
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in China CBM Group Company Limited (the "Company"), you should at once hand this circular and accompanying form of proxy to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

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)

**(1) CONNECTED TRANSACTION IN RELATION TO
SUBSCRIPTION OF NEW SHARES BY A SUBSTANTIAL SHAREHOLDER
UNDER SPECIFIC MANDATE
(2) APPLICATION FOR WHITEWASH WAIVER
AND
(3) NOTICE OF SPECIAL GENERAL MEETING**

Financial Adviser to the Company



Capital 9 Limited

**Independent Financial Adviser to the Takeovers Code IBC,
the Listing Rules IBC and the Independent Shareholders**



A letter from the Board is set out on pages 5 to 19 of this circular. A letter from the Takeovers Code IBC containing its recommendation to the Independent Shareholders is set out on pages 20 to 21 of this circular. A letter from the Listing Rules IBC containing its recommendation to the Independent Shareholders is set out on pages 22 to 23 of this circular. A letter from the Independent Financial Adviser, containing its advice to the Takeovers Code IBC, the Listing Rules IBC, and the Independent Shareholders is set out on pages 24 to 60 of this circular.

A notice convening a special general meeting (the "SGM") of the Company to be held on Friday, 21 May 2021 at 11:00 a.m. at Conference room, 14/F, Building B, Phase 1, Tianan Innovation Tech-Square, 25 Tairan 4th Road, Futian District, Shenzhen, China is set out on pages SGM-1 to SGM-3 of this circular. A form of proxy for the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event no later than 48 hours before the time appointed for the holding of the SGM. Completion and return of the enclosed form of proxy will not preclude you from attending and voting in person at such meeting or any adjournment meeting should you so wish.

PRECAUTIONARY MEASURES FOR THE SGM

In view of an ongoing pandemic of coronavirus disease 2019 (COVID-19) and recent requirements for prevention and control of its spread by the HKSAR Government, the Company will implement the following prevention and control measures at the SGM against the COVID-19 pandemic to protect the Shareholders from the risk of infection:

- (i) every participant (including Shareholders or their proxies) in the SGM shall be subject to compulsory body temperature check at the entrance of the meeting venue and anyone with a body temperature higher than normal will not be given access to the meeting venue and shall be requested to stay in an isolated place for completing the voting procedures;
- (ii) all participants (including Shareholders or their proxies) in the SGM are required to wear surgical face masks at all time during their attendance of the SGM; and
- (iii) no refreshment will be served, and there will be no corporate gifts.

Any person who does not comply with the precautionary measures or is subject to any HKSAR Government prescribed quarantine may be denied entry into the SGM venue. Furthermore, the Company wishes to advise the Shareholders that they may appoint any person or the chairman of the SGM as a proxy to vote on the relevant resolutions, instead of attending the SGM in person.

In the interest of all stakeholders' health and safety and consistent with recent guidelines for prevention and control of the COVID-19 pandemic, the Company reminds all Shareholders that physical attendance in person at the SGM is not necessary for the purpose of exercising voting rights. As an alternative, by using proxy forms with voting instructions inserted, Shareholders may appoint the chairman of the SGM as their proxy to vote on the relevant resolutions at the SGM instead of attending the SGM in person. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so desire.

22 April 2021

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“Announcement”	the announcement of the Company dated 31 December 2020 in relation to the Subscription and the Whitewash Waiver
“associate”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of the Directors
“Business Day”	means a day (other than a Saturday, Sunday, or public holiday) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“Company”	China CBM Group Company Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the issued Shares of which are listed on GEM (stock code: 8270)
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Convertible Bonds”	the zero coupon convertible bonds due on 9 December 2020 with an outstanding principal amount of HK\$21,238,440 as at the Latest Practicable Date
“Director(s)”	the director(s) of the Company
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any of his delegate(s)
“GEM”	the GEM of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Financial Adviser” or “Euto Capital”	Euto Capital Partners Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser to the Takeovers Code IBC, the Listing Rules IBC and the Independent Shareholders
“Independent Shareholders”	Shareholders other than (i) the Subscriber or his associates; (ii) any parties acting in concert with the Subscriber (including but not limited to Jumbo Lane Investments Limited); or (iii) parties involved or interested in the Subscription or the Whitewash Waiver
“Last Trading Day”	31 December 2020, being the last trading day for the Shares prior to the release of the Announcement
“Latest Practicable Date”	19 April 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules IBC”	the independent board committee of the Company comprising all the independent non-executive Director formed under the GEM Listing Rules for the purpose of giving a recommendation to the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder, and as to the voting action therefor
“Loan”	the outstanding loan owed by the Company to the Subscriber in the amount of HK\$21,238,440 as a result of the Convertible Bonds having become matured and due on 9 December 2020
“Options”	the outstanding options granted under the Share Option Scheme
“PRC”	the People’s Republic of China which, for the purpose of this circular only, shall exclude Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Relevant Period”	the period commencing from 30 June 2020, being the date falling 6 months before the date of the Announcement, up to and including the Latest Practicable Date
“SFC”	the Securities and Futures Commission of Hong Kong

