in the First Supplemental Agreement, and anticipates that the JV Company can only obtain the Gas Business License on or before 30 November 2025. The Second Supplemental Agreement amends the Agreements accordingly. If the JV Company cannot obtain the Gas Business License on or before 30 November 2025, the Convertible Bonds will be automatically cancelled on 1 December 2025, 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 December 2025.

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The Company continues to monitor the progress of the JV Company in obtaining the Gas Business License after the Acquisition.

TERMS OF CONVERTIBLE BONDS

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 and from time to time, during the date of the issuance of the Convertible Bond 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.

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- Conversion Price : the initial Conversion Price is HK\$0.74 per Conversion Share (subject to adjustment) and represents:
- (i) equal 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;
 - (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; 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.

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 : the Conversion Price will be subject to adjustment for Price 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.

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- Transferability : subject to all applicable laws and regulations and prior notification to the Company, 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 the 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.
- 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.
- 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.

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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;
- (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.

A written approval has been obtained by the Company pursuant to Rule 14A.37 of the Listing Rules, among other things, for the allotment and issuance of the Conversion Shares under the General Mandate.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SECOND SUPPLEMENTAL AGREEMENT

The PRC legal adviser (the “**PRC Legal Adviser**”) appointed by the Purchaser provided in its legal opinion (the “**Legal Opinion**”) on 25 June 2024 that the obtaining of the four certificate and permits which are the prerequisites for applying for the Gas Business License, namely 1) the land certificate, 2) the construction land planning permit, 3) the construction project planning permit, and 4) the construction permit, were delayed for the following reasons respectively:

Certificate/Permit	Reason for the delay	Current status
Land certificate	Refusal of relocation by the local residents	Obtained on 12 October 2023
Construction land planning permit	Delay in obtaining the land certificate	Obtained on 25 October 2023
Construction project planning permit	Same as above	Obtained on 29 April 2024
Construction permit (the “ Construction Permit for Main Natural Gas Gateway ”)	Delay in obtaining the construction land planning permit and the construction project planning permit	Pending

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The delay in obtaining the above four certificate and permits was unforeseeable mainly because the prolonged governmental/administrative procedures involved were not controllable by the JV Company. As of the date of the Legal Opinion, the Company has not yet applied for the Gas Business License. However, the PRC Legal Adviser opines that as no more obstacle in relation to the governmental/administrative approval exists, there will be no legal impairment obstructing the JV Company from obtaining the Gas Business License provided no illegality exists in the process of the application therefor. Accordingly, the Board is of the view that the interest of the Company and its shareholders will not be prejudiced by the Second Supplemental Agreement.

The JV Company is preparing for construction of a main natural gas gateway for obtaining natural gas from supplier(s) (the “**Main Natural Gas Gateway**”), and will (i) commence construction of the Main Natural Gas Gateway after obtaining the Construction Permit for Main Natural Gas Gateway and expects to complete construction of the Main Natural Gas Gateway with all other necessary facilities by December 2024; (ii) commence trial operation for three to six months thereafter; and (iii) apply for the Gas Business License after completion of the aforesaid trial operation.

The Vendor further assures 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 after obtaining the Gas Business License is normal. The Vendor has operated the gas business for over 25 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 the Vendor has provided sufficient assurance on obtaining the Gas Business License by the JV Company.

The Board considers that the terms and conditions of the Second Supplemental Agreement are on normal commercial terms and are fair and reasonable and the Second Supplemental Agreement is in the interests of the Group, the Company and the Shareholders as a whole.

The details of the reasons for and benefits of entering into the Acquisition have already been stated in the announcements dated 19 August 2022, 15 November 2022 and 5 December 2022 and the circular dated 18 November 2022.

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

The Target Company, the JV Company and their businesses

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, 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 Second Supplemental Agreement, the JV Company has not commenced sales.

