

3 July 2024

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

Dear Sir/Madam,

MATERIAL VARIATION OF THE TERMS OF 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 amendment of certain terms of the Agreements pursuant to the Second Supplemental Agreement (the “**Proposed Amendment**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 3 July 2024 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 Circular, the Purchaser (an indirect wholly-owned subsidiary of the Company), the Vendor, and the Target Company entered into the Equity Transfer Agreement dated 19 August 2022 and the First Supplemental Agreement dated 15 November 2022 in relation to the Acquisition. The Acquisition was completed on 5 December 2022. On 5 December 2022, the Company issued the Convertible Bonds to settle the Consideration.

With reference to the Board Letter,

- (1) The Target Company 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.



- (2) On 12 June 2024, the Purchaser entered into the Second Supplemental Agreement with the Vendor and the Target Company, in relation to the Proposed Amendment. 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.
- (3) The Proposed Amendment constitutes a material variation of the terms of the Acquisition and is therefore subject to the reporting, announcement and the independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.
- (4) The Company applied for, and on 12 June 2024, 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 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 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 Proposed Amendment are on normal commercial terms and are fair and reasonable; (ii) whether the Proposed Amendment is 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 Proposed Amendment if a physical general meeting was to be convened for the purpose of consideration and if thought fit, approving the Proposed Amendment. 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

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as the independent financial adviser in relation to Acquisition, details of which were set out in the Company's circular dated 18 November 2022. Save for the aforesaid engagement, there was no other service provided by Gram Capital to the Company relating to any transaction of the Company during the past two years immediately preceding the Latest Practicable Date. Notwithstanding the aforesaid engagement, we were not aware of any relationships or interests between Gram Capital and the Company, or any other parties during the past two years immediately preceding the Latest Practicable Date that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser. Having considered the above and that none of the circumstances as set out under Rule 13.84 of the Listing Rules existed as at the Latest Practicable Date, we are of the view that we are independent 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 Proposed Amendment. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

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 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 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 Company, the Vendor, the Target Company, the JV Company or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Proposed Amendment. 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 Proposed Amendment, 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 energy business and jewelry business in the PRC and Hong Kong.

Set out below are the audited consolidated financial information of the Group for the two years ended 31 March 2024 as extracted from the Company's annual results announcement for the year ended 31 March 2024 (the "2023/24 AR Announcement"):

	For the year ended 31 March 2024 ("FY2023/24") HK\$'000	For the year ended 31 March 2023 ("FY2022/23") HK\$'000	Year-on-year change %
Revenue	188,549	247,893	(23.94)
– Sales of jewelry products	18,000	26,709	(32.61)
– Sales of solar energy products	345	1,541	(77.61)
– Sales of refined oil	64,857	27,927	132.24
– Sales of liquefied natural gas ("LNG")	105,347	191,716	(45.05)
Gross profit	7,736	4,645	66.54
Loss for the year attributable to owners of the Company	(31,050)	(11,906)	160.79

As illustrated in the above table, the Group's revenue for FY2023/24 decreased by approximately 23.94% as compared to that for FY2022/23. With reference to the 2023/24 AR Announcement, such decrease was mainly attributable to the result of decrease in the sales of LNG, as partially offset by increase in sales of refined oil. The Group's gross profit for FY2023/24 increased by approximately 66.54% as compared to that for FY2022/23. With reference to the 2023/24 AR Announcement, such increase was mainly caused by the combined effects of increased sales of refined oil with higher margin and decrease in write-down of inventories in cost of sales.

Loss attributable to owners of the Company for FY2023/24 increased by approximately 160.79% as compared to that for FY2022/23. With reference to the 2023/24 AR Announcement, such increase was mainly attributable to (i) change from net other gains for FY2022/23 to net other losses for FY2023/24; and (ii) increase in finance costs, as partially offset by (i) increase in gross profit as discussed above; and (ii) absence of equity-settled share-based payments.

With reference to the 2023/24 AR Announcement, over the next few years, the PRC will continue to steadily push for industry transformation, deepen the reform process of the oil and gas system, and actively build an efficient supply, storage and marketing system for natural gas. This indicates that natural gas consumption is expected to continue to grow steadily for some time to come. Despite the complexity and volatility of the global energy market, accelerating energy transformation, and increasing uncertainties, refined oil and LNG remain at the core of the world's energy supply. The Group will also capitalise on the business opportunities in the sale of oil and gas products and make positive contributions to the overall business.

Information of the Vendor

With reference to the Board Letter, the Vendor is (i) an Executive Director of the Company; (ii) the ultimate beneficial owner of 49% of equity interest in 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. The Vendor is a connected person both at the Company and at the subsidiary level under the Listing Rules.

Information of the Target Company and JV Company

With reference to the Board Letter, 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. As at the Latest Practicable Date, the JV Company (i) completed construction of two distributed energy stations, four 20-tonne gas-fired steam boilers and approximately 7 kilometres of heat supply network; (ii) was constructing natural gas gateways ancillary to the aforesaid distributed energy stations; and (iii) was preparing for construction of a main natural gas gateway for obtaining natural gas from supplier(s) (the "Main Natural Gas Gateway"). As at the Latest Practicable Date, the JV Company had not commenced sales.

Set out below is the financial information of the Target Company for the two years ended 31 March 2024 prepared in accordance with the generally accepted accounting principles in the PRC as extracted from the Board Letter:

	For the year ended 31 March 2024	For the year ended 31 March 2023
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Net loss before and after taxation	(1,356)	(980)
	As at	As at
	31 March 2024	31 March 2024
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Net asset value	17,880	16,900

Set out below is the financial information of the JV Company for the two years ended 31 March 2024 prepared in accordance with the generally accepted accounting principles in the PRC as extracted from the Board Letter:

	For the year ended 31 March 2024	For the year ended 31 March 2023
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Net loss before and after taxation	(1,654)	(2,212)
	As at	As at
	31 March 2024	31 March 2024
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Net asset value	34,206	31,994

Further details of the Target Company and JV Company are set out in the section headed "INFORMATION OF THE TARGET COMPANY, THE JV COMPANY AND THEIR BUSINESSES" of the Circular.