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened at 11:00 a.m. on 14 May 2021 at Conference room, 14/F, Building B, Phase 1, Tianan Innovation Tech-Square, 25 Tairan 4th Road, Futian District, Shenzhen, China for the purpose of considering and, if thought fit, approving, among other things, the Subscription Agreement and the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver
“Share Option Scheme”	the share option scheme adopted by the Company on 18 May 2011
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Specific Mandate”	the specific mandate to be sought from the Independent Shareholders at the SGM to grant the authority to the Board for the allotment and issue of the Subscription Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Mr. Wang Zhong Sheng, the Chairman of the Company and an executive Director
“Subscription”	the subscription of the Subscription Shares at the Subscription Price by the Subscriber pursuant to the Subscription Agreement
“Subscription Agreement”	the conditional subscription agreement dated 31 December 2020 entered into between the Company and the Subscriber in relation to the Subscription
“Subscription Completion”	completion of the Subscription in accordance with the terms and conditions of the Subscription Agreement
“Subscription Price”	approximately HK\$0.028 per Subscription Share

DEFINITIONS

“Subscription Share(s)”	758,515,714 Shares to be issued by the Company to the Subscriber pursuant to the Subscription
“Takeovers Code”	The Code on Takeovers and Mergers issued by the SFC
“Takeovers Code IBC”	the independent board committee of the Company comprising all the non-executive Directors (excluding Mr. Wang Chen) formed for the purpose of giving a recommendation to the Independent Shareholders in respect of the fairness and reasonableness of the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver, and as to the voting action therefor under Rule 2.1 of the Takeovers Code
“Whitewash Waiver”	the whitewash waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of any obligation of the Subscriber to make a general offer for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by the Subscriber and parties acting in concert with him which might otherwise arise as a result of the Subscriber subscribing for the Subscription Shares under the Subscription Agreement

LETTER FROM THE BOARD

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:

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

*Head office and principal place of
business in Hong Kong:*

Room 20, 19/F

Fortune Commercial Building

362 Sha Tsui Road

Tsuen Wan, Hong Kong

22 April 2021

To the Shareholders

Dear Sir or Madam,

**(1) CONNECTED TRANSACTION IN RELATION TO
SUBSCRIPTION OF NEW SHARES BY A SUBSTANTIAL SHAREHOLDER
UNDER SPECIFIC MANDATE
AND
(2) APPLICATION FOR WHITEWASH WAIVER**

INTRODUCTION

Reference is made to the Announcement of the Company dated 31 December 2020 in relation to, inter alia, the Subscription and the Whitewash Waiver.

On 31 December 2020 (after trading hours), the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Company conditionally agreed to allot and issue, and the Subscriber conditionally agreed to subscribe for, an aggregate of 758,515,714 Subscription Shares at the Subscription Price of approximately HK\$0.028 per Subscription Share for a total consideration of HK\$21,238,440. The consideration for the Subscription Shares will be set off on a dollar to dollar basis against the Loan.

LETTER FROM THE BOARD

Upon Subscription Completion, the Subscriber and parties acting in concert with him will hold an aggregate of 1,152,755,697 Shares, representing approximately 55.47% of the voting rights of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares). As a result, the Subscriber and parties acting in concert with him will be obliged to make a mandatory general offer for all the issued Shares (other than those already owned or agreed to be acquired by the Subscriber and parties acting in concert with him) pursuant to Rule 26.1 of the Takeovers Code, unless the Whitewash Waiver is obtained from the Executive.

As the Subscriber is a substantial Shareholder and also an executive Director, the Subscriber is a connected person of the Company as defined under Chapter 20 of the GEM Listing Rules. Accordingly, the Subscription constitutes a connected transaction on the part of the Company under Chapter 20 of the GEM Listing Rules and will be subject to the announcement, reporting and Independent Shareholders' approval requirements.

