

12 December 2022

*To the Independent Board Committee and
the Independent Shareholders of
China CBM Group Company Limited*

Dear Sirs and Madams,

**MAJOR AND CONNECTED TRANSACTION
PROPOSED ACQUISITION INVOLVING
ISSUE OF CONSIDERATION SHARES
AND
CONVERTIBLE BONDS UNDER SPECIFIC MANDATE**

INTRODUCTION

We refer to our appointment as the independent financial adviser (the “**Independent Financial Adviser**”) to make recommendations to the independent board committee and the independent shareholders of China CBM Group Company Limited (the “**Company**”) in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder (the “**Transaction**”), particulars of which are set out in the section headed “Letter from the Board” (the “**Letter**”) contained in the circular of the Company to the Shareholders dated 12 December 2022 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as ascribed to them under the section headed “Definitions” in this Circular.

The Proposed Acquisition

Reference is made to the Letter.

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.

As at the Latest Practicable Date, the Target Company, through its subsidiaries, is interested in 20% equity interest in Huiyang New Energy, which is PRC company owned as to 60% equity interested by the Company through its subsidiary. 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. Accordingly, the Group will be in aggregate interested in 80% equity interest in Huiyang New Energy.

Implications under the GEM Listing Rules

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.

As at the Latest Practicable Date, Mr. Wang, who is the executive Director and 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 is a connected person of the Company under Chapter 20 of the GEM Listing Rules. 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, who is the son of Mr. Wang and a non-executive Director, are considered to have a material interest in the Proposed Acquisition, each of them abstained from voting on the resolution in relation to the Proposed Acquisition, including (i) the allotment and issuance of the Consideration Shares; (ii) the issuance of the Convertible Bonds; and (iii) the grant of the Specific Mandate. Save as the aforesaid, none of the Directors attended the Board meeting has a material interest in the Proposed Acquisition.

INDEPENDENT BOARD COMMITTEE

Pursuant to the GEM Listing Rules, the Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Lau Chun Pong, Mr. Wang Zhi He and Mr. Xu Yuan Jian, has been established to advise the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder, and as to the voting action therefor.

In our capacity as the Independent Financial Adviser, our role is to give an independent opinion to advise the Independent Board Committee, and the Independent Shareholders as to whether the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are (i) fair and reasonable; (ii) on normal commercial terms or better and in the ordinary and usual course of business of the Company; (iii) in the interests of the Company and its Shareholders as a whole; and (iv) how the Independent Shareholders should vote in favour of the Transaction.

OUR INDEPENDENCE

We, Silverbricks Securities Company Limited (“**Silverbricks**”), have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. Silverbricks is a licensed corporation licensed under the Securities and Futures Ordinance (“**SFO**”) to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts) and Type 6 (advising on corporate finance) regulated activities.

In the last two years, we did not have any engagement with the Group as an independent financial adviser. As at the Latest Practicable Date, we confirmed that there is no relationship or interest between Silverbricks and the Company or any other parties that could be reasonably be regarded as hindrance to Silverbricks’s independence as set out under Rule 17.96 of the GEM Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transaction.

We are not associated with the Company, its subsidiaries, its associates or their respective substantial shareholders or associates, and accordingly, are eligible to give independent advice and recommendations. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates. We confirmed that there is no existence of or change in any circumstances that would affect our independence.

Accordingly, we consider that we have performed all reasonable steps as required under Rule 17.92 of the GEM Listing Rules and are eligible to give independent advice on the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder.

BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries (the “**Management**”). We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true and that all expectations and intentions of the Directors and the Management, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors and the Management. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not

contained in the Circular, the omission of which would make any statement in the Circular misleading. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Circular (other than those relating to the Subscriber and parties acting in concert with him) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. Therefore, we have no reason to believe that any material information has been omitted or withheld, or doubt the truth or accuracy of the information provided in the Circular. We have, however, not conducted any independent investigation into the business and affairs of the Group nor have we carried out any independent verification of the information supplied. We have also assumed that all representations contained or referred to in the Circular were true at the time they were made and at the date of the release of the Circular and will continue to be true up to the Latest Practicable Date, and that the Independent Shareholders will be informed as soon as reasonable possible if we are aware of any material change to such representations and/or any change to our view/opinion. We have also assumed that the information we have relied on as set out in this letter will be valid up to the time of the SGM and we are not aware any of the information we have relied on as set out in this letter will change or become invalid in the foreseeable future.

We consider that we have been provided with, and we have reviewed sufficient information to reach an informed view, to justify relying on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors and the Management. We have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospects.

Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the Transaction, as referred to in Rule 17.92 of the GEM Listing Rules (including the notes thereof) in formulating our opinion and recommendation.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

1. BACKGROUND OF THE TRANSACTION

On 30 September 2022, the Company as purchaser and Mr. Wang as vendor entered into the Sale and Purchase Agreement.

1.1 Information of the Company and the Group

The Company is a company incorporated in the Cayman Islands and continued in Bermuda with limited liability and the issued Shares of which have been listed on the GEM. The Company is an investment holding company and the holding company of the Group.

1.1.1 Principal business of the Group

The Group is principally engaged in 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.

1.1.2 Financial performance of the Group

Set out below is a summary of the Group's audited consolidated financial performance for the years ended 31 December 2020 and 2021 as extracted from the annual report of the Company for the year ended 31 December 2021 ("**2021 Annual Report**") and the Group's unaudited consolidated financial performance for the six months ended 30 June 2021 and 2022 as extracted from the interim report of the Company for the six months ended 30 June 2022 ("**2022 Interim Report**").

Table 1: Summary of the consolidated financial performance of the Group

	For the six months ended 30 June		For the years ended 31 December	
	2022	2021	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(audited)	(audited)
Revenue				
– Sales of liquefied coalbed gas (including provision of liquefied coalbed gas logistics services and provision of coalbed gas liquefaction processing services)	66,199	24,156	170,721	26,679
– Sales of piped natural gas and provision of gas supply connection services	92,377	86,247	44,404	152,650
Total revenue	158,576	110,403	215,125	179,329
Gross profit/(loss)	15,610	10,949	(491)	21,310
Loss attributable to equity shareholders of the Company for the period/year	(10,527)	(7,967)	(2,236)	(40,627)

(i) For the year ended 31 December 2021

For the year ended 31 December 2021, the audited consolidated total revenue of the Group mainly derived from (a) sales of liquefied coalbed gas and piped natural gas; (b) provision of liquefied coalbed gas logistics services; (c) provision of gas supply connection services; and (d) provision of coalbed gas liquefaction processing services.

As set out in the above table 1, the audited consolidated total revenue of the Group for the year ended 31 December 2021 was approximately HK\$215,125,000, representing an increase of approximately 19.96% when compared to that of 2020 (i.e. HK\$179,329,000). Such significant increase was mainly attributable to the, among other things,

- (a) the Group's liquefied natural gas (“LNG”) plant was resumed production in February 2021 and it contributed approximately of RMB31,462,000 of revenue in the year;
- (b) the outbreak of Covid-19 led to the provision of gas supply connection services was slow down in 2020. The economic activity was back to normal in the year, therefore, the revenue of provision of gas supply connection services increased from RMB12,438,000 to RMB30,312,000; and
- (c) during the year, due to an undersupply of raw gas in the Group's LNG plant, the Group's LNG plant provided coalbed gas liquefaction processing services for its customers to improve the usage of its LNG plant. Such processing services contributed the revenue of approximately RMB12,713,000.

