

China CBM Group Company Limited

中國煤層氣集團有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8270)

Executive Directors:

Mr. Wang Zhong-Sheng (*Chairman*)

Mr. Chang Jian

Non-Executive Directors:

Mr. Duan Shi Chuan

Mr. Wang Chen

Mr. Liang Feng

Independent non-executive Directors:

Mr. Lau Chun Pong

Mr. Xu Yuan Jian

Mr. Wang Zhi He

Registered office:

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business in Hong Kong:*

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Tsuen Wan, Hong Kong

12 December 2022

To the Shareholders

Dear Sir or Madam

**(1) MAJOR AND CONNECTED TRANSACTION:
PROPOSED ACQUISITION INVOLVING ISSUE OF
CONSIDERATION SHARES AND CONVERTIBLE BONDS
UNDER SPECIFIC MANDATE;
(2) PROPOSED SHARE CONSOLIDATION; AND
(3) PROPOSED CHANGE IN BOARD LOT SIZE**

INTRODUCTION

References are made to (i) the announcement of the Company dated 29 September 2022 in relation to, among others, the proposed Share Consolidation and Change in Board Lot Size; (ii) the announcement of the Company dated 30 September 2022 in relation to, among others, the Proposed Acquisition and the transactions contemplated thereunder; and (iii) the announcements of the Company dated 14 October 2022, 4 November 2022 and 10 November 2022 in relation to, among others, the delay in despatch of circular and revised timetable for the proposed Share Consolidation and Change in Board Lot Size.

The purpose of this circular is to provide you with, among other things, (i) details of the Sale and Purchase Agreement and the transactions contemplated thereunder (including (a) the allotment and issue of the Consideration Shares and (b) issue of the Convertible Bonds pursuant to the Proposed Acquisition) and the proposed grant of the Specific Mandate; (ii) details of the proposed Share Consolidation; (iii) details of the proposed Change in Board Lot Size; (iv) the recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder; (v) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder; (vi) the notice of the SGM; and (vii) other information as required under the GEM Listing Rules.

(1) THE PROPOSED ACQUISITION

On 30 September 2022 (after trading hours), the Company as purchaser and Mr. Wang as vendor entered into the Sale and Purchase Agreement, pursuant to which the Company has conditionally agreed to purchase, and Mr. Wang has conditionally agreed to sell, the Sale Shares, representing the entire issued share capital of the Target Company at a total consideration of HK\$42,523,400 (equivalent to approximately RMB38,500,000), which shall be satisfied by way of (i) allotment and issue of the Consideration Shares and (ii) issue of the Convertible Bonds to Mr. Wang under the Specific Mandate. The Proposed Acquisition is conditional upon the Share Consolidation becoming effective.

Principal terms of the Sale and Purchase Agreement are set forth below:

Date : 30 September 2022 (after trading hours)

Parties : (1) Mr. Wang (as vendor); and

(2) The Company (as purchaser);

Subject matter

Pursuant to the Sale and Purchase Agreement, the Company has conditionally agreed to purchase, and Mr. Wang has conditionally agreed to sell, the Sale Shares, representing the entire issued share capital of the Target Company.

Consideration

The consideration of HK\$42,523,400 (equivalent to approximately RMB38,500,000) shall be satisfied in the following manner:

- (i) HK\$31,523,400, to be satisfied by the issue of 93,375,000 Consideration Shares at the price of HK\$0.3376 per Consideration Share to Mr. Wang; and

- (ii) HK\$11,000,000, to be satisfied by the issue of the Convertible Bonds to Mr. Wang, which may be converted into 32,582,938 Consolidated Shares upon full exercise of the conversion rights under the Convertible Bonds at the conversion price of HK\$0.3376 per Conversion Share.

The consideration was determined after arm's length negotiation between the parties with reference to, among other things, (i) the prevailing equity value of the Sale Shares; (ii) the preliminary valuation of the entire equity interest in Huiyang New Energy conducted by the Valuer by adopting the market approach of approximately RMB212,000,000 as at 30 June 2022 as set out in Appendix V to this circular; and (iii) the reasons for and benefits of the Proposed Acquisition as stated under the section headed "Reasons for and benefits of the Proposed Acquisition" below.

The Consideration Shares

The Consideration Shares, being 93,375,000 Consolidated Shares, represent: (i) approximately 35.95% of the issued share capital of the Company immediately upon completion of the Share Consolidation; and (ii) approximately 26.44% of the issued share capital of the Company immediately upon completion of the Share Consolidation as enlarged by the allotment and issue of the Consideration Shares but before the issue of the Conversion Shares (assuming there will be no other changes in the share capital of the Company prior to the Completion other than the issue of the Consideration Shares).

Issue Price

The issue price of HK\$0.3376 per Consideration Share was determined after arm's length negotiation between the Company and Mr. Wang with reference to, among other things, the recent trading prices of the Existing Shares and the theoretical price per Consolidated Share upon the Share Consolidation becoming effective, which represents:

- (1) a discount of approximately 75.75% to the theoretical price of HK\$1.392 per Consolidated Share based on the closing price of HK\$0.174 per Existing Share as quote on the Stock Exchange on the Latest Practicable Date;
- (2) a premium of approximately 0.48% over the theoretical price of HK\$0.336 per Consolidated Share based on the closing price of HK\$0.042 per Existing Share as quoted on the Stock Exchange on the date of the Sale and Purchase Agreement;
- (3) an equivalent to the theoretical price of HK\$0.3376 per Consolidated Share based on the average closing price of HK\$0.0422 per Existing Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to the date of the Sale and Purchase Agreement;

- (4) an equivalent to the theoretical price of HK\$0.3376 per Consolidated Share based on the average closing price of HK\$0.0422 per Existing Share as quoted on the Stock Exchange for the ten consecutive trading days immediately prior to the date of the Sale and Purchase Agreement; and
- (5) a discount of approximately 24.49% to the net asset value per Consolidated Share of approximately HK\$0.4471 based on the unaudited net asset value of the Company of approximately RMB105,140,000 as at 30 June 2022 and 259,750,030 Consolidated Shares assuming the Share Consolidation has become effective.