The purpose of this circular is to provide you with, among other things, (i) details of the Subscription and the Whitewash Waiver; (ii) the recommendation of the Listing Rules IBC to the Independent Shareholders; (iii) the recommendation of the Takeovers Code IBC to the Independent Shareholders; (iv) the letter of advice from the Independent Financial Adviser to the Listing Rules IBC, the Takeovers Code IBC and the Independent Shareholders in relation to the Subscription and the Whitewash Waiver; and (v) a notice of the SGM.

THE SUBSCRIPTION AGREEMENT

Date

31 December 2020 (after trading hours)

Parties

Issuer	the Company
Subscriber	Mr. Wang Zhong Sheng

The Subscriber is the Chairman of the Company and an executive Director. As at the Latest Practicable Date, the Subscriber and the parties acting in concert with him hold an aggregate of 394,239,983 Shares, representing approximately 29.88% of the issued share capital of the Company, among which as to 18,118,500 Shares, representing approximately 1.37% of the issued share capital of the Company, are held by Jumbo Lane Investments Limited, a company which is wholly owned by the Subscriber and as to 376,121,483 Shares, representing approximately 28.51% of the issued share capital of the Company, are held by the Subscriber. The Subscriber is also a grantee of Options to subscribe for 324,750 Shares under the Share Option Scheme. The Subscriber was also the holder of the Convertible Bonds in the principal amount of HK\$21,238,440 which have become matured and due on 9 December 2020. As at the Latest Practicable Date, save as disclosed above, the Subscriber and parties acting in concert with him do not hold any other securities of the Company.

LETTER FROM THE BOARD

The Subscription Shares

Pursuant to the Subscription Agreement, the Company conditionally agreed to allot and issue, and the Subscriber conditionally agreed to subscribe for, an aggregate of 758,515,714 Subscription Shares at the Subscription Price of approximately HK\$0.028 per Subscription Share for a total consideration of HK\$21,238,440. The Subscriber was the holder of the Convertible Bonds in the principal amount of HK\$21,238,440 which have become matured and due on 9 December 2020. The consideration for the Subscription Shares will be set off on a dollar to dollar basis against the outstanding Loan.

The aggregate nominal value of the Subscription Shares (with a par value of HK\$0.01 each) is HK\$7,585,157.14.

The Subscription Shares represent (i) approximately 57.49% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 36.50% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares). The Subscription Shares shall be allotted and issued pursuant to the Specific Mandate.

The Subscription Shares, when allotted and issued, will rank *pari passu* in all respects with the Shares in issue and will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Subscription Shares.

The Subscription Price

The Subscription Price of approximately HK\$0.028 per Subscription Share:

- (a) equals to the closing price of HK\$0.028 per Share on the Last Trading Day;
- (b) represents a premium of approximately 0.72% over the average closing price of HK\$0.0278 per Share for the last 5 consecutive trading days immediately prior to and including the Last Trading Day;
- (c) represents a premium of approximately 2.19% over the average closing price of HK\$0.0274 per Share for the last 10 consecutive trading days immediately prior to and including the Last Trading Day;
- (d) represents a discount of approximately 17.65% to the closing price of HK\$0.034 per Share on the Latest Practicable Date;
- (e) represents a discount of approximately 81.70% to the net asset value per Share of approximately HK\$0.153 per Share based on the unaudited net asset value attributable to owners of the Company of approximately RMB170,447,000 as at 30 September 2020 and 1,319,484,534 Shares in issue; and

LETTER FROM THE BOARD

- (f) represents a discount of approximately 78.95% to the net asset value per Share of approximately HK\$0.133 per Share based on the audited net asset value attributable to owners of the Company of approximately RMB147,739,000 as at 31 December 2020 and 1,319,484,534 Shares in issue as at the Latest Practicable Date.

The Subscription Price was determined after arm's length negotiations between the Company and the Subscriber with reference to the market prices and the trading performance of the Shares.