The Group recorded an audited consolidated loss attributable to equity shareholders of the Company for the year ended 31 December 2021 of approximately RMB2,236,000 compared with that of approximately RMB40,627,000 for the year ended 31 December 2020. The reasons for the losses are as follows:

- (a) the Group recorded gross loss of approximately RMB491,000 in 2021 because
 - in 2021, the business of 廣西北流燃氣有限公司 (Guangxi Beiliu Gas Co., Ltd.) (“**Guangxi Beiliu**”) significantly decreased due to dramatic increase in its costs of the purchase of liquefied natural gas and the inversion of costs had occurred since June 2021. Guangxi Beiliu attempted to pass the costs to the ultimate users, but due to the local franchise rights held by Guangxi Beiliu and its social responsibility to the utmost, Guangxi Beiliu consequently did not increase the selling price of natural gas and remained the provision of gas supply for local enterprises, which resulted in the gross loss of piped natural gas business of Guangxi Beiliu; and
 - in 2021, due to the shortage in the supply of raw gas, the average daily production only amounted to approximately 50,000 m³ in the Group's LNG plant which resulted in the gross loss recorded in sales business of liquefied coalbed gas as a result of the increase in unit cost of liquefied coalbed gas.

and

- (b) the impairment loss of property, plant and equipment of approximately RMB26,376,000 was recognized during the year ended 31 December 2021.

(ii) For the six months ended 30 June 2022

For the six months ended 30 June 2022, the Group recorded an unaudited consolidated total revenue of approximately RMB158,576,000, representing an increase of approximately 43.63% when compared with the corresponding period of last year. Such increase in revenue was mainly attributable to the increase in the average daily production of the Group's LNG plants and the rise in gas price, which contributed approximately of RMB60,792,000 of revenue during the interim period.

The Group recorded a loss attributable to equity shareholders of the Company for the six months ended 30 June 2022 of approximately RMB10,527,000, while the loss attributable to shareholders last year was approximately RMB7,967,000. The reasons for the increase in losses are as follows:

- (a) there was no reversal of trade receivable previously impaired during the six months ended 30 June 2022. As a result, other revenue and net income decreased from approximately RMB4,008,000 during the six months ended 30 June 2021 to approximately RMB870,000 during the six months ended 30 June 2022; and
- (b) administrative and other operating expenses increased to approximately RMB23,498,000, mainly due to the payment of farmland occupation tax of approximately RMB2,480,000 during the six months ended 30 June 2022.

1.2 Information of Mr. Wang, who is the vendor under the Sale and Purchase Agreement

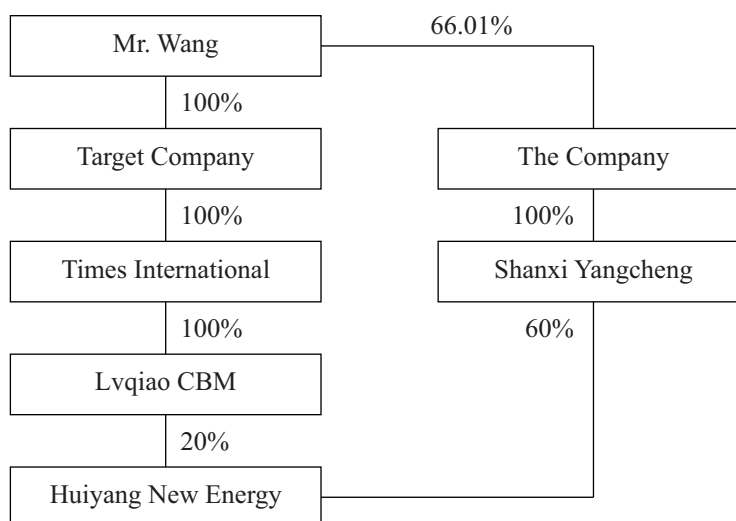
Mr. Wang is the executive Director and chairman of the Board. Mr. Wang is also the compliance officer of the Company.

As at the Latest Practicable Date, Mr. Wang, through Jumbo Lane Investments Limited and in his own capacity, is beneficially in 1,371,684,912 Existing Shares, representing approximately 66.01% of the existing issued share capital of the Company. Therefore, Mr. Wang is a connected person of the Company under Chapter 20 of the GEM Listing Rules.

1.3 Information of the Target Group

1.3.1 Shareholding structure of the Target Group

Set out below is the shareholding structure of the Target Group as at the Latest Practicable Date:



(i) The Target Company

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

(ii) Times International

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

(iii) Lvqiao CBM

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

(iv) Huiyang New Energy

Huiyang New Energy is a company established in the PRC with limited liability and is principally engaged in exploration, development and production of coalbed methane. As at the Latest Practicable Date, save and except for the exploitation and exploration of coalbed methane resources outlined under the following section, to the best of the Directors' knowledge, Huiyang New Energy had no other investments and operations.

As at the Latest Practicable Date, Huiyang New Energy is owned as to 60% by Shanxi Yangcheng, which is a wholly owned subsidiary of the Company, 20% by Lvqiao CBM and 20% by Yangcheng Yangtai, whose ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons.

1.3.2 Financial information of the Target Group

As mentioned above, each of the Target Company, Times International and Lvqiao CBM is principally engaged in investment holdings, therefore, there is no business operation since its incorporation.

(i) Financial performance of Huiyang New Energy

Set out below is a summary of the Huiyang New Energy's audited financial performance for the years ended 31 December 2020 and 2021 as extracted from its management accounts for the year ended 2020 and 2021 ("**2021 Target Accounts**") and Huiyang New Energy's unaudited financial performance for the six months ended 30 June 2021 and 2022 as extracted from its management accounts for the six months ended 30 June 2022 ("**2022 Target Accounts**").



Table 2: Summary of the consolidated financial performance of Huiyang New Energy

	For the six months ended 30 June		For the years ended 31 December	
	2022	2021	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(audited)	(audited)
Revenue	26,392	26,307	49,769	55,732
Gross profit	5,887	4,707	475	10,152
Profit/(loss) after taxation	(3,536)	(3,935)	(42,145)	10,906

For the year ended 31 December 2021 and for the six months ended 30 June 2022, the total revenue of Huiyang New Energy mainly derived from sales of liquefied coalbed gas.

As set out in the table above, the audited total revenue of Huiyang New Energy for the year ended 31 December 2021 was approximately HK\$46,769,000, representing a decrease of approximately 16.08% when compared to that of 2020. In addition, Huiyang New Energy recorded an audited loss of approximately RMB42,145,000 for the year ended 31 December 2021, representing a significant change as compared with the profit of approximately RMB10,906,000 for the year ended 31 December 2020. The rationale behind the significant turnaround are as follows:

- (a) a decrease in gross profit from approximately RMB10,152,000 for the year ended 31 December 2020 to approximately RMB475,000 for the year ended 31 December 2021 which was mainly attributable to (i) a decrease in revenue with fixed depreciation cost which had been included in the cost of sales; and (ii) an increase in repair and maintenance cost was recognized during the year ended 31 December 2021;
- (b) a decrease in other income and gains by approximately RMB14,416,000 from approximately RMB19,373,000 for the year ended 31 December 2020 to approximately RMB4,957,000 for the year ended 31 December 2021 which was mainly due to no service income generated from the extraction of coalbed gas services during the year ended 31 December 2021; and



- (c) an impairment loss of approximately RMB26,376,000 was recognized for the year ended 31 December 2021 due to a dropped in the value of the cash generating unit of Huiyang New Energy as a result of the loss incurred as impacted by the prolonged COVID-19 pandemic.

Further, the unaudited total revenue of Huiyang New Energy for the six months ended 30 June 2022 was approximately RMB26,392,000 representing an insignificant increase of approximately 0.32% when compared to that of 2021. Also the unaudited loss for the period for the six months ended 30 June 2022 was approximately RMB3,536,000, which is very close to that of the 6 months ended 30 June 2021 with a loss of approximately RMB3,935,000. As advised by the Group's management, there is no significant changes in business operation of Huiyang New Energy during the period from 1 January 2022 to 30 June 2022.