The Convertible Bonds

The principal terms of the Convertible Bonds are summarised as follows:

Issuer:	the Company
Principal amount:	HK\$11,000,000
Subscription price of the Convertible Bonds:	The subscription price of the Convertible Bond is HK\$11,000,000, being the total principal amount of the Convertible Bonds.
Maturity date:	The second anniversary of the date of issue of the Convertible Bonds.
Interest:	The Convertible Bonds shall bear no interest.
Conversion Price:	<p>HK\$0.3376 per Conversion Share, subject to adjustments as set out and in accordance with the terms and conditions of the Convertible Bonds, which represents:</p> <ol style="list-style-type: none"> (i) a discount of approximately 75.75% to the theoretical price of HK\$1.392 per Consolidated Share based on the closing price of HK\$0.174 per Existing Share as quote on the Stock Exchange on the Latest Practicable Date; (ii) a premium of approximately 0.48% over the theoretical price of HK\$0.336 per Consolidated Share based on the closing price of HK\$0.042 per Existing Share as quoted on the Stock Exchange on the date of the Sale and Purchase Agreement;

- (iii) an equivalent to the theoretical price of HK\$0.3376 per Consolidated Share based on the average closing price of HK\$0.0422 per Existing Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to the date of the Sale and Purchase Agreement;
- (iv) an equivalent to the theoretical price of HK\$0.3376 per Consolidated Share based on the average closing price of HK\$0.0422 per Existing Share as quoted on the Stock Exchange for the ten consecutive trading days immediately prior to the date of the Sale and Purchase Agreement; and
- (v) a discount of approximately 24.49% to the net asset value per Consolidated Share of approximately HK\$0.4471 based on the unaudited net asset value of the Company of approximately RMB105,140,000 as at 30 June 2022 and 259,750,030 Consolidated Shares assuming the Share Consolidation has become effective.

The Conversion Price was determined after arm's length negotiation between the Company and Mr. Wang with reference to, among other things, the recent trading prices of the Existing Shares and the theoretical price per Consolidated Share upon the Share Consolidation becoming effective.

The Directors (including the independent non-executive Directors) are of the view that the Conversion Price is fair and reasonable so far as the Independent Shareholders are concerned, and the Conversion Price is in the interest of the Company and the Independent Shareholders as a whole.

The Company shall not allot and issue Conversion Shares to the holder of the Convertible Bonds or shall such holder be permitted to convert the Convertible Bonds (or part thereof) if upon such allotment and issue or conversion (as the case may be), such holder and parties acting in concert with it will trigger a mandatory offer obligation under Rule 26 of the Takeovers Code to make a general offer or cause the public float of the Company be unable to meet the requirements under the GEM Listing Rules.

Adjustment Events:

The Conversion Price shall from time to time be subject to adjustment upon occurrence of certain events, including but not limited to the followings:

- (i) consolidation or subdivision of Consolidated Shares;
- (ii) capitalization of profits or reserves;
- (iii) capital distribution; and
- (iv) issue wholly for cash any Consolidated Shares at a price per Consolidated Share which is less than 90% of the then market price of the Consolidated Shares.

Conversion Shares:

Based on the initial Conversion Price of HK\$0.3376 (assuming that the Conversion Shares are converted in full and there is no other change to the issued share capital of the Company upon completion of the Share Consolidation, apart from the allotment and issue of the Consideration Shares, from the Latest Practicable Date and up to Completion), a maximum number of up to 32,582,938 Conversion Shares shall be allotted and issued upon exercise in full of the Conversion Rights.

Conversion Period:

The period commencing from the date of issue of the Convertible Bonds and ending on the day immediately prior to the Maturity Date.

Conversion Rights:

Subject to, and upon compliance with, the conditions of the instrument governing the Convertible Bonds and provided that any conversion of the Convertible Bonds (i) does not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the bondholder which exercised the Conversion Rights and party(ies) acting in concert (as defined under the Takeovers Code) with it; and (ii) will not cause the public float of the Company being unable to meet the requirement under the GEM Listing Rules, the Conversion Rights may be exercised by the bondholder at any time during the Conversion Period in amounts not less than a whole multiple of HK\$500,000 on such conversion, save that if at any time the entire principal amount or the outstanding principal amount of the Convertible Bonds held by a bondholder is less than HK\$500,000, or if a bondholder intends to exercise the Conversion Rights attached to the entire principal amount of all the Convertible Bonds held by him, the bondholder may convert the whole (but not part only) of the such outstanding principal amount of the Convertible Bonds.

No fraction of a Conversion Share shall be issued on conversion and in lieu thereof the Company shall pay a cash amount equal to such amount of the Convertible Bonds that is not converted.

Conversion restrictions:

The Company shall not be required to issue any Conversion Shares, if, as a result of the relevant exercise of the Conversion Rights:

- (i) the holder of the Convertible Bonds and parties acting in concert with it will trigger a mandatory offer obligation under Rule 26 of the Takeovers Code; and
- (ii) less than 25% or the minimum prescribed percentage as set out in the GEM Listing Rules of the Company's issued shares would be held by the public immediately after the relevant exercise of such Conversion Rights.

Redemption: The Company may at any time before the Maturity Date, by giving not less than 2 Business Days' notice to the bondholders, redeem all or part of the outstanding Convertible Bonds.

Unless previously redeemed, converted or cancelled as provided herein, the Company will redeem the outstanding principal amount of the Convertible Bonds on the Maturity Date at such outstanding principal amount.

Status and ranking: The obligations of the Company arising under the Convertible Bonds constitute general, direct, unsubordinated, unconditional and unsecured obligations of the Company, and rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured obligations of the Company.

The Conversion Shares, when allotted and issued, shall rank *pari passu* in all respects with the Shares in issue.

Voting rights: The bondholder will not be entitled to vote at any meetings of the Company by reason only of it being the holder of the Convertible Bonds.