Conditions precedent

Subscription Completion is conditional upon satisfaction of the following conditions:

- (i) the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Subscription Shares;
- (ii) the Company having obtained all the required consents and approvals (including the relevant Board resolutions, the listing approval for the Subscription Shares as mentioned in (i) above and the passing of resolutions by the Independent Shareholders as mentioned in (v) below) in respect of the Subscription Agreement and the transactions contemplated thereunder (including the Specific Mandate);
- (iii) the Subscriber having obtained all the required consents and approvals (i.e. the Whitewash Waiver) in respect of the Subscription Agreement and the transactions contemplated thereunder;
- (iv) the Executive having granted the Whitewash Waiver and such approval not having been revoked or withdrawn as at the date of Subscription Completion, and for any conditions imposed thereon (if applicable) being satisfied in full;
- (v) the passing of resolutions by Independent Shareholders at the SGM approving, among others:
 - (a) the signing, delivery and performance of the Subscription Agreement and the transactions contemplated thereunder;
 - (b) the granting of the Specific Mandate to the Directors for the allotment and issue of the Subscription Shares pursuant to the Subscription Agreement; and
 - (c) the Whitewash Waiver.

LETTER FROM THE BOARD

For the avoidance of doubt, none of the above conditions precedent is waivable. If any of the conditions precedent are not satisfied in accordance with the terms of the Subscription Agreement on or before 4:00 p.m. on 30 April 2021 (or such other date as may be agreed between the parties to the Subscription Agreement in writing), the Subscription Agreement shall terminate and the parties to the Subscription Agreement will be released from all obligation thereunder, save for any liability arising out of any antecedent breaches.

As at the Latest Practicable Date, none of the conditions precedent have been fulfilled.

Subscription Completion

The Subscription Completion shall take place at 4:00 p.m. on the date falling within three Business Days (or such other date as the parties to the Subscription Agreement may agree in writing) after all the conditions precedent under the Subscription Agreement having been satisfied by the relevant parties.

Reasons for the Subscription

The Group is principally engaged in the exploitation, liquefaction production and sales of natural gas and coalbed gas and provision of gas supply connection services.

The Convertible Bonds were issued in December 2015 with principal amount of HK\$21,238,440. The Convertible Bonds have a maturity period of 5 years from the issue date and were convertible into 94,142,021 Shares in the capital of the Company at a conversion price of HK\$0.2256 per Share.

The Board considers that the entering into the Subscription Agreement allows the Group (i) to repay the Loan in order to improve its gearing position; and (ii) retain its cash reserves for business operation, future business development and/or capturing any prospective investment opportunity as and when it arises.

In light of the current financial position of the Group, it is infeasible for the Company to repay the Loan. The Board has considered various fund raising methods apart from the Subscription. As regards debt financing, the Board considers it is commercially not viable to obtain further debt financing from third parties without further personal guarantee given by the Subscriber and pledge of assets. Further, it will increase the gearing level and interest burden of the Group. As regards other equity financing methods, given the financial result and liquidity of the Shares, the Directors consider that it is infeasible to identify any placing agents or rights issue or open offer subscribers without a substantial discount on the market price per Share. The Company has approached financial institutions for new borrowings but was either turned down or requested for personal guarantee from substantial Shareholder and/or pledge of assets. The Company has also approached potential placing agents for equity financing opportunity but was turned down mainly due to the poor trading price performance of the Shares and significant loss position of the Group. Further, the Directors consider that the rights issue or open offer would incur costly underwriting commission and the process would be relatively time-consuming.

LETTER FROM THE BOARD

The Company has also considered the possibility for an extension of the maturity date of the Convertible Bonds. However, the Subscriber is not willing to allow prolonged extension of the maturity date after taking into account (i) the prevailing poor trading price performance of the Shares, thus whether and when the Share price could reach the conversion price under the Convertible Bonds is uncertain; and (ii) zero interest was received by him from the 5-year Convertible Bonds, thus an interest on the extension or the Loan is expected given the underlying cost of money borne by him in offering an interest free convertible bonds or loan to the Company. The Subscriber has requested for a market rate interest on the Loan for such extension, which would increase the interest burden of the Group. As estimated by the Directors, the market rate interest ranged from around 4.5% to 4.7% per annum based on the interest rate currently charged by banks on the Group's borrowings. Moreover, it would still be necessary for the Company to repay the Loan upon the extended maturity date. As such, the Board considers the Subscription as an expedient way to resolve the Loan.

In light of the above, the Board is of the view that equity financing by way of the Subscription is the most appropriate means to resolve the Loan arising from the overdue Convertible Bonds and the benefit of which outweigh the extension of the maturity date of the Convertible Bonds and other alternatives as discussed above, after considering the dilution effect on the existing Shareholders' interests resulting from the Subscription.