(ii) Financial position of Huiyang New Energy

Set out below is a summary of the Huiyang New Energy's audited financial position as at 31 December 2021 as extracted from the 2021 Target Accounts and Huiyang New Energy's unaudited financial performance as at 30 June 2022 as extracted from the 2022 Target Accounts.

	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (audited)
Non-current assets	202,165	217,748
Current assets		
– Inventories	3,352	3,033
– Trade Receivables	–	183
– Prepayment and other receivables	17,599	15,564
– Amount due from intra-group companies	128,769	134,345
– Cash and cash equivalents	<u>1,380</u>	<u>333</u>
	<u>151,100</u>	<u>153,438</u>
Current liabilities	459,867	474,272
Net liabilities	(106,602)	(103,086)

As noted in the table above, the total non-current assets of Huiyang New Energy as at 30 June 2022 was approximately RMB202,165,000. As advised by the management of the Group, it mainly refers to the plant and machinery and motor vehicles relating to the CBM grounds and drill work and the construction progress relating to CBM wells explorations. The total current assets of Huiyang New Energy as at 30 June 2022 was approximately RMB153,438,000. As noted in the table above, the total current assets Huiyang New Energy was mainly contributed by the amount due from intra-group companies of approximately RMB128,769,000.

Furthermore, the total current liabilities of Huiyang New Energy as at 30 June 2022 was approximately RMB459,867,000, of which the amount due to intra-group companies contributed approximately RMB376,652,000.

(iii) Principal assets of Huiyang New Energy

Huiyang New Energy has interest in certain coalbed methane (“CBM”) properties located at Shanxi Province, the PRC. The contracted area is approximately 96 km² in the Shanxi Province, the PRC and the development within the said contracted area gas block is focused on two major coal seams.



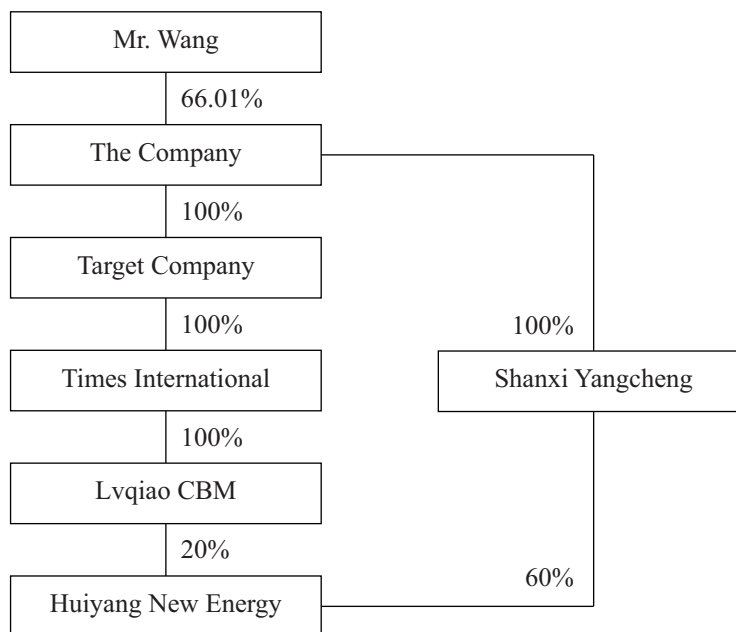
We have reviewed the report entitled “Estimates of Reserves and Future Revenue to the Huiyang New Energy interest in certain coalbed methane properties located in Shanxi Province” regarding the reserve evaluation of the CBM properties as at 31 March 2012 which is conducted by an independent, US-licensed natural gas reserve engineer, Netherland, Sewell & Associates, Inc. (“NSAI”) engaged by the Company in 2011 to evaluate the CBM properties reserves. Set out below is the reserves evaluation of certain CBM properties as of 31 March 2022 and 30 June 2022, respectively:

	Reserve evaluation of the CBM properties as at 30 June 2022 BCF	Reserve evaluation of the CBM properties as at 31 March 2012 BCF
Total original gas in place on all blocks	193.6	272.4
Net 1P (Proved) reserves	108.9	3.5
Net 2P (Proved + Probable) reserves	154.7	27.7
Net 3P (Proved + Probable + Possible) reserves	193.6	205.0

As at 30 June 2022, the Group has completed the ground work and drilling of 229 CBM wells, among which 164 wells were in production, with stable production since they had been put in operation.

2. TRANSACTION STRUCTURE IMMEDIATELY UPON COMPLETION

The diagram below illustrates the shareholding structure of the Target Company immediately after the Completion:



3. REASONS FOR AND BENEFITS OF THE PROPOSED ACQUISITION

In assessing the reasons for and benefits of the Proposed Acquisition, we have considered the Board's view on such matters and arrived at a conclusion after certain review and enquiry with the Management.

3.1 The Board's view

As stated in the Letter, 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 2022 Interim Report, 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.

3.2 *Our view*

Before arriving at our view on the reasons and benefits of the Proposed Acquisition, we have considered two factors, which are (i) market overview of coalbed methane gas industry; and (ii) the projected cash flow forecast of Huiyang New Energy.

3.2.1 Market overview of coalbed methane gas industry

In order to form a better understanding on the coalbed methane industry in the PRC, we have conducted research over the internet and understand that coalbed methane gas is a by-product of coal mining contained in the coal which has the similar application as natural gas. It can be transmitted through pipelines after purification and compression. Coalbed methane gas is an increasingly important source of natural gas supply in China. According to the statistics from the China Coal Information Institute available at public domain, the PRC ranked the third in the world in terms of coalbed methane reserves and it is expected that demand for natural gas in the PRC will continue to grow in the near future.

The coalbed methane supply market is supported by the PRC government following the 14th Five-Year Plan (the “**Plan**”) adopted by the National Development and Reform Commission in 2021. It is the Plan, which sets out China’s strategy for industry planning and policy through 2025 and covers the energy-related themes including (i) increasing and advancing the country’s technology innovation and manufacturing sectors, which include innovative energy technology focused on making renewables more efficient, cost competitive, and reliable; and (ii) prioritizing China’s low-carbon and carbon-neutral initiatives to achieve its 2030 and 2060 climate goals of peak carbon emissions and carbon neutrality. According to the Plan, China aims to build a more self sufficient energy reserve system by 2025, with annual coal production capacity exceeding 4.6 billion tons, crude oil output stabilising at 200 million tons, natural gas output reaching over 230 billion cubic metres, and installed power generation capacity totalling about 3 billion kilowatts.

Having considered that coalbed methane is an energy source for all purposes (including residential, commercial and industrial use), we are of the view that the demand for coalbed methane will be positively related with the future plan of the clean energy related industry in the PRC. With this being the case, demand for coalbed methane may rise in the near future.

3.2.2 Review on the projected cash flow forecast of Huiyang New Energy

The Company has arrived at a projected cash flows of Huiyang New Energy (the “**Forecast**”) by developing a life-of-mine operating plan, including forecast production, costs, capital expenditures and working capital requirements based on their due diligence of current and historic operating results. The Forecast covered a period of 7 years starting from November 2022 to 2030.

We have reviewed the Forecast and noted that the number of wells ready for production would be increased from 164 to 184 in the contracted area and the daily CBM production would be further increased by 100 m³ from originally 450 m³ to 550 m³. Assuming that all extracted CBM could be sold over the remaining life of the CBM properties, a minimum annual cash flow income of RMB40 million with a gradual increase during the forecast period could be attained. In light of this, having relied on the assumptions which may beyond our control (i.e price and demand of CBM), we concluded that the Acquisition could bring a positive financial effect to the Group with a reasonable payback period. Therefore, we considered that the term of the Acquisition is in the interest of the Company and the Shareholders as a whole.