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The Target Company has no business operation since its incorporation in January 2021 other than holding 50% of the equity interest in the JV Company since November 2021. 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 unaudited financial information for the year ended 31 March 2024 and 31 March 2023 prepared in accordance with the generally accepted accounting principles in the PRC are as follows:

	Year ended 31 March 2023	Year ended 31 March 2024
	<i>'000</i>	<i>'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Net loss before taxation	RMB(1,654) (equivalent to approximately HK\$(1,895))	RMB(2,212) (equivalent to approximately HK\$(2,436))
Net loss after taxation	RMB(1,654) (equivalent to approximately HK\$(1,895))	RMB(2,212) (equivalent to approximately HK\$(2,436))
Net asset value	RMB34,206 (equivalent to approximately HK\$39,074)	RMB31,994 (equivalent to approximately HK\$35,296)

A summary of the financial information of the Target Company derived from the unaudited financial information for the years ended 31 March 2024 and 31 March 2023 prepared in accordance with the generally accepted accounting principles in the PRC are as follows:

	Year ended 31 March 2023	Year ended 31 March 2024
	<i>'000</i>	<i>'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Net loss before taxation	RMB(1,356) (equivalent to approximately HK\$(1,554))	RMB(980) (equivalent to approximately HK\$(1,079))

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	Year ended 31 March 2023 '000 (unaudited)	Year ended 31 March 2024 '000 (unaudited)
Net loss after taxation	RMB(1,356) (equivalent to approximately HK\$(1,554))	RMB(980) (equivalent to approximately HK\$(1,079))
Net asset value	RMB17,880 (equivalent to approximately HK\$20,424)	RMB16,900 (equivalent to approximately HK\$18,644)

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).

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After completion of the Second Supplemental Agreement, 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 and jewelry business in the PRC and Hong Kong.

Information of the Vendor

The Vendor is (i) a Director of the Company; (ii) 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; and (iii) the ultimate beneficial owner of 65% of the equity interest in the Target Company of which the Company has a 35% equity interest. Hence, the Vendor is a connected person both at the Company and 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 Agreements.

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.

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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.

FINANCIAL EFFECTS OF THE SECOND SUPPLEMENTAL AGREEMENT

Since the Acquisition was completed in 5 December 2022, entering into the Second Supplemental Agreement would have no impact on the Company's liabilities. The Target Company and the JV Company would not become the subsidiaries of the Company and the financial results, assets and liabilities of the Target Company and the JV Company would not be consolidated into the Group's consolidated financial statements.

LISTING RULES IMPLICATIONS

Discloseable Transaction

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

Connected Transaction

As at the Latest Practicable Date, the Vendor, is (i) a Director of the Company; (ii) the ultimate beneficial owner of 49% of the equity interest in Chengdu Kaibangyuan through Sichuan Huahan which is wholly owned by Zhongtoughongsheng, 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; and (iii) the ultimate beneficial owner of 65% of the equity interest in the Target Company of which the Company has a 35% equity interest. Hence, the Vendor is a connected person both at the Company and at the subsidiary level under the Listing Rules, and the Acquisition constituted a connected transaction of the Group under Chapter 14A of the Listing Rules. The Acquisition and the issue of Convertible Bonds as Consideration, but for Rule 14A.37 of the Listing Rules, were subject to the reporting, announcement and the independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules. The Second Supplemental Agreement constitutes a material variation of the terms of the Acquisition and therefore are subject to the same reporting, announcement and the independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

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The Company has applied for, and on 12 June 2024, 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 Acquisition and the Second Supplemental Agreement, and no Shareholder would be required to abstain from voting if the general meeting of the Company was convened to approve the Second Supplemental Agreement; 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 the Second Supplemental Agreement in lieu of convening a general meeting. The written shareholder's approval by Resources Rich in relation to the Second Supplemental Agreement has already been obtained on 12 June 2024.

Mr. Zhang Bing is a Director of the Company. He does not hold any Share in the Company, and therefore cannot exercise any shareholder's vote on the Second Supplemental Agreement but has abstained from voting on the relevant board resolution. None of the other Directors has a material interest in the Second Supplemental Agreement and the variation contemplated thereunder and therefore none of the other Directors was required to abstain from voting on the relevant board resolutions in respect of approving the Second Supplemental Agreement.

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 Second Supplemental Agreement 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 Second Supplemental Agreement.

RECOMMENDATION

Your attention is also drawn to the letter from the Independent Board Committee set out on pages 17 to 18 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 19 to 28 of this circular in connection with the variation contemplated under the Second Supplemental Agreement 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 variation contemplated under the Second Supplemental Agreement, 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 Second Supplemental Agreement are on normal commercial terms and fair and reasonable so far as the Shareholders are concerned.

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The Board (including the independent non-executive Directors) is of the view that although the Second Supplemental Agreement 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 Second Supplemental Agreement if a physical general meeting were to be convened for the purpose of consideration and if thought fit, approving the Second Supplemental Agreement.

ADDITIONAL INFORMATION

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

Yours faithfully,
By Order of the Board
Central Development Holdings Limited



Wu Hao
Chairman & Executive Director