The Directors are of the view that the terms of the Subscription Agreement are fair and reasonable, including but not limited to the Subscription Price which represented a significant discount to the net asset value per Share as at 30 September 2020 after taking into consideration (i) the consecutive significant loss position of the Group for the last five financial years since 2015; and (ii) the descending Share price trend during the 12 months prior to the date of the Subscription Agreement and up to and including the Last Trading Day, and the Subscription is in the interest of the Company and the Shareholders as a whole.

The Subscription Price was determined after arm's length negotiations between the Company and the Subscriber. Whilst the Company noted that the Subscription Price represents discount to the net asset value per Share as at 30 September 2020, the Share prices traded during the 12 months prior to the date of the Subscription Agreement up to the Last Trading Day demonstrate that the public investors were unwilling to acquire the Shares at a price as high as net asset value per Share.

As a matter of fact, the Subscriber himself was unwilling to subscribe the Shares at a significant premium over the market price per Share. As the Convertible Bonds have become matured and due and payable, the Subscriber himself is entitled to demand for immediate repayment of the Convertible Bonds in accordance with the terms thereof. Moreover, in the event that the Company would have to adopt other equity fund raising methods such as placing or rights issue in order to raise funds for settlement of the Convertible Bonds, it is likely that the placing agent and/or the underwriter would ask for discount to the market price per Share in such circumstances. As a matter of fact, the Company did explore the possibility of equity fund raising but received no positive responses and in such circumstances, such equity fund raising, if possible, would represent deeper discount in comparison to the Subscription Price and the then

LETTER FROM THE BOARD

market price per Share. Whilst the Subscriber will become the controlling Shareholder of the Company upon completion of the Subscription, this does not mean that the Subscriber can be taking control over the assets of the Group at a discounted price. As an executive Director, the Subscriber owes fiduciary duty and duty of care to the Company and cannot dispose of assets of the Group at his own will (not to mention that whether there is any purchaser willing to acquire the asset at the book value of the assets and the proceeds from such disposal would be paid to the Group instead of the Subscriber in such case). Moreover, the Subscriber and/or other interested Shareholders can acquire Shares at market price (which is at discount to the net asset value per Share) on market. The Shares (instead of the assets of the Company) would be the assets held by the Subscriber himself. As such, the Company is of the view that the market price, instead of the net asset value per Share, would be more appropriate in considering the fairness and reasonableness of the Subscription Price. The Subscription Price was determined after arm's length negotiations between the Company and the Subscriber with reference to the market price per Share traded during the 12 months prior to the date of the Subscription Agreement up to the Last Trading Day. Taking into consideration of the aforesaid and reasons elaborated in the circular, the Board considers that the Subscription Price, which was set at the market price per Share, is fair and reasonable and in the interests of the Company and its Shareholders as a whole. The Subscription is subject to approval of Independent Shareholders at the SGM. The Independent Shareholders are advised to bear in mind that the Subscription Price represents discount to the net asset value per Share.

Whilst the Group has other indebtedness, the Convertible Bonds had become due and payable in 2020. As such, the Company considers that it would be in the benefits of the Company and the Shareholders as a whole to settle the Convertible Bonds ahead of the other indebtedness, which had not yet become due in 2020.

The Company does not solely rely on its internal financial resources to settle the remaining outstanding liabilities when they fall due and also takes into consideration of the present bank and other facilities and/or debt or equity financing to settle its outstanding liabilities. In fact, the Group recorded net cash generated from operating activities and net increase in cash & cash equivalents for each of the two financial years 2019 and 2020. With completion of the Subscription, the liabilities of the Company will be significantly reduced and the Subscriber will become the controlling Shareholder of the Company. The improved financial position of the Company will give more comfort to the financial institutions to provide financing to the Group and will also place the Company in a better position to negotiate for facilities and/or debt or equity financing.

The Company will actively negotiate with its creditors for extension and restructuring the repayment schedule, such that the net current liabilities position of the Group can be improved.

In this regard, having taken into consideration of the internal generated funds, the present bank and other facilities, the Company considers that the Group will have sufficient working capital for the next 12 months.

LETTER FROM THE BOARD

As set out in the section headed “3. Indebtedness” in Appendix I to this Circular, apart from the Loan, there was not any other overdue loans or borrowings that requires the Company to settle immediately as at the Latest Practicable Date. Save for the Subscription of the Subscription Shares, the Company has no agreement, arrangement, understanding, intention, negotiation (concluded or otherwise) on any potential fund-raising activities in the next twelve months. The Company intends to settle its outstanding liabilities when they fall due by financial resources available to the Group including the internally generated funds, the present bank and other facilities and/or debt or equity financing. As a result of the settlement of the Loan by way of Subscription, the amount of net current liabilities of the Group as at 31 December 2020 would decrease by the amount of Loan of approximately HK\$21 million.