Conclusion

In light of the positive future outlook of the coalbed methane industry in the PRC, the possible rising of demand for coalbed methane and potential cashflow return from Huiyang New Energy, we concur with the Directors that the Proposed Acquisition, which allows the Group to tap into the coalbed methane industry in the PRC, may bring long-term benefits to the Group. As a result, we are of the opinion that the Proposed Acquisition is in the interests of the Company and the Shareholders as a whole.

4. PRINCIPAL TERMS OF THE SALE AND PURCHASE AGREEMENT

4.1 Details of the Sale and Purchase Agreement

The table below summarise the principal terms of the Sale and Purchase Agreement and please refer to the Letter for details:

Date:	30 September 2022
Parties:	(i) Mr. Wang (as the vendor); and (ii) The Company (as the purchaser).

- Subject matter: 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 the Proposed Acquisition (the “**Consideration**”) is HK\$42,523,400 (equivalent to approximately RMB38,500,000), which shall be satisfied by the Company 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.

4.2 Evaluation on the basis of the Consideration

As set out in the Letter, 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; 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” of the Letter.

As mentioned above, the Consideration was determined after taking into account, without limitation, the preliminary valuation (the “**Valuation**”) of the entire equity interest in Huiyang New Energy of approximately RMB212,000,000 as at 30 June 2022. In order to assess the fairness and reasonableness of the Consideration basis, we have considered the followings in relation to the Valuation.

4.2.1 Review on the valuation approach

We have obtained a copy of the valuation report (the “**Valuation Report**”) in respect of the Valuation. We have reviewed the Valuation Report and discussed with the Valuer regarding the methodology adopted for and the basis and assumptions used in arriving at the Valuation.

In accordance with the Valuation Report, the valuation methodology can be broadly classified into three approaches, namely cost approach, income approach and market approach. We noted that the Valuer had selected the market approach and concluded that each of the cost approach and the income approach were not applicable. We further understand that the Valuer had considered, among others,

- (a) as the economic value of Huiyang New Energy is mainly attributable to its ability to generate revenue through its products and services but not the value or replacement costs of its assets, the cost approach is incapable to reliably reflect the value of its equity interest;
- (b) given the uncertainty and dynamic nature of gas businesses, it is difficult to form a reliable basis for estimating various projection inputs. Further, there is tremendous uncertainty in the future market on gas trading, in the absence of relative solid and certain business projection, the income approach is also incapable to reliably reflect the value of its equity interest; and
- (c) Huiyang New Energy, as a CBM producer, has sufficient track records and has participated in the sector for more than 3 years. With the management expectation that Huiyang New Energy could sustain its existing business operations in long run, the market approach is the most optimal approach in assessing the value of Huiyang New Energy.

In view of the nature of the business operations of Huiyang New Energy which is expected to sustain its business operations in the foreseeable future and the availability of market information, we concur with the Valuer’s that the market approach is the most optimal approach in assessing the value of Huiyang New Energy.

4.2.2 Review on the valuation methodology

The Valuer had adopted the Enterprise Value-to-Earnings before Interest, Tax, Depreciation and Amortization (“**EV/EBITDA Ratio**”) to determine the indicated enterprise value and equity value of Huiyang New Energy. As advised by the Valuer, EV-to-EBITDA Ratio relates the business value of a company to its profitability. After comparing with the price to book ratio (“**P/B Ratio**”) and the price to sales ratio (“**P/S Ratio**”), we concur with the Valuer’s view that

- (a) the P/B Ratio is considered not appropriate for the Valuation on the ground that Huiyang New Energy, which are not an investment holding company, has its fair value being determined based on its abilities to generate future income streams rather than the costs of replacement of its assets and liabilities; and
- (b) the P/S Ratio is also considered not appropriate for the Valuation since revenues may not consider the cost structure and profitability which are considered primary factors affecting the value of a company of the same kind.

The Valuer further advised that EV-to-EBITDA Ratio is neutral to the choice of capital structure, depreciation and amortization policy and is more suitable for valuation of gas companies which are normally fixed asset intensive. Considering that the capital structure, amortization and depreciation policy may have great variation among comparable companies and Huiyang New Energy, we concur with the Valuer that EV-to-EBITDA Ratio is considered to be the most appropriate measure to value Huiyang New Energy.

4.2.3 Review on the valuation procedures and comparable companies

As noted in the Valuation Report, the equity value of Huiyang New Energy, as revealed from the unaudited financial statements of Huiyang New Energy for the 12 months ended 30 June 2022, is determined and calculated based on the followings:

In RMB	Fair Value
Normalized Trailing 12-Month EBITDA	60,449,900
EV-to-EBITDA ratio	8.58
Enterprise Value	518,660,142
Add cash	1,380,000
Add prepayment paid to contractors	13,613,000
Add amounts due from fellow subsidiaries	128,769,000
Less amount due to a director	(17,382,000)
Less payable to contractors	(62,220,000)
Less amount due to intermediate holding company	(24,264,000)
Less amount due to immediate holding company	(66,351,000)
Less amount due to fellow subsidiaries	(279,980,000)
100% Equity Value	212,225,142
Round to	212,000,000

After reviewed the Valuation Report, we noted that in order to determine the EV to EBITDA Rati for the Valuation, the Valuer had identified 6 comparable companies from with reference to data as extracted from publicly available information including Bloomberg database, the financial statements and announcements of the respective comparable companies. In selecting the appropriate comparable companies, the Valuer had adopted the following selection criteria, which include, among others,

- (a) the company must be a gas exploitation operator;
- (b) the company's share trading prices and financial information are publicly available;
- (c) the company has more than 50% revenues generated from gas and gas related operations;
- (d) the operating profit for the latest 12 months financial reporting period is positive; and

- (e) the company's shares have more than 2 years' exchange trading history as newly listed stocks have relatively higher potential to be traded at unreasonable price level.

For details of the said comparable transactions, please refer to appendix V of the Circular.

We consider that the Valuer's selection criteria represent an appropriate approach to identify the comparable transactions and comparable companies with similar business as compared to Huiyang New Energy. Based on the above criteria, we have researched the information about the 6 comparable transactions identified by the Valuer and considered that it represents an exhaustive list based on the said criteria above. Besides, we considered that the selection of comparable transactions is sufficient and appropriate for the Valuation as it has covered the prevailing market conditions and sentiments in Hong Kong, China and the United States stock market at the time which the Valuation was conducted.

In view of the above, we consider that the parameters taken under the Valuation is fair and reasonable and under normal market practice of similar valuations.

4.2.4 Review on the valuation assumptions

We have discussed with the Valuer in respect of the valuation assumptions applied in the Valuation. We noted that the valuation assumptions adopted by the Valuer are common assumptions adopted in business valuation, including but not limited to

- (a) there will be no material changes in the laws, rules or regulations, financial, economic, market and political conditions where Huiyang New Energy operates which may materially and adversely affect its businesses;
- (b) there will be no major changes in the current taxation law in the PRC;
- (c) Huiyang New Energy shall fulfill all legal and regulatory requirements necessary to conduct its normal course of businesses;
- (d) Huiyang New Energy shall not be constrained by the availability of finance and there will be no material fluctuation of the finance costs;



- (e) Huiyang New Energy shall have uninterrupted rights to operate its existing businesses during the unexpired term of its authorised operating period, if any;
- (f) the future movement of exchange rates and interest rates will not differ materially from prevailing market expectations;
- (g) Huiyang New Energy shall retain competent management, key personnel and technical staff for its operations and the relevant shareholders will support its ongoing operations;
- (h) the unaudited financial statements of Huiyang New Energy supplied to the Valuer have been prepared in a manner truly and accurately reflected the financial position of Huiyang New Energy as at the respective balance sheet dates;
- (i) Huiyang New Energy has obtained all necessary permits, approvals and technical credentials to carry out its businesses and its ancillary services and shall be entitled to renew those permits and approvals upon their expiry subject to no legal impediment and costs of substantial amount;
- (j) except those stated in the financial statements, Huiyang New Energy is free and clear of any lien, charge, option, pre-emption rights or other encumbrances or rights whatsoever; and
- (k) the estimated fair value does not include considerations of any extraordinary financing or income guarantees, special tax considerations or any other typical benefits which may influence the ordinary business enterprise value of Huiyang New Energy.