Transferability: The Convertible Bonds may be transferred to any person, other than any connected person of the Company for which prior notice to the Company will be required, provided that such transfer shall comply with the GEM Listing Rules, the Takeovers Code and any other relevant laws and regulations.

Application for listing: No application will be made by the Company to the Stock Exchange for listing of the Convertible Bonds.

The Conversion Shares represent (i) approximately 12.54% of the issued share capital of the Company immediately upon completion of the Share Consolidation; and (ii) approximately 8.45% of the issued share capital of the Company immediately upon completion of the Share Consolidation as enlarged by the allotment and issue of the Consideration Shares and the Conversion Shares (assuming that there is no other change to the issued share capital of the Company from the Latest Practicable Date and up to Completion).

The Consideration Shares and the Conversion Shares will be issued under the Specific Mandate.

The aggregate of the Consideration Shares and the Conversion Shares represent (i) approximately 48.49% of the issued share capital of the Company immediately upon completion of the Share Consolidation; and (ii) approximately 32.66% of the issued share capital of the Company immediately upon completion of the Share Consolidation as enlarged by the allotment and issue of the Consideration Shares and the Conversion Shares (assuming that there is no other change to the issued share capital of the Company from the Latest Practicable Date and up to Completion).

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares. The Consideration Shares and the Conversion Shares to be allotted and issued shall rank *pari passu* among themselves and with all the Shares in issue on the Completion Date.

Subject to the granting of the approval of listing of, and permission to deal in, the Conversion Shares and the Consolidated Shares on the Stock Exchange, as well as compliance with the stock admission requirements of the HKSCC, the Conversion Shares and the Consolidated Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Conversion Shares and the Consolidated Shares on the Stock Exchange or, under contingent situation, such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second settlement day thereafter.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements will be made for the Conversion Shares and the Consolidated Shares to be admitted into CCASS established and operated by HKSCC. Shareholders should seek advice from their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

Condition precedent

Completion is conditional upon and subject to the satisfaction (or waiver, as the case may be) of the following conditions:

- (1) the Company being satisfied with the results of the due diligence review to be conducted in relation to the Proposed Acquisition;
- (2) the passing by the Independent Shareholders at the SGM of the ordinary resolution(s) to approve the Sale and Purchase Agreement and the transactions contemplated thereunder;

- (3) the GEM Listing Committee of the Stock Exchange granting the listing of and the permission to deal in the Consideration Shares and the Conversion Shares;
- (4) the proposed Share Consolidation having become effective;
- (5) the obtaining of a PRC legal memorandum (in form and substance satisfactory to the Company) from a PRC legal adviser designated by the Company in relation to the legality and validity of the Sale and Purchase Agreement, the transactions contemplated thereunder and the Restructuring;
- (6) the obtaining of a valuation report (in form and substance satisfactory to the Company) issued by a qualified valuer appointed by the Company showing that the valuation of the entire equity interest in Huiyang New Energy to be not less than RMB212,000,000 as at 30 June 2022;
- (7) all necessary consents and approvals required to be obtained on the part of Mr. Wang and the Target Group in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder having been obtained;
- (8) all necessary consents and approvals required to be obtained on the part of the Company in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder having been obtained;
- (9) the representations and warranties in the Sale and Purchase Agreement remaining true and accurate and not misleading, and there being no events, facts or circumstances that constitute a breach of Mr. Wang and/or the Target Group's warranties in the Sale and Purchase Agreement; and
- (10) the Company being satisfied that there has been no material adverse change on the Target Group since the date of the Sale and Purchase Agreement.

The Company may at its absolute discretion at any time waive in writing any of the conditions (1), (5), (9) and (10) above and such waiver may be made subject to such terms and conditions as may be determined by the Company. Other than conditions (1), (5), (9) and (10), all other conditions set out above are not waivable. If any of the conditions set out in the Sale and Purchase Agreement have not been satisfied (or as the case may be, waived) on or before 30 April 2023 (or such later date as may be agreed between Mr. Wang and the Company in writing), the Sale and Purchase Agreement shall cease and determine.

As at the Latest Practicable Date, save for condition (6), none of the conditions have been fulfilled or waived.

Completion

Completion shall take place within 10 Business Days after fulfilment (or waiver, as the case may be) of all the conditions precedent under the Sale and Purchase Agreement.

Upon Completion, the Group will be interested in the entire issued share capital of the Target Company and the Target Company will become a direct wholly-owned subsidiary of the Company. As at the Latest Practicable Date, Huiyang New Energy was held as to 60%, 20% and 20% by Shanxi Yangcheng (a wholly-owned subsidiary of the Company), Lvqiao CBM and Yangcheng Yangtai respectively. Accordingly, the Group will be in aggregate interested in 80% equity interest of Huiyang New Energy and Huiyang New Energy will continue to remain as a subsidiary of the Company. The financial information of Huiyang New Energy will continue to be consolidated into the financial statements of the Group, and the financial information of the rest of the Target Group will be consolidated into the financial statements of the Group.

INFORMATION OF THE PARTIES

The Company

The Company is an investment holding company. The principal activities of the Company's subsidiaries are manufacturing and sales of liquefied coalbed gas (including provision of liquefied coalbed gas logistics services and provision of coalbed gas liquefied processing services), sales of piped natural gas and provision of gas supply connection services.

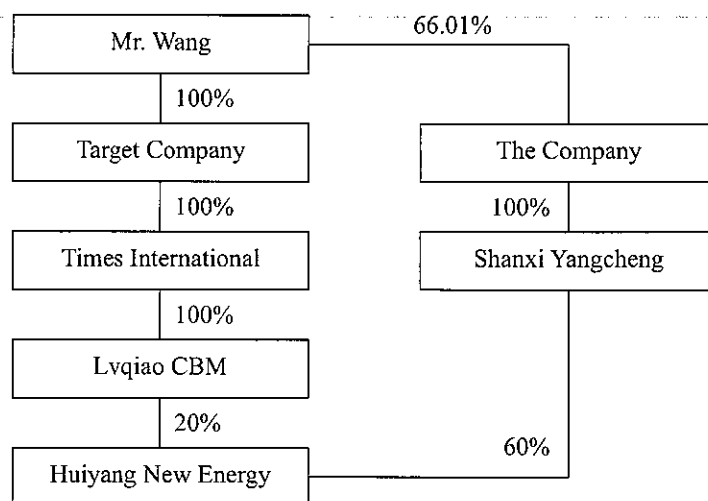
Mr. Wang

Mr. Wang is an executive Director, the chairman of the Board and the compliance officer of the Company. As at the Latest Practicable Date, Mr. Wang was interested in approximately 66.01% of the issued share capital of the Company and was a controlling shareholder of the Company.