Use of proceeds

The amount of consideration of the Subscription Shares will set off against the Loan repayable by the Company on a dollar to dollar basis. As at the date of the Subscription Agreement, the amount of the Loan is HK\$21,238,440 and the net price per Subscription Share after deducting professional fees and other related expenses, would be approximately HK\$0.026 per Subscription Share.

Fund-raising activities in the preceding twelve months

The Company did not raise any funds from any equity fund-raising activities in the preceding twelve months immediately before the Latest Practicable Date.

APPLICATION FOR LISTING

Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

APPLICATION FOR WHITEWASH WAIVER

As at the Latest Practicable Date, the Subscriber and the parties acting in concert with him holds an aggregate of 394,239,983 Shares, representing approximately 29.88% of the issued share capital of the Company, among which as to 18,118,500 Shares are held by Jumbo Lane Investments Limited, a company which is wholly owned by the Subscriber and as to 376,121,483 Shares are held by the Subscriber.

LETTER FROM THE BOARD

Upon Subscription Completion, the Subscriber and parties acting in concert with him will hold an aggregate of 1,152,755,697 Shares, representing approximately 55.47% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares). As a result, the Subscriber and parties acting in concert with him will be obliged to make a mandatory general offer for all the issued Shares (other than those already owned or agreed to be acquired by the Subscriber and parties acting in concert with him) pursuant to Rule 26.1 of the Takeovers Code, unless the Whitewash Waiver is obtained from the Executive.

The Subscriber has applied to the Executive for the granting of the Whitewash Waiver in respect of the allotment and issue of the Subscription Shares and which, if granted, will be subject to the approval by at least 75% and more than 50% of the votes cast by the Independent Shareholders by way of a poll in respect of the Whitewash Waiver and the Subscription (including the Specific Mandate), respectively, at the SGM. The aforesaid condition is not capable of being waived. If the Whitewash Waiver is not granted, the Subscription will not proceed.

The Subscriber has applied to the Executive and the Executive has agreed, among other matters, subject to the approval of the Independent Shareholders at the SGM, to grant the Whitewash Waiver in respect of the allotment and issue of the Subscription Shares. The Whitewash Waiver and underlying transactions, including the Subscription, will be subject to the approval by the Independent Shareholders by way of a poll at the SGM.

If the Whitewash Waiver is approved by the Independent Shareholders at the SGM, then (i) the obligation by the Subscriber to make a mandatory general offer under Rule 26 of the Takeovers Code will be waived; and (ii) upon completion of the Subscription, the shareholding of the Subscriber and the parties acting in concert with any of him in the Company will exceed 50% and the Subscriber may further increase its shareholdings in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

LETTER FROM THE BOARD

EFFECT ON THE COMPANYS' SHAREHOLDING STRUCTURE

Set out below is the shareholding structure of the Company (i) as the Latest Practicable Date; (ii) immediately after the Subscription Completion (assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares):

	As at the Latest Practicable Date		Immediately after the Subscription Completion	
	<i>Number of Shares</i>	<i>Approx. %</i>	<i>Number of Shares</i>	<i>Approx. %</i>
The Subscriber Jumbo Lane Investments Limited (<i>Note 1</i>)	376,121,483	28.51	1,134,637,197	54.60
	18,118,500	1.37	18,118,500	0.87
The Subscriber and the parties acting in concert with him	394,239,983	29.88	1,152,755,697	55.47
Public Shareholders (<i>Note 2</i>)	925,244,551	70.12	925,244,551	44.53
Total:	1,319,484,534	100.00	2,078,000,248	100.00

Notes:

1. The Subscriber 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. As at the Latest Practicable Date, other than the Subscriber, none of the other Directors hold any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company. The Directors (other than the Subscriber) are presumed to be acting in concert with the Subscriber under presumption class (6) of the definition of "acting in concert" of the Takeovers Code.

As at the Latest Practicable Date, the relevant securities of the Company comprise:

- (i) 1,319,484,534 Shares in issue; and
- (ii) 32,119,074 outstanding Options with exercise price of HK\$3.81 per Share (in which (i) 324,750 outstanding Options were granted to the Subscriber; and (ii) the rests were granted to other employees and consultants of the Group) entitling the holders thereof to subscribe for a total of 32,119,074 Shares.