4.2.5 Competency of the Valuer

We have reviewed and enquired into (i) the terms of engagement of the Valuer (ii) the Valuer's qualification and experience in relation to the preparation of the Valuation Report; and (iii) the steps and due diligence measures taken by the Valuer for conducting the Valuation. In light of the engagement letter and other relevant information provided by the Valuer and also based on our interview with the Valuer, we are satisfied the Valuer is competent for preparation of the Valuation Report.

4.2.6 Results of the assessment relating to the Valuation

As set out above we are satisfied that (i) the Valuer is independent from the Company and has sufficient experience, qualification and competence to perform the Valuation; (ii) the Valuer's scope of work is appropriate for the relevant engagement; and (iii) the valuation assumptions and methodologies adopted by the Valuer are fair, reasonable and complete in relation to the Valuation Report. Based on the above, we are of the view that the Valuation is fair and reasonable.

Given that the Consideration is determined based on the Valuation which is concluded above as fair and reasonable we consider that the Consideration under the Agreement is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned.

4.3 Evaluation of the Consideration Shares and the Issue Price

Pursuant to the Sale and Purchase Agreement, a total of 93,375,000 Consolidated Shares at the Issue Price of HK\$0.3376 per Consideration Share will be allotted and issued to Mr. Wang upon Completion.

As at the Latest Practicable Date, the Company has 2,078,000,248 Existing Shares in issue. Immediately upon the Share Consolidation becoming effective, the number of Existing Shares in issue shall be consolidated into 259,750,031 Consolidated 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 prior to the issue of the Conversion Shares (assuming that there will be no other change to the total issued share capital of the Company between the Latest Practicable Date and the Completion Date).

The Consideration Shares will be allotted and issued at the Issue Price of HK\$0.3376 per Consideration Share, which represents:

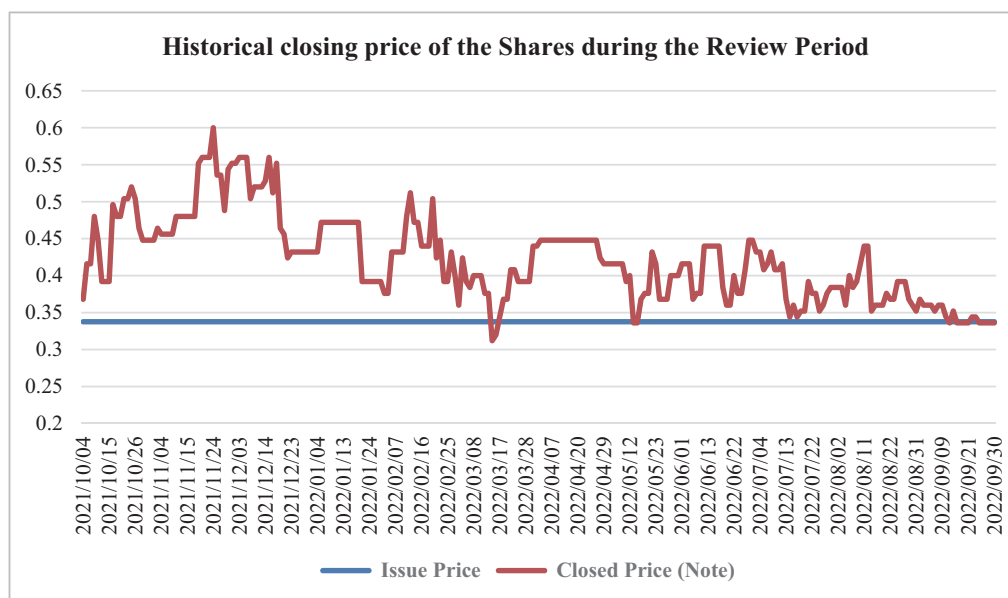
- (i) a premium of approximately 0.48% over the theoretical price of HK\$0.336 per Consolidated Share based on the closing price of HK\$0.042 per Existing Share as quoted on the Stock Exchange on the date of the Sale and Purchase Agreement;
- (ii) an equivalent to the theoretical price of HK\$0.3376 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; and;
- (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 ten consecutive trading days immediately prior to the date of the Sale and Purchase Agreement.

The Issue Price was determined after arm's length negotiations 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.

In order to assess the fairness and reasonableness of the Issue Price, we have compared the Subscription Price with reference to (a) the historical Share price performance; (b) the historical trading volume and liquidity of the Shares; and (c) the market comparable in respect of recent issuance of consideration shares, as set out below.

4.3.1 Review on the historical Existing Share price performance

Set out below is a chart illustrates the movement of the closing prices of the Existing Shares during the period commencing from 1 October 2021 to 30 September 2022, being the 12 months prior to the date of the Sale and Purchase Agreement (the “**Review Period**”). We consider that the Review Period is adequate to illustrate the Existing Share price performance for conducting a reasonable comparison between the closing price of the Existing Shares and the relevant Issue Price.



Source: The website of the Stock Exchange (www.hkex.com.hk)

Note: for illustrative purpose only, the closing price of the Existing Shares have been adjusted based on the Share Consolidation basis of eight (8) Existing Shares for one (1) Consolidated Share.

As illustrated by the chart above, the closing Existing Share prices fluctuated from the lowest of HK\$0.039 per Existing Share (i.e. HK\$0.312 per Consolidated Share) to the highest of HK\$0.075 per Existing Share (i.e. HK\$0.6 per Consolidated Share), with an average closing price of approximately HK\$0.0527 per Existing Share (i.e. HK\$0.422 per Consolidated Share). The Issue Price of HK\$0.3376 per Consolidated Share represents (i) a premium of 8.21% over the lowest closing Consolidated Share price (i.e. HK\$0.312) during the Review Period; (ii) a discount of approximately 43.73% to the highest closing Consolidated Share price (i.e. HK\$0.6) during the Review Period; and (iii) a discount of approximately 19.99% to the average closing Consolidated Share price (i.e. HK\$0.422) during the Review Period.

Further to the above, we noted that the Issue Price HK\$0.3376 per Consolidated Share also represents a discount of approximately 2.40% to the average closing Consolidated Share price of HK\$0.346 (i.e. HK\$0.0432 per Existing Share) for the last one month prior to the date of the Sale and Purchase Agreement.



As shown in the chart above, the Existing Share price closed between HK\$0.046 per Existing Share (i.e. HK\$0.368 per Consolidated Share) and HK\$0.065 per Existing Share (HK\$0.52 per Consolidated Share) during the period from 4 October 2021 to 12 November 2022. During such period, the Company released the announcement relating to the completion of very substantial disposal in respect of a disposal of entire equity interest in 洛陽順和能源有限公司 (Luoyang Shunhe Energy Co., Ltd.), being a PRC subsidiary of the Company.

After the release of the Company's third quarterly results announcement for the nine months ended 30 September 2021, the Existing Share price was on a descending trend dropping from HK\$0.06 per Existing Share (i.e. HK\$0.48 per Consolidated Share) on 15 November 2021 to HK\$0.059 per Existing Share (i.e. HK\$0.472 per Consolidated Share). On 19 January 2022, the Company released the circular in relation to a major transaction relating to the disposal of entire equity interest in Guangxi Beiliu, being a PRC subsidiary of the Company. After the release of such announcement, the Existing Share price further dropped gradually to HK\$0.039 per Existing Share (i.e. HK\$0.312 per Consolidated Share) on 15 March 2022.