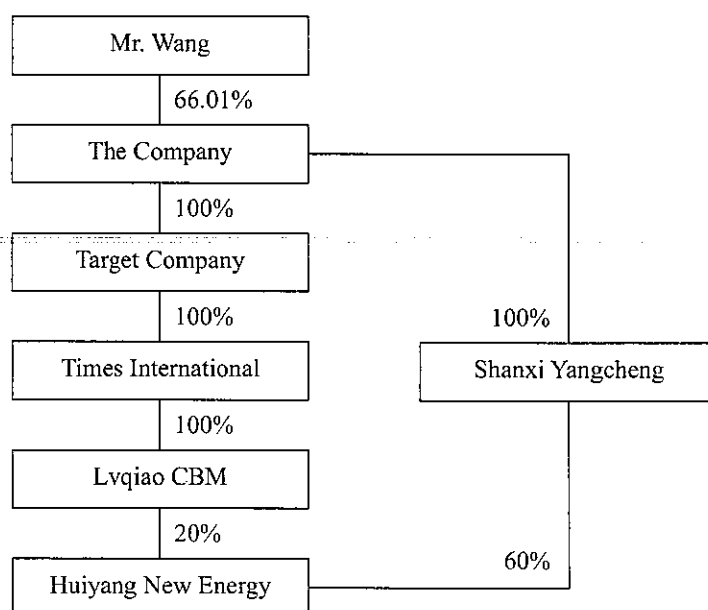
The Target Group

Set out below was/is the shareholding structure of the Target Group (i) as at the Latest Practicable Date; and (ii) immediately after Completion:

Shareholding structure of the Target Group as at the Latest Practicable Date



Shareholding structure of the Target Group immediately after Completion



The Target Company

The Target Company is a company incorporated in the British Virgin Islands with limited liability which is wholly owned by Mr. Wang and is principally engaged in investment holding. The Target Company is the holding company of the Times International.

Set out below is the unaudited financial information of the Target Company for the years ended 31 December 2020 and 2021:

	Year ended 31 December	
	2020	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	—	—
(Loss) before taxation	(13)	(15)
(Loss) after taxation	(13)	(15)

As at 31 December 2021, the Target Company had net liabilities of approximately HK\$102,000.

Times International

Times International is a company incorporated in Hong Kong with limited liability, which is principally engaged in investment holding and is wholly owned by the Target Company. Times International is the holding company of Lvqiao CBM.

Set out below is the unaudited financial information of Times International for the years ended 31 December 2020 and 2021:

	Year ended 31 December	
	2020	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	—	—
(Loss) before taxation	(0.4)	(0.4)
(Loss) after taxation	(0.4)	(0.4)

As at 31 December 2021, Times International had net liabilities of approximately HK\$12,000.

Lvqiao CBM

Lvqiao CBM is a company established in the PRC with limited liability, which is principally engaged in investment holding and is wholly owned by Times International. Lvqiao CBM is interested in 20% equity interest of Huiyang New Energy.

Set out below is the unaudited financial information of Lvqiao CBM for the years ended 31 December 2020 and 2021:

	Year ended 31 December	
	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	—	—
Profit before taxation	—	—
Profit after taxation	—	—

As at 31 December 2021, Lvqiao CBM had nil net assets.

Huiyang New Energy

Huiyang New Energy is a company established in the PRC with limited liability and is currently held as to 60%, 20% and 20% by Shanxi Yangcheng (a wholly-owned subsidiary of the Company), Lvqiao CBM and Yangcheng Yangtai respectively. Huiyang New Energy is principally engaged in exploration, development and production of coalbed methane.

Financial information of Huiyang New Energy

Apart from the 20% equity interest in Huiyang New Energy directly or indirectly held, all the companies in the Target Group did not have any material assets as at the Latest Practicable Date. Set out below is the unaudited consolidated financial information of Huiyang New Energy for the years ended 31 December 2020 and 2021:

	Year ended 31 December	
	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	55,732	49,769
Profit/(Loss) before taxation	10,906	(42,145)
Profit/(Loss) after taxation	10,906	(42,145)

As at 31 December 2021, Huiyang New Energy had net liabilities of approximately RMB103.1 million.

The original acquisition cost of the Sale Shares by Mr. Wang is RMB38,500,000.

FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

Earnings

Upon Completion, the Group will be interested in the entire issued share capital of the Target Company and the Target Company will become a direct wholly-owned subsidiary of the Company. Huiyang New Energy will continue to remain as a subsidiary of the Company. The financial information of Huiyang New Energy will continue to be consolidated into the financial statements of the Group, and the financial information of the rest of the Target Group will be consolidated into the financial statements of the Group. The Target Company and its subsidiaries are investment holding companies and do not have material income or expenses. Hence, no material impact on the earnings of the Group as a result of the Completion is expected.

Assets and liabilities

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, which is prepared to illustrate the effect of the Proposed Acquisition on the Group's financial position as at 30 June 2022 as if the Proposed Acquisition had taken place on 30 June 2022, it is expected that the total assets of the Enlarged Group would remain unchanged while its total liabilities would increase by approximately RMB7.8 million mainly due to the issue of the Convertible Bonds. Hence, a decrease in the net assets of the Enlarged Group by approximately RMB7.8 million is expected as a result of the Completion.

The above analyses are for illustrative purpose only and do not purport to represent how the financial performance and position of the Group would actually be after Completion.