LETTER FROM THE BOARD

With the Convertible Bonds become due and matured on 9 December 2020, the Convertible Bonds no longer entitle the holder thereof to convert the same into Shares in accordance with the terms of the Convertible Bonds but the principal amount of the Convertible Bonds became due and payable by the Company.

Save as disclosed above, the Company has no other outstanding securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares as at the Latest Practicable Date.

INFORMATION ON THE GROUP

The Group is principally engaged in the exploitation, liquefaction production and sales of natural gas and coalbed gas and provision of gas supply connection services.

INFORMATION ON THE SUBSCRIBER

The Subscriber has been appointed as chairman of the Board, an executive Director and the compliance officer of the Company since May 2006. From 9 January 2004 to 26 May 2006, the Subscriber was an executive director of Tianjin Jinran Public Utilities Company Limited (“**Tianjin Jinran**”) (formerly known as Tianjin Tianlian Public Utilities Company Limited), a company listed on the Main Board of the Stock Exchange (Stock Code: 1265, former stock code: 8290), and was responsible for its business strategies. He graduated from the University of Tianjin with a bachelor degree in engineering in 1984. The Subscriber is also a director of Tianjin Leason Investment Group Company Limited (天津市聯盛投資集團有限公司). As at the Latest Practicable Date, the Subscriber is a substantial Shareholder of the Company which holds 394,239,983 Shares in person or through controlled corporation, representing approximately 29.88% of the issued share capital of the Company, and is interested as a grantee of the Options to subscribe for 324,750 Shares under the Share Option Scheme.

Future intentions of the Subscriber regarding the Group

The Subscriber intends to continue the existing principal businesses of the Group. He has no intention to (i) discontinue the employment of any employees of the Group; (ii) redeploy the fixed assets of the Company other than those in its ordinary and usual course of business; or (iii) change the current Board composition.

The Subscriber and the Company also intend to maintain the listing of the Shares on the GEM following the Subscription Completion.

LETTER FROM THE BOARD

INFORMATION REQUIRED UNDER THE TAKEOVERS CODE

As at the date of the Announcement and as at the Latest Practicable Date, save for the Subscription:

- (i) save as disclosed in the section headed “Information on the Subscriber” above, the Subscriber and parties acting in concert with him do not hold, control or have direction over any outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of securities in the Company, or hold any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;
- (ii) the Subscriber and parties acting in concert with him have not borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;
- (iii) there is no arrangement referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) in relation to the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company or the Subscriber, which might be material to the Subscription and the Whitewash Waiver, with any other persons;
- (iv) there is no agreement or arrangement to which the Subscriber and parties acting in concert with him is a party which relates to circumstances in which he may or may not invoke or seek to invoke a pre-condition or a condition to the Subscription and the Whitewash Waiver;
- (v) none of the Subscriber or parties acting in concert with him has received any irrevocable commitment to vote for or against the Subscription and the Whitewash Waiver; and
- (vi) except for the entering into of the Subscription Agreement, none of the Subscriber and parties acting in concert with him, has dealt in the Shares, outstanding options, derivatives, warrants or other securities convertible or exchangeable into Shares, during the Relevant Period.

As at the date of the Announcement and as at the Latest Practicable Date:

- (a) apart from the Subscription Shares to be subscribed by the Subscriber, the Subscriber has not paid and will not pay any other consideration, compensation or benefit in whatever form to the Company and parties acting in concert with it in connection with the Subscription and the Subscription Agreement and the Whitewash Waiver;

LETTER FROM THE BOARD

- (b) apart from the Subscription Agreement, there is no other understanding, arrangement or special deal between the Company and parties acting in concert with it on the one hand, and the Subscriber and parties acting in concert with him on the other hand; and
- (c) there is no understanding, arrangement or agreement or special deal between (i) any Shareholders (other than the Subscriber and parties acting in concert with him); and (ii) the Subscriber and parties acting in concert with him; or the Company, its subsidiaries or associated companies.

GEM LISTING RULES IMPLICATIONS

As the Subscriber is a substantial Shareholder and also an executive Director, the Subscriber is a connected person of the Company as defined under Chapter 20 of the GEM Listing Rules. Accordingly, the Subscription constitutes a connected transaction on the part of the Company under Chapter 20 of the GEM Listing Rules and will be subject to the announcement, reporting and Independent Shareholders' approval requirements.