On 1 April 2022, the Company published the 2021 Annual Report, demonstrating a continuous loss-making financial performance of the Group for the year ended 31 December 2021. After the publication of the 2021 Annual Report, the closing price of the Shares maintained at a level between HK\$0.042 per Existing Share (i.e. HK\$0.336 per Consolidated Share) and HK\$0.056 per Existing Share. (i.e. HK\$0.448 per Consolidated Share).

After the publication of the 2022 Interim Results on 12 August 2022, the closing price of the Existing Shares had been kept at a level between HK\$0.042 per Existing Share (i.e. HK\$0.336 per Consolidated Share) and HK\$0.049 per Share per Existing Share (i.e. HK\$0.392 per Consolidated Share).

To conclude, we are of the view that the change in Existing Share price during the Review Period reflects the change in the fundamentals of the Company and therefore, the Existing Share price during such period serve a fair and meaningful indicator for assessing the Issue Price. On this basis, we consider the Issue Price is fair and reasonable to the Independent Shareholders.

In order to assess the fairness and reasonableness of the Issue Price as compared to the recent closing price of the Existing Shares (being the closing price prior to the date of Sale and Purchase Agreement and the last 5 days prior to the date of the Sale and Purchase Agreement), we have further, based on the information available from the Stock Exchange's website, identified the

Comparables (as defined below) for further analysis. Please refer to the sub-section headed “4.3.3 Comparison with recent transactions” for details of the analysis. For our view on the dilution effect to minority shareholders upon issue of Consideration Shares, please refer to the section headed “5. POSSIBLE DILUTION EFFECT ON SHAREHOLDING INTEREST OF THE PUBLIC SHAREHOLDERS”.

4.3.2 Review on the trading volume and liquidity of the Shares

Set out below is the table showing (i) the monthly total trading volume of the Shares; (ii) the number of trading days of each month; (iii) the average daily trading volume of the Shares; and (iv) the percentage of the average daily trading volume of the Shares to the total issued Shares at the end of each month during the Review Period:

Month	Monthly trading volume of Existing Shares (A) (Shares)	Number of trading days in the month (B) (days)	Average daily trading volume of the Existing Shares (C) = (A)/(B) (Shares)	Total issued Existing Shares at the end of each month (D) (Shares)	Percentage of average daily trading volume of the Existing Shares to the total issued Existing Shares (C)/(D) Approx. %
2021					
October	7,415,000	18	411,944	2,078,000,248	0.020
November	10,156,500	22	461,659	2,078,000,248	0.022
December	8,055,000	22	366,136	2,078,000,248	0.018
2022					
January	37,440,000	21	1,782,857	2,078,000,248	0.086
February	4,080,000	17	240,000	2,078,000,248	0.012
March	5,319,500	23	231,283	2,078,000,248	0.011
April	245,000	18	13,611	2,078,000,248	0.001
May	5,250,000	20	262,500	2,078,000,248	0.013
June	6,862,000	21	326,762	2,078,000,248	0.016
July	8,150,000	20	407,500	2,078,000,248	0.020
August	7,450,000	23	323,913	2,078,000,248	0.016
September	19,887,885	21	947,042	2,078,000,248	0.046

Source: The website of the Stock Exchange (www.hkex.com.hk)

Note: The calculation is based on the average daily trading volume of the Shares divided by the total issued Shares at the end of each month or at the Latest Practicable Date as applicable.



Based on the above table, the monthly trading volume of the Shares during the Review Period has not been consistent, ranged from the lowest of 245,000 to the highest of 37,440,000, representing approximately 0.001% and 0.086% of the total issued Shares respectively. It is noted that the number of Shares traded daily increased significantly after the release of the circular relating to the major transaction relating to the disposal of entire equity interest in 廣西北流燃氣有限公司 (Guangxi Beiliu Gas Co., Ltd.) on 19 January 2022. Besides, we also note that after publication of the Company's 2022 Interim Report on 12 August 2022, the daily trading volume of the Shares increased gradually from an average daily trading volume of approximately 323,913 Shares during August 2022 to an average daily trading volume of approximately 947,042 Shares during September 2022.

Save for the aforementioned released announcements, we are not aware of any reasons for such fluctuations during the Review Period and believed that it was the result of the market response to the relevant published announcements of the Company. Hence, we consider the trading of Shares did not appear to be active during the Review Period. Given the low liquidity of the Shares during the Review Period, we consider that it may be difficult for the Group to obtain favorable terms on other ways of equity financing such as placement of new Shares for the Acquisition.

4.3.3 Comparison with recent transactions

In assessing the reasonableness of the terms of the issue of Consideration Shares, we have, based on the information available from the Stock Exchange's website, and on a best effort basis, identified an exhaustive list of 32 transactions announced by companies listed on the Stock Exchange during the Review Period (the "**CS Comparable(s)**"). For the purpose of our analysis, the basis of our selection of the CS Comparables is as follows: (i) an acquisition; and (ii) the acquisition is fully or partly settled by the issue of shares under specific mandate as consideration. We consider that the selection of comparable companies within an approximate 6-month period to be sufficient and appropriate for our analysis as it has covered the prevailing market conditions and sentiments in the Hong Kong stock market at the time which the terms of the issue of the Consideration Shares were determined.

Taking into account that the terms of the CS Comparables are determined under similar market conditions and sentiments as the issue of the Consideration Shares, we consider that the CS Comparables may reflect the recent market trend of an acquisition involving issuance of shares as full or partial settlement of consideration. As such, we consider the CS Comparables are fair and representative samples for comparison. It should be noted that all the companies

involved in the CS Comparables may have different principal activities, market capitalisation, profitability, and financial position as compared with those of the Company. Circumstances leading the CS Comparables companies to issue consideration shares may differ from that of the Company. The analysis is meant to be used as a general reference to similar types of transactions in Hong Kong, and we consider them to be one of the appropriate basis to assess the fairness and reasonableness of the Issue Price.

Set out below is the list of transaction involved issue of consideration shares as announced by the CS Comparables during the Review Period.

Date of initial announcement	Stock code	Company name	Premium/(discount) of the issue price over/(to) the average closing price per share for the last five consecutive trading days prior to the date of the corresponding agreement (%)	Premium/(discount) of the issue price over/(to) the average closing price per share for the last five consecutive trading days prior to the date of the corresponding agreement (%)
			Premium/(discount) of the issue price over/(to) the average closing price per share on the last trading day prior to the date of the corresponding agreement (%)	Premium/(discount) of the issue price over/(to) the average closing price per share for the last five consecutive trading days prior to the date of the corresponding agreement (%)
27 September 2022	8613	Oriental Payment Group Holdings Limited	(18.18)	(18.18)
23 September 2022	3882	Sky Light Holdings Limited	0.70	–
14 September 2022	1481	Smart Globe Holdings Limited	13.60	12.60
25 August 2022	8179	Palinda Group Holdings Limited	(13.79)	(9.09)
23 August 2022	1280	Qidian International Co., Ltd.	(12.28)	(12.28)
5 August 2022	1481	Smart Globe Holdings Limited	9.76	10.02
21 July 2022	1942	MOG Holdings Limited	(17.75)	(19.75)
18 July 2022	8200	Sau San Tong Holdings Limited	(3.51)	(0.72)
20 June 2022	1532	China Partytime Culture Holdings Limited	17.70	9.90
13 June 2022	8052	Luk Hing Entertainment Group Holdings Limited	(12.09)	(10.11)
13 June 2022	8163	Merdeka Financial Group Limited	(4.55)	7.69
10 June 2022	348	China Healthwise Holdings Limited	–	–