REASONS FOR AND BENEFITS OF THE PROPOSED ACQUISITION

The Group is principally engaged in the business of exploitation, liquefaction production and sales of natural gas in the PRC, including, among others, the manufacturing and sales of liquefied coalbed gas (including provision of liquefied coalbed gas logistics services and provision of coalbed gas liquefied processing services), sales of piped natural gas and provision of gas supply connection services.

Since July 2011, the Group has made significant investment in resources exploration and exploitation at the coalbed methane blocks located in Yangcheng, Shanxi Province, the PRC. The Board believes that the Proposed Acquisition is in line with the development strategy of the Group and can create long-term and strategic interests for the Group. As stated in the interim report of the Company for the six months ended 30 June 2022, it is foreseeable that the highly-polluted energy will be eliminated from the market more rapidly and the use of replaceable clean energy will become more popular, resulting in a keener market demand for natural gas. The demand growth of natural gas market will continue to retain its strong momentum. The Directors are of the view with the Proposed Acquisition, the Group will be able to further promote its market position in Yangcheng, Shanxi Province, the PRC, thereby generating optimal synergy effect among the Group.

The entire issued share capital of the Target Company subject to the Proposed Acquisition was acquired by Mr. Wang from Mr. Fan Hua (“**Mr. Fan**”) (i.e. the then controlling shareholder of the Target Company) on 3 September 2022 at a consideration of RMB38,500,000. This was the result of extended discussions and negotiations between the Company, Mr. Wang, Mr. Fan and Shanxi Yangcheng in the first half of 2022. Shanxi Yangcheng was initially interested in increasing its shareholding in Huiyang New Energy. However, in view of the complexity of the Restructuring, which involved going through the registration procedures at the relevant authorities in the PRC, Hong Kong and BVI respectively, and required full cooperation from Mr. Fan, particularly during lockdown and other government restrictions on personal movement amid outbreak of the COVID-19 pandemic in the aforesaid countries/cities, and the parties were not able to reach a consensus on the settlement schedule and manner in respect of the payment of consideration, such as the full settlement of the consideration before completion of the Restructuring as required by Mr. Fan, the Group did not proceed with the acquisition of the 20% equity interest in Huiyang New Energy. Subsequently, Mr. Wang confirmed to work together with Mr. Fan on the Restructuring in his personal capacity and negotiated with Mr. Fan on the acquisition of the Target Company. The Company later become aware that the Restructuring has been duly completed and Mr. Wang acquired the Target Group. Since the Group has been hoping to further promote its market position in Yangcheng, Shanxi Province, the PRC, the Company started its discussions regarding the Proposed Acquisition with Mr. Wang and after negotiation, Mr. Wang has conditionally agreed to sell the Sale Shares to the Company by way of (i) allotment and issue of the Consideration Shares and (ii) issue of Convertible Bonds. The Company considers that the issue of the Consideration Shares and the Convertible Bonds provides much greater flexibility to the financial status of the Company by limiting cash outflow and allowing the Company to utilise its existing funds on the general working capital of the Group or other investment opportunities.

The Board would like to stress that the payment terms of the consideration for the Proposed Acquisition are the best package that could be secured for the Company after arm's length negotiations and are structured to minimise the investment risk of the Company and safeguard the interests of the Company and the Shareholders in the Proposed Acquisition.

Huiyang New Energy recorded net loss of approximately RMB42.1 million for the year ended 31 December 2021, compared to the net profit of approximately RMB10.9 million for the preceding year. As stated in the section headed "Management Discussion and Analysis of the Target Group and Huiyang New Energy" set out in Appendix III to this circular, such decrease was mainly due to, among others, (i) revenue decrease by approximately RMB6.0 million due to decrease in number of wells; and (ii) impairment loss of property, plant and equipment of approximately RMB26.4 million was recognised for the year ended 31 December 2021, compared to nil in the preceding year, under the prolonged and unfavourable impact of COVID-19 pandemic in the PRC. The Directors expect that the number of wells ready for production by Huiyang New Energy will be increased gradually in next few years. Also, as stated in the section headed "3. Financial and Trading Prospects of the Enlarged Group" set out in Appendix I to this circular, with the growing concerns over the environmental issues, it is foreseeable that highly-polluted energy will be eliminated from the market more rapidly and the use of renewable clean energy will become more popular, resulting in a keener market demand for natural gas. Thus, the Directors are optimistic about the prospect of Huiyang New Energy. The net liabilities of approximately RMB103.1 million as at 31 December 2021 recorded by Huiyang New Energy was mainly amount due to its holding companies and fellow subsidiaries. With the improvement in the operating performance of Huiyang New Energy due to the increase in number of wells for production and the growing trend of the use of renewable clean energy mentioned above, the Directors are of the view that the Proposed Acquisition will bring long-term benefits to the Group and the financial position of Huiyang New Energy will be improved.

In view of the above, the Directors (including the independent non-executive Directors but excluding Mr. Wang and Mr. Wang Chen, the son of Mr. Wang and a non-executive Director, who had abstained from voting at the Board meeting approving the Sale and Purchase Agreement and the transactions contemplated thereunder as described in the paragraph headed "GEM Listing Rules Implications" below) believe that the terms and conditions of the Sale and Purchase Agreement and the transactions contemplated thereunder are fair and reasonable, and that the Proposed Acquisition involving the issue of the Consideration Shares and the Convertible Bonds, while not in the ordinary and usual course of business of the Group, is in the interest of the Company and the Shareholders as a whole.

SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structures of the Company (i) as at the Latest Practicable Date; (ii) immediately upon completion of the Share Consolidation and after the allotment and issue of the Consideration Shares (assuming no Conversion Shares have been allotted and issued); and (iii) immediately upon completion of the Share Consolidation and after the allotment and issue of the Consideration Shares and the Conversion Shares (assuming there is no other change in the issued share capital of the Company from the Latest Practicable Date):

	As at the Latest Practicable Date		Immediately upon completion of the Share Consolidation and after the allotment and issue of the Consideration Shares (assuming no Conversion Shares have been allotted and issued)		Immediately upon completion of the Share Consolidation and after the allotment and issue of the Consideration Shares and the Conversion Shares (assuming full conversion of the Convertible Bonds)	
	Number of Shares held	Approximate % (Note 2)	Number of Shares held	Approximate % (Note 2)	Number of Shares held	Approximate % (Note 2)
Mr. Wang	1,353,566,412	65.14	262,570,801	74.36	295,153,739	76.52 (Note 3)
Jumbo Lane Investments Limited (Note 1)	18,118,500	0.87	2,264,812	0.64	2,264,812	0.59
Public Shareholders	<u>706,315,336</u>	<u>33.99</u>	<u>88,289,417</u>	<u>25.00</u>	<u>88,289,417</u>	<u>22.89</u>
	<u>2,078,000,248</u>	<u>100</u>	<u>353,125,030</u>	<u>100</u>	<u>385,707,968</u>	<u>100</u>

Notes:

1. Mr. Wang owns 100% interest in the issued share capital of Jumbo Lane Investments Limited and he is taken to be interested in the shares owned by Jumbo Lane Investments Limited pursuant to Part XV of the SFO.
2. The above percentage figures are subject to rounding adjustments. Accordingly, figures shown as total may not be an arithmetic aggregation of the figures preceding it.
3. For illustration purpose only. Such scenario will never occur as under the terms and conditions of the Convertible Bonds, the Company shall not be required to issue any Conversion Shares, if, as a result of the relevant exercise of the Conversion Rights, among others, that less than 25% or the minimum prescribed percentage as set out in the GEM Listing Rules of the Company's issued shares would be held by the public immediately after the relevant exercise of such Conversion Rights.

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

GEM LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio in respect of the Proposed Acquisition exceeds 25% but is less than 100%, the Proposed Acquisition constitutes a major transaction and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

Also, as at the Latest Practicable Date, Mr. Wang (the executive Director and the chairman of the Board), through Jumbo Lane Investments Limited and in his own capacity, was beneficially interested in 1,371,684,912 Existing Shares, representing approximately 66.01% of the existing issued share capital of the Company. He is therefore a connected person of the Company. Accordingly, the Proposed Acquisition constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules and will be subject to the announcement, reporting and the Independent Shareholders' approval requirements.

As Mr. Wang and Mr. Wang Chen, the son of Mr. Wang and a non-executive Director, are considered to have a material interest in the Proposed Acquisition, they have therefore abstained from voting on the resolution in relation to the Proposed Acquisition (including the (i) allotment and issue of the Consideration Shares and (ii) issue of the Convertible Bonds pursuant to the Proposed Acquisition) and the grant of the Specific Mandate proposed to the Board. Save as disclosed above, none of the Directors attended the Board meeting has a material interest in the Proposed Acquisition.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising Mr. Lau Chun Pong, Mr. Wang Zhi He and Mr. Xu Yuan Jian, being all independent non-executive Directors, has been established to advise the Independent Shareholders on matters relating to the Proposed Acquisition.

The Company has, with the approval of the Independent Board Committee, appointed Silverbricks Securities Company Limited as the Independent Financial Adviser in accordance with the requirements under the GEM Listing Rules to advise the Independent Board Committee on matters relating to the Proposed Acquisition and the transactions contemplated thereunder.

RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 36 of this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder; and (ii) the letter from the Independent Financial Adviser set out on pages 38 to 78 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Proposed Acquisition together with the principal factors and reasons considered by it in concluding its advice.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the terms of the Sale and Purchase Agreement are fair and reasonable so far as the Independent Shareholders are concerned and that the Proposed Acquisition is on normal commercial terms and in the interests of the Company and the Shareholders as whole. Accordingly, the Directors (including the independent non-executive Directors) consider that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are fair and reasonable, and that the Proposed Acquisition is on normal commercial terms and in the interests of the Company and the Shareholders as whole.

Shareholders and potential investors of the Company should note that the Proposed Acquisition contemplated under the Sale and Purchase Agreement is subject to satisfaction of certain conditions precedent. Accordingly, they may or may not be completed. Shareholders and potential investors of the Company are therefore advised to exercise caution when dealing in the securities of the Company, and if they are in any doubt about their position, they should consult their professional advisers.

(2) PROPOSED SHARE CONSOLIDATION

The Company intends to put forward a proposal to the Shareholders to effect the Share Consolidation pursuant to which every eight (8) Existing Shares of HK\$0.01 each will be consolidated into one (1) Consolidated Share of HK\$0.08 each. The Share Consolidation is conditional upon, among other things, the approval by the Shareholders by way of poll at the SGM. As none of the Shareholders or their associates would have a material interest in the Share Consolidation, no Shareholder would be required to abstain from voting in favour of the resolution(s) relating to the Share Consolidation at the SGM.

Conditions of the Share Consolidation

The Share Consolidation is conditional upon:

- (i) the passing of an ordinary resolution by the Shareholders to approve the Share Consolidation at the SGM;
- (ii) the GEM Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consolidated Shares upon the Share Consolidation becoming effective; and
- (iii) the compliance with the relevant procedures and requirements under the applicable laws of Bermuda (where applicable) and the GEM Listing Rules to effect the Share Consolidation.

As at the Latest Practicable Date, none of the conditions above had been fulfilled. The Share Consolidation will become effective when the conditions mentioned above are fulfilled.

Subject to the fulfilment of the above conditions, the Share Consolidation will become effective on Thursday, 5 January 2023, which is the second Business Day immediately after the date of the SGM.

Effects of the Share Consolidation

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$200,000,000 divided into 20,000,000,000 Shares of par value of HK\$0.01 each, of which 2,078,000,248 Shares have been issued as fully paid or credited as fully paid. Assuming that no further Shares are allotted, issued or repurchased between the Latest Practicable Date and the date of the SGM, upon the Share Consolidation becoming effective, the authorised share capital of the Company shall become HK\$200,000,000 divided into 2,500,000,000 Consolidated Shares of par value of HK\$0.08 each, of which 259,750,030 Consolidated Shares will be in issue.