As at the Latest Practicable Date, the Subscriber and his associates hold an aggregate of 394,239,983 Shares, representing approximately 29.88% of the issued share capital of the Company. The Subscriber has abstained from voting at relevant Board resolutions. The Subscriber and his associates will abstain from voting on the resolutions approving the Subscription at the SGM.

GENERAL

The Company has established the Listing Rules IBC, comprising all the independent non-executive Directors (namely Mr. Lau Chun Pong, Mr. Wang Zhi He and Mr. Xu Yuan Jian), to advise the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder, and as to the voting action therefor.

The Company has also established the Takeovers Code IBC, comprising two non-executive Directors (namely Mr. Duan Shi Chuan and Mr. Liang Feng) and all the independent non-executive Directors (namely Mr. Lau Chun Pong, Mr. Wang Zhi He and Mr. Xu Yuan Jian), to advise the Independent Shareholders in respect of the Subscription and the transactions contemplated thereunder and the Whitewash Waiver, and as to the voting action therefor. Mr. Wang Chen, a non-executive Director, being the son of the Subscriber, has been excluded from the Takeovers Code IBC due to his potential conflict of interests.

Euto Capital has been approved by the Listing Rules IBC and the Takeovers Code IBC and has been appointed as the Independent Financial Adviser to advise the Listing Rules IBC, the Takeovers Code IBC and the Independent Shareholders in respect of the Subscription and the transactions contemplated thereunder and the Whitewash Waiver.

LETTER FROM THE BOARD

The Subscription Completion is subject to the fulfillment of a number of conditions precedent set out under the section headed “Conditions precedent” in the letter from the Board above, among others, the obtaining of the approval by the Independent Shareholders at the SGM of the Subscription and the transactions contemplated under the Subscription Agreement (including the Specific Mandate) and the granting of the Whitewash Waiver by the Executive. Accordingly, the Subscription may or may not proceed.

Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company and are recommended to consult their professional advisers if they are in any doubt about their position and as to actions that they should take.

As at the Latest Practicable Date, each of the Company and the Subscriber does not believe that the Subscription gives rise to any concerns in relation to compliance with other applicable rules or regulations (including the GEM Listing Rules). The Company notes that the Executive may not grant the Whitewash Waiver if the Subscription does not comply with other applicable rules and regulations.

SGM

A notice convening the SGM to be held at Conference room, 14/F, Building B, Phase 1, Tianan Innovation Tech-Square, 25 Tairan 4th Road, Futian District, Shenzhen, China on Friday, 21 May 2021 at 11:00 a.m. is set out on pages SGM-1 to SGM-3 of this circular. The SGM will be held for the Independent Shareholders to consider and, if thought fit, pass the resolutions to approve, among other things: (i) the Subscription Agreement and the transactions contemplated thereunder (including the Specific Mandate); and (ii) the Whitewash Waiver.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you intend to attend and vote at such meeting, you are requested to complete and return the enclosed form of proxy to the Company’s branch share registrar in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not less than 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.

LETTER FROM THE BOARD

Shareholders who are (i) the Subscriber or his associates; (ii) any parties acting in concert with the Subscriber; or (iii) parties involved or interested in the Subscription or the Whitewash Waiver are required to abstain from voting on the relevant resolutions to approve the relevant transactions contemplated under the Subscription Agreement (including the Specific Mandate) and the Whitewash Waiver respectively, at the SGM.

The Subscriber and his associates shall abstain from voting on the resolutions to approve the Subscription Agreement and the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver.

RECOMMENDATION

Your attention is drawn to (i) the letter from the Takeovers Code IBC which contains the recommendation of the Takeovers Code IBC to the Independent Shareholders concerning, among other things, the Subscription and the Whitewash Waiver and as to voting; (ii) the recommendation of the Listing Rules IBC to the Independent Shareholders; (iii) the recommendation of the Takeovers Code IBC to the Independent Shareholders; (iv) the letter of advice from the Independent Financial Adviser to the Listing Rules IBC, the Takeovers Code IBC and the Independent Shareholders in relation to the Subscription and the Whitewash Waiver. The Directors (including the Takeovers Code IBC and the Listing Rules IBC, after considering the advice of the Independent Financial Adviser) consider that the terms of the Subscription and the Whitewash Waiver are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolution(s) to approve the Subscription Agreement and the Whitewash Waiver to be proposed at the SGM.

ADDITIONAL INFORMATION

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