Date of initial announcement	Stock code	Company name	Premium/(discount) of the issue price over/(to) the average closing price per share for the last five consecutive trading days prior to the date of the corresponding agreement (%)	Premium/(discount) of the issue price over/(to) the average closing price per share for the last five consecutive trading days prior to the date of the corresponding agreement (%)
			Premium/(discount) of the issue price over/(to) the average closing price per share for the last five consecutive trading days prior to the date of the corresponding agreement (%)	Premium/(discount) of the issue price over/(to) the average closing price per share for the last five consecutive trading days prior to the date of the corresponding agreement (%)
29 April 2022	8659	Yik Wo International Holdings Limited	–	(1.57)
25 April 2022	8545	Amuse Group Holding Limited	(20.00)	–
29 March 2022	1908	C&D International Investment Group Limited	(14.90)	(13.56)
25 February 2022	1783	Golden Ponder Holdings Limited	(19.71)	(18.79)
25 January 2022	1520	CEFC Hong Kong Financial Investment Company Limited	0.92	(4.76)
19 January 2022	1143	Link-Asia International MedTech Group Limited	(7.30)	(6.80)
4 January 2022	3309	C-Mer Eye Care Holdings Limited	(8.30)	(5.80)
31 December 2021	2130	CN Logistics International Holdings Limited	(8.90)	(7.40)
24 December 2021	1632	Minshang Creative Technology Holdings Limited	(2.21)	(1.04)
15 December 2021	1159	Starlight Culture Entertainment Group Limited	112.00	101.00
1 December 2021	8368	Creative China Holdings Limited	2.47	–
29 November 2021	8228	National Arts Group Holdings Limited	9.71	2.73
29 November 2021	2138	EC Healthcare	(0.18)	(1.03)
26 November 2021	720	Auto Italia Holdings Limited	(16.36)	(16.36)
18 November 2021	1616	Starrise Media Holdings Limited	–	(0.63)
10 November 2021	2002	China Sunshine Paper Holdings Company Limited	(8.70)	(9.90)



Date of initial announcement	Stock code	Company name	Premium/(discount) of the issue price over/(to) the average closing price per share for the last five consecutive trading days prior to the date of the corresponding agreement (%)	Premium/(discount) of the issue price over/(to) the average closing price per share for the last five consecutive trading days prior to the date of the corresponding agreement (%)
			Premium/(discount) of the issue price over/(to) the average closing price per share for the last five consecutive trading days prior to the date of the corresponding agreement (%)	Premium/(discount) of the issue price over/(to) the average closing price per share for the last five consecutive trading days prior to the date of the corresponding agreement (%)
28 October 2021	318	Vongroup Limited	(15.00)	(14.00)
20 October 2021	197	Heng Tai Consumables Group Limited	(19.80)	(1.90)
19 October 2021	8305	Tong Kee (Holding) Limited	(20.00)	(22.48)
18 October 2021	175	Geely Automobile Holdings Limited	(11.42)	(12.65)
14 October 2021	8606	Kinetix Systems Holdings Limited	(6.25)	–
		Maximum	112.00	101.00
		Minimum	(20.00)	(22.48)
		Average	(2.56)	(1.64)
		Issue Price	0.48	–

As shown in the above table of the CS Comparables, the issue prices of all of the CS Comparables to the relevant closing price on the date of the announcement of relevant issue price ranged from a premium of approximately 112.00% to a discount of approximately 20.00%, with an average discount of approximately 2.56%. We note that the Issue Price of HK\$0.3376 represents a premium of approximately 0.48% to the closing price of the Shares on the date of the Sale and Purchase Agreement, being the date of announcement of the Issue Price, and such premium fall within the abovementioned range of the CS Comparables. Further, the issue prices of all of the CS Comparables to the relevant average closing price for the five trading days immediately prior to the day of announcement of the issue price or last trading day ranged a premium of approximately 101.00% to a discount of approximately 22.48%, with an average discount of approximately 1.64% and the Issue Price of HK\$0.3376 equals to the average of the last five consecutive trading days immediately prior to the date of signing of the Sale and Purchase Agreement and it also falls within the relevant range of the CS Comparables.

Despite the fact that the Issue Price represents (i) a discount of approximately 43.73% to the highest closing Consolidated Share price (i.e HK\$0.6) during the Review Period; and (ii) a discount of approximately 19.99% to the average closing Consolidated Share price (i.e HK\$0.422) during the Review Period, we have taken into consideration the following factors:

- (i) the Issue Price represents a discount of only 2.40% to the average closing Consolidated Share price of HK\$0.346 (i.e HK\$0.0432 per Existing Share) for the last one month prior to the date of the Sale and Purchase Agreement;
- (ii) the thin liquidity of the Shares during the Review Period;
- (iii) the premium of the Issue Price compared to the price per Share for the last five consecutive trading days of the Consideration Shares fall within the range of that of the CS Comparables;
- (iv) the Consideration is on normal commercial terms and fair and reasonable as far as the Independent Shareholders are concerned as discussed in the above section; and
- (v) the Proposed Acquisition is in the interest of the Company and the Shareholder as a whole as discussed in the above section “3. REASONS AND BENEFITS OF THE PROPOSED ACQUISITION”, we consider that the terms of the Consideration Shares are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

4.4 Evaluation of the terms of the Convertible Bonds and the Conversion Price

The table below summarise the principal terms of the Convertible Bonds and please refer to the Letter for details:

Issuer:	The Company
Principal Amount:	HK\$11,000,000
Subscription price of the Convertible Bonds:	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: HK\$0.3376 per Conversion Share, subject to adjustment as set out and in accordance with the terms and conditions of the Convertible Bonds.

The Conversion Price represents:

- (a) 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;
- (b) 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; and
- (c) 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.

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 date of this announcement 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.

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 will be no other change to the total issued share capital of the Company between the Latest Practicable Date and the Completion Date).

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 will be no other change to the total issued share capital of the Company between the Latest Practicable Date and the Completion Date).

4.4.1 Comparison with recent transactions

In assessing the reasonableness of the terms of the Convertible Bonds, we have, based on the information available from the Stock Exchange's website, and on a best effort basis, identified an exhaustive list of 8 transactions announced by companies listed on the Stock Exchange during the Review Period (the “**CB Comparable(s)**”). For the purpose of our analysis, the basis of our selection of the CB Comparables is as follows: (i) an acquisition; and (ii) the acquisition is fully or partly settled by the issue of convertible bond under specific mandate as consideration. We consider that the selection of comparable companies within an approximate 12-month period to be sufficient and appropriate for our analysis as it has covered the prevailing market conditions and sentiments in the Hong Kong stock market at the time which the terms of the Convertible Bonds were determined.

Taking into account that the terms of the CB Comparables are determined under similar market conditions and sentiments as the issue of the Convertible Bonds, we consider that the CB Comparables may reflect the recent market trend of an acquisition involving issuance of convertible bond as full or partial settlement of consideration. As such, we consider the CB Comparables are fair and representative samples for comparison. It should be noted that all the companies involved in the CB Comparables may have different principal activities, market capitalisation, profitability, and financial position as compared with those of the Company. Circumstances leading the CB Comparables companies to issue convertible bond may differ from that of the Company. The analysis is meant to be used as a general reference to similar types of

transactions in Hong Kong, and we consider them to be one of the appropriate basis to assess the fairness and reasonableness of the terms of the Convertible Bonds.