As at the Latest Practicable Date, there were outstanding share options entitling the holders thereof to subscribe for up to an aggregate of 207,800,024 Existing Shares under the share option scheme adopted by the Company on 28 March 2022. As a result of the Share Consolidation, the maximum number of Consolidated Shares which may fall to be issued pursuant to the exercise of any share options under the Share Option Scheme will be adjusted to 25,975,003 Consolidated Shares pursuant to the terms of the Share Option Scheme.

Save for the above adjustments, all other terms and conditions of the share option scheme remain unchanged.

Save as disclosed above, the Company does not have any other derivatives, options, warrants, other securities or conversion rights or other similar rights which are convertible or exchangeable into, any Existing Shares or Consolidated Shares.

Upon the Share Consolidation becoming effective, the Consolidated Shares will rank *pari passu* in all respects with each other in accordance with the Bye-laws. Fractions of Consolidated Shares that arise from the Share Consolidation will not be allocated to the Shareholders otherwise entitled thereto and will be aggregated, sold and retained for the benefit of the Company.

Save for the necessary professional expenses for the implementation of the Share Consolidation, the implementation of the Share Consolidation will not alter the underlying assets, business operation, management or financial position of the Company and the proportionate interests and rights of the Shareholders, save that any fractional Consolidated Shares will not be allocated to Shareholders who may otherwise be entitled.

(3) PROPOSED CHANGE IN BOARD LOT SIZE

As at the Latest Practicable Date, the Existing Shares were traded on the Stock Exchange in board lots of 40,000 Existing Shares. The Board proposes to change the board lot size for trading on the Stock Exchange to 10,000 Consolidated Shares per board lot, conditional upon the Share Consolidation becoming effective.

Based on the closing price of HK\$0.174 per Existing Share (equivalent to the theoretical closing price of HK\$1.392 per Consolidated Share upon the Share Consolidation becoming effective) as quoted on the Stock Exchange as at the Latest Practicable Date, (i) the value of each board lot of 40,000 Existing Shares is HK\$6,960; and (ii) the value of each board lot of 10,000 Consolidated Shares, assuming the Share Consolidation had already been effective, would be HK\$13,920.

Reasons for the Share Consolidation and the Change in Board Lot Size

The closing price per Existing Share as quoted on the daily quotation sheet of the Stock Exchange as at the Latest Practicable Date was HK\$0.174. Pursuant to Rule 17.76 of the GEM Listing Rules, where the market price of the securities of the issuer approaches the extremities of HK\$0.01 or HK\$9,995.00, the Stock Exchange may require the issuer either to change the trading method or to proceed with a consolidation or splitting of its securities. The Stock Exchange reminded the Company in its listing approval dated 30 March 2022 on adoption of new share option scheme that it will not consider approving listing on future fund raising of the Company if the share price of the Company is close to the extremity of HK\$0.01. In this regard, should the Company decide to conduct any equity fund raising in the future and the share price continues trading below HK\$0.1, the Company may need to carry out corporate actions including but not limited to share consolidation, which will enable the Company to comply with the aforesaid trading requirements of the GEM Listing Rules.

Having considered the guidance from the Stock Exchange as mentioned above and that the Shares had been traded at below HK\$0.10 at certain time in the past 12 months (based on the closing prices per Share as quoted on the Stock Exchange), the Board considers it is appropriate to conduct the Share Consolidation.

In addition, the Board considers that the Share Consolidation would increase the nominal value of the Shares, and bring about a corresponding upward adjustment in the trading price per Consolidated Share on the Stock Exchange, thus maintaining the trading amount for each board lot at a reasonable level in order to attract more investors and to broaden the shareholder base of the Company. It is also hoped that the Share Consolidation and the Change in Board Lot Size will make investing in the Shares more attractive to a broader range of investors, in particular to institutional investors whose house rules might

otherwise prohibit or restrict trading in securities that are priced below a prescribed floor. The Directors also believe that the Share Consolidation will provide greater opportunity for and more flexibility in the Company's possible equity fund raising in the future.

Furthermore, the Share Consolidation and the Change in Board Lot Size would reduce the overall transaction and handling costs of dealings in the Shares as a proportion of the market value of each board lot, since most of the banks or securities houses will charge a minimum transaction costs for each securities trade.

Save for the necessary professional expenses for the implementation of the Share Consolidation and the Change in Board Lot Size, the implementation of the Share Consolidation and the Change in Board Lot Size will not alter the underlying assets, business operation, management or financial position of the Company and the proportionate interests and rights of the Shareholders.

The Board considers that the Share Consolidation and the Change in Board Lot Size is essential to achieve the above-mentioned purpose. Taking into account of the potential benefits and the insignificant amount of costs to be incurred, the Board is of the view that the Share Consolidation and the Change in Board Lot Size and the transactions contemplated thereunder are in the best interest of the Company and the Shareholders as a whole.

Save for the aforementioned Potential Acquisition, the Company has no intention to carry out other corporate actions in the next 12 months which may have an effect of undermining or negating the intended purpose of the Share Consolidation, and the Company does not have any other plan, arrangement, understanding, intention, negotiation (either concluded or in process) on any fund raising activities or precise investment opportunities and has no other immediate plan for issue of new Shares. However, the Board cannot rule out the possibility that the Company will conduct equity fund raising exercises when suitable fund raising and/or investment opportunities arise in order to support future development of the Group. The Company will make further announcement in this regard in accordance with the GEM Listing Rules as and when appropriate.

OTHER ARRANGEMENTS

Exchange of share certificates for Consolidated Shares

Subject to the Share Consolidation having become effective, which is currently expected to be on Thursday, 5 January 2023, being the second Business Day immediately after the date of the SGM, the Shareholders may, during the period from Thursday, 5 January 2023 to Wednesday, 15 February 2023 (both days inclusive), submit their existing share certificates for the Existing Shares to the Company's share registrar in Hong Kong, Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, during business hours to exchange for new share certificates for the Consolidated Shares at the expense of the Company.