Reasons for and benefits of the Proposed Amendment

With reference to the Board Letter, the PRC Legal Adviser provided the Legal Opinion which stated that the JV Company delayed in obtaining the following four certificate and permits (in respect of the Main Natural Gas Gateway) which are the prerequisites for applying for the Gas Business License application:

Certificate/Permits	Reason for delay	Status as at the Latest Practicable Date
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	Delay in obtaining the land certificate	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

With reference to the Board Letter and as confirmed by the Directors, the JV Company had not commenced the Gas Business License application as at the Latest Practicable Date. As aforementioned, the JV Company (i) completed construction of two distributed energy stations, four 20-tonne gas-fired steam boilers and approximately 7 kilometres of heat supply network; (ii) was constructing natural gas gateways ancillary to the aforesaid distributed energy stations; and (iii) was preparing for construction of the Main Natural Gas Gateway. As advised by the Directors, the JV Company 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. According to the Legal Opinion, there is no legal impairment obstructing the JV Company from obtaining the Gas Business License, provided that (i) the JV Company completed construction of necessary infrastructure and facility; and (ii) there will be no illegal or non-compliant action under the progress of the Gas Business License application.

Given the above, the Purchaser entered into the Second Supplemental Agreement with the Vendor and the Target Company on 12 June 2024 in relation to the Proposed Amendment to allow more time for the JV Company to obtain the Gas Business License (failing which the Convertible Bonds will be automatically cancelled and the Purchaser will re-transfer the Sale Shares to the Vendor and the Vendor will return the Convertible Bonds to the Company for nil consideration).

With reference to the Board Letter, since the Acquisition was completed on 5 December 2022, entering into the Second Supplemental Agreement and the Proposed Amendment would have no impact on the Group's assets and liabilities.

With reference to the 2023/24 AR Announcement,

- (1) With gradual deepening of the PRC's dual carbon strategy, a comprehensive policy framework has been put in place that not only accelerates the clean and low-carbon transformation of society, but also encourages the replacement of traditional energy sources with environmentally friendly options, such as natural gas, in various sectors including industrial, construction, heating and transportation. As a highly efficient and green option in the low-carbon transition, natural gas holds a strategically important position in the synergistic development of multiple energy sources, and will serve as a transitional pillar on the road to achieving the dual carbon goal. Concurrently, the PRC is steadily pushing forward reforms in the industry and is committed to strengthening and improving its production, supply, storage and marketing systems for natural gas. According to industry forecasts, the supply and demand for natural gas will continue to rise and develop steadily.
- (2) In light of the above, the Group conducted the Acquisition in 2022 to maximise its operational and management strengths, which will also create synergies with the Group's existing natural gas and solar photovoltaic businesses, thereby enhancing the Group's overall resource allocation efficiency and strengthening the long-term development potential of the energy business. The Target Company will provide the Group with opportunities for future development, enriching the Group's business portfolio and further realising the Group's goal of becoming a supplier of a diversified range of energy products and solutions. The Group will also leverage the Target Company's existing industrial resources, brand image and extensive marketing experience to complement the Group's existing energy business, thereby promoting the rapid development of the Group's diversified energy business.

As stated in the section headed "Information on the Group" above, the Group's revenue generated from sales of LNG represents approximately 77.34% and approximately 56.87% of the Group's total revenue for FY2022/23 and FY2023/24 respectively. Accordingly, the LNG business is one of the key businesses of the Group. The Acquisition is in-line with the Group's development strategy.

Having considered that:

- (i) the LNG business is one of the key businesses of the Group. The Acquisition is in-line with the Group's development strategy;
- (ii) the Proposed Amendment allows more time for the JV Company to obtain the Gas Business License (failing which the Convertible Bonds will be automatically cancelled and the Purchaser will re-transfer the Sale Shares to the Vendor and the Vendor will return the Convertible Bonds to the Company for nil consideration); and
- (iii) entering into the Second Supplemental Agreement and the Proposed Amendment would have no impact on the Group's assets and liabilities,

we are of the view that although the Proposed Amendment is not conducted in the ordinary and usual course of business of the Company, it is in the interests of the Company and its Shareholders as a whole.

Principal terms of the Proposed Amendment

Summarised below are the principal terms of the Proposed Amendment as contained in the Second Supplemental Agreement, details of which are set out in the Board Letter:

Date

12 June 2024 (after trading hours)

Parties

The Purchaser, the Vendor and the Target Company

Consideration

The Acquisition was completed on 5 December 2022. The Consideration of HK\$52,000,000 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

With reference to the Board Letter, 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. Other terms of the Agreements remain valid.

As aforementioned, the Proposed Amendment allows more time for the JV Company to obtain the Gas Business License (failing which the Convertible Bonds will be automatically cancelled and the Purchaser will re-transfer the Sale Shares to the Vendor and the Vendor will return the Convertible Bonds to the Company for nil consideration).

In addition, entering into the Second Supplemental Agreement and the Proposed Amendment would have no impact on the Group's assets and liabilities.

Taking into account the above, we consider that the terms of the Proposed Amendment are fair and reasonable.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Proposed Amendment are on normal commercial terms and are fair and reasonable; and (ii) although the Proposed Amendment is 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 Proposed Amendment 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 Proposed Amendment.

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.