The table below sets forth the summary of the CB Comparables during the Review Period:

Date of initial announcement	Stock code	Company name	Premium/ (discount) of conversion price over/to the closing price on the last trading day prior to/on the date of the respective announcement/ agreement (%)	Premium/ (discount) of conversion price over/to the average closing price of five trading days prior to and including the last trading day prior to/on the date of the respective announcement/ agreement (%)	Interest rate per annum (%)	Maturity (year)
13 September 2022	413	South China Holdings Company Limited	–	0.63	1	3
19 August 2022	475	Central Development Holdings Limited	–	0.82	Nil	3
11 July 2022	3886	Town Health International Medical Group Limited	53.54	63.09	Nil	3
26 May 2022	880	SJM Holdings Limited	35.70	32.60	2	5
21 April 2022	2708	IBO Technology Company Limited	3.32	–	Nil	2
26 October 2021	3963	China Rongzhong Financial Holdings Company Limited	19.38	10.791	Nil	3
21 October 2021	6036	Apex ACE Holding Limited	18.64	16.67	0.5	5
19 October 2021	1951	Jinxin Fertility Group Limited	20.19	21.63	0.75	1.5
		Maximum	53.54	63.09	2	5
		Minimum	–	–	Nil	1.5
		Average	18.85	18.28	0.53	3.19
		Conversion Price/Interest rate/Maturity	0.48	–	Nil	2

We noted from the above table that the conversion prices of the CB Comparables ranged from no discount/premium to a premium of approximately 43.54% with an average premium of approximately 18.85% to the respective closing prices of their shares on the day of announcement of the conversion price. As such, the Company's premium of approximately 0.48% falls within the range.

Further, the conversion prices of the CB Comparables to the relevant average closing price for the five trading days immediately prior to the day of announcement of the conversion price or last trading day ranged from no discount/premium % to a premium of approximately 63.09%, with an average premium of approximately 18.28% and the initial Conversion Price of HK\$0.3376, which is equivalent to the average of the last five consecutive trading days immediately prior to the date of signing of the Agreement, is the same as the lowest range of the CB Comparables.

We also noted that the interest rate of the CB Comparables ranges from nil interest rate to 2% per annum while the maturity of the CB Comparables ranged from 1.5 year to 5 years. The Convertible Bonds bears no interest rate and the maturity period of 2 years which falls within the range of that of the CB Comparables. We have also reviewed other terms of the Convertible Bonds such as conversion restriction, voting rights etc and compared with that of the CB Comparables and we are not aware of any unusual terms.

We are of the view that the terms of the Convertible Bonds are on normal commercial terms and are fair and reasonable as far as the Independent Shareholders are concerned after considering the below factors:

- (i) the Conversion Price is the same as the Issue Price;
- (ii) despite the fact that the average premium of the conversion price of the CB Comparables to the relevant average closing price on the day of announcement of the conversion price and for the five trading days immediately prior to the day of announcement of the conversion price or last trading is 18.85% and 18.2% respectively, while the Conversion Price of HK\$0.3376, which is premium of 0.48% on the day of announcement of the conversion price and equal to the average closing price for the five trading days immediately prior to the day of announcement of the conversion price, entice the holders in converting the Convertible Bonds in the future, which in turns help to maintain cashflow for the Company;
- (iii) the interest rate of the Convertible Bonds also falls within the range of that of the CB Comparables;

- (iv) the Convertible Bonds has in effect a maturity date of 2 years, which is within the range of that of the CB Comparable; and
- (v) other terms of the Convertible Bonds are in line with the market practices.

4.5 Evaluation on the fairness and reasonableness of the settlement method of the Consideration

As advised by the Directors, they have also considered other financing alternatives such as open offer, rights issue, bank loans and internal cash resources to fund the acquisition, depending on the Group's financial position and cost of funding as well as the prevailing market condition. We are given to understand that the Directors exercised due and careful consideration in the selection of financing method in order to maximise the benefit to the Shareholders.

We are of the view that it may be difficult for the Group to raise fund by other ways of equity financing such as placing, rights issue or open offer for the Proposed Acquisition, after advised by Directors and having considered that (i) the continuous loss making financial performance of the Group is unlikely to attract sufficient demand if the Group was to propose equity financing activity such as placing, rights issue or open offer; (ii) it may be difficult for the Group to attract underwriters in case of a rights issue or open offer; (iii) due to the substantial amount of Shares required to be allotted and issued in order to settle the Consideration, the potential investor(s) will require a substantial placing discount to the trading price of the Shares, and the Directors anticipate such discount to be more than 20%; (iv) the Directors, after approaching several securities firms, found it difficult to secure placing agents and subscribers in light of the sizable amount of securities involved in the placing or subscription (as the case may be); and (v) it may involve substantial time and cost for all other equity financing methods as compared to issue new Shares as part of the Consideration.

The Directors also considered, and we concur, that bank loans may incur heavy interest burden on the Group and may be subject to lengthy due diligence and negotiations with the banks with reference to the Group's loss for the financial year ended 31 December 2021 attributable to Shareholders of the Company and the financial market condition at that time.

Given that (i) it is unlikely to attract sufficient demand if the Group was to propose an equity fund-raising exercise; and (ii) the issuance of Consideration Shares allows the Group to raise funds to settle the Consideration in a relatively short period of time, while the issuance of Convertible Bonds provide the Group with immediate funding without immediate dilution of the shareholding of the existing Shareholders; and (iii) the zero interest rate of the Convertible Bonds, which is favourable to the Company in terms of finance cost, and is likely to be less than any bank borrowings the Group can obtain from banks with reference to the Group's loss for the financial year ended 31 December 2021, we consider that the Settlement Method is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

5. POSSIBLE DILUTION EFFECT ON SHAREHOLDING INTEREST OF THE PUBLIC SHAREHOLDERS

For details of the effect of the shareholder structure immediately upon Completion, please refer to the section headed "SHAREHOLDING STRUCTURE OF THE COMPANY" of the Letter.

As illustrated in the table relating to the "shareholder structure of the Company" as set out in the Letter, the shareholding of existing public Shareholders in the Company will be reduced from approximately 33.99% as at the Latest Practicable Date to approximately 22.89% immediately upon completion of the Share Consolidation and after the allotment and issue of the Consideration Shares and the Conversion Shares (assuming that there will be no other change to the total issued share capital of the Company between the Latest Practicable Date and the Completion Date). The dilution effect on the shareholding of the Company immediately upon Completion is approximately 11.10%. Although there will be dilutive effects to the shareholding interests of the public Shareholders as a result of the Proposed Acquisition, having considered (i) the reasons for and benefits of the Acquisition as discussed in the section headed "Reasons for and benefits of the Proposed Acquisition" above; (ii) the Issue Price being fair and reasonable as discussed above; and (iii) the positive financial effects on the Group as a result of the Proposed Acquisition as summarized in section headed "Financial effect of the Proposed Acquisition" below, we are of the view that the dilution in the shareholding interests of the public Shareholders upon Completion is not prejudicial to their interests and thus is acceptable.

6. FINANCIAL EFFECT OF THE PROPOSED ACQUISITION

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.



Earnings

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.

RECOMMENDATION

Having taken into account the above-mentioned principal factors and reasons, we are of the view that although the Proposed Acquisition are not conducted in the ordinary and usual course of the business of the Group, the Proposed Acquisition is in the interests of the Company and the Shareholders as a whole, and the terms of the Proposed Acquisition (including the issue of the Convertible Bonds, the allotment and issue of the Consideration Shares and the Conversion Shares under the Specific Mandate) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the resolutions to be proposed at the SGM to approve the Proposed Acquisition (including the issue of the Convertible Bonds, the allotment and issue of the Consideration Shares and the Conversion Shares under the Specific Mandate).

Yours faithfully
For and on behalf of
Silverbricks Securities Company Limited



Yau Tung Shing
Co-head of Corporate Finance

Yours faithfully
For and on behalf of
Silverbricks Securities Company Limited



Chan Wai Fung
Head of Corporate Finance

Mr. Yau Tung Shing and Mr. Chan Wai Fung are licensed persons under the SFO to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and regarded as responsible officers of Silverbricks Securities Company Limited. Mr. Yau Tung Shing and Mr. Chan Wai Fung have over 6 and 3 years of experience in corporate finance industry, respectively.

** For identification purpose only and should not be regarded as the official English translation of the Chinese names. In the event of any inconsistency, the Chinese names prevail.*