Thereafter, share certificates for the Existing Shares will be accepted for exchange only upon payment of a fee of HK\$2.50 (or such higher amount as may be allowed by the Stock Exchange from time to time) by the Shareholders for each share certificate for the Existing Shares submitted for cancellation or each new share certificate issued for Consolidated Shares, whichever the number of certificates cancelled or issued is higher. The existing share certificates will only be valid for delivery, trading and settlement purposes for the period up to 4:10 p.m. on Monday, 13 February 2023 and thereafter will not be accepted for delivery, trading, settlement and registration purposes. However, the existing share certificates will continue to be good evidence of title to the Consolidated Shares on the basis of eight (8) Shares for one (1) Consolidated Share.

The new share certificates for the Consolidated Shares will be issued in the colour of yellow in order to distinguish them from the share certificates for the existing Shares which are in the colour of red.

Application for listing of the Consolidated Shares

Application will be made to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consolidated Shares upon the Share Consolidation become effective.

Subject to the granting of the approval of listing of, and permission to deal in, the Consolidated Shares on the Stock Exchange, as well as compliance with the stock admission requirements of the HKSCC upon the Share Consolidation becoming effective, the Consolidated Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Consolidated Shares on the Stock Exchange or, under contingent situation, such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second settlement day thereafter.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements will be made for the Consolidated Shares to be admitted into CCASS established and operated by HKSCC. Shareholders should seek advice from their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

The Consolidated Shares will be identical in all respects and rank *pari passu* in all respects with each other in accordance with the Bye-laws as to all future dividends and distributions which are to be declared, made or paid.

None of the securities of the Company is listed or dealt in on any other stock exchange other than the Stock Exchange, and at the time the Share Consolidation becoming effective, the Consolidated Shares in issue will not be listed or dealt in on any stock exchange other than the Stock Exchange, and no such listing or permission to deal is being or is proposed to be sought.

Fractional entitlement to Consolidated Shares

Fractional Consolidated Shares arising from the Share Consolidation and the Change in Board Lot Size, if any, will be disregarded and will not be issued to the Shareholders but all such fractional Consolidated Shares will be aggregated and, if possible, sold for the benefit of the Company. Fractional Consolidated Shares will only arise in respect of the entire shareholding of a holder of the Existing Shares regardless of the number of share certificates held by such holder.

Shareholders concerned about losing out on any fractional entitlement are recommended to consult their licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser and may wish to consider the possibility of buying or selling Existing Shares in a number sufficient to make up an entitlement to receive a whole number of Consolidated Shares.

Odd lots arrangements and matching services

In order to facilitate the trading of odd lots (if any) of the Consolidated Shares arising from the Share Consolidation and the Change in Board Lot Size, a designated broker will be appointed by the Company to provide matching services, on a best effort basis, to those Shareholders who wish to acquire odd lots of the Consolidated Shares to make up a full board lot, or to dispose of their holding of odd lots of the Consolidated Shares. Holders of odd lots of the Consolidated Shares should note that successful matching of the sale and purchase of odd lots of the Consolidated Shares is not guaranteed. Any Shareholder, who is in any doubt about the odd lots arrangement, is recommended to consult his/her/its own professional advisers.

Shareholders or potential investors should note that (i) odd lots will be created after the Share Consolidation and Change in Board Lot Size; (ii) odd lots arrangements do not guarantee successful matching of all odd lots at the relevant market price; and (iii) odd lots might be sold below the market price in the market.

RECOMMENDATION

The Directors consider that the Share Consolidation and the Change in Board Lot Size is in the interest of the Company and the Shareholders as a whole and so recommend all Shareholders to vote in favour of the resolution approving the Share Consolidation at the SGM.

(4) SGM

The SGM will be convened for the purpose of considering and, if thought fit, approving, among other things, (1) the Sale and Purchase Agreement and the transactions contemplated thereunder (including (a) the allotment and issue of the Consideration Shares and (b) issue of the Convertible Bonds pursuant to the Proposed Acquisition) and the proposed grant of the Specific Mandate; and (2) the Share Consolidation. The SGM will be held at Conference Room, Main Building, Lizhuang Village, Jiafeng Town, Qinshui County, Jincheng City, Shanxi Province, PRC

on Tuesday, 3 January 2023 at 9:30 a.m.. The notice of the SGM is set out on pages SGM-1 to SGM-4 of this circular. Whether or not you are able to attend the SGM, please complete the form of proxy in accordance with the instructions printed thereon and return the same to the Hong Kong branch share registrar and transfer office, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than forty-eight (48) hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish and, in such event, the proxy form previously submitted shall be deemed to be revoked.

All the resolutions proposed to be approved at the SGM will be taken by poll and an announcement will be made by the Company after the SGM on the results of the SGM.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, 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.

GENERAL

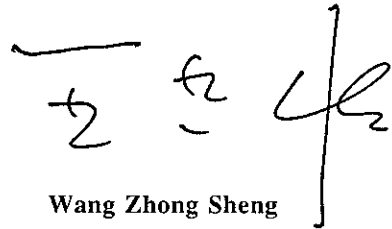
Also, as at the Latest Practicable Date, Mr. Wang (the executive Director and the chairman of the Board), through Jumbo Lane Investments Limited and in his own capacity, is beneficially interested in 1,371,684,912 Existing Shares, representing approximately 66.01% of the existing issued share capital of the Company. Therefore, Mr. Wang and his associates, including Jumbo Lane investments Limited, are required to abstain from voting on the relevant resolutions to be proposed at the SGM in relation to the Proposed Acquisition (including the (i) allotment and issue of the Consideration Shares and (ii) issue of the Convertible Bonds pursuant to the Proposed Acquisition) and the grant of the Specific Mandate proposed to the Board.

Saved as disclosed above, no other Shareholders would be required to abstain from voting to approve the resolutions in relation to continuing connected transactions at the SGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices and the notice of SGM, which form part of this circular.

Yours faithfully,
By order of the Board
China CBM Group Company Limited

A handwritten signature in black ink, consisting of stylized Chinese characters, positioned above the printed name and title.

Wang Zhong Sheng
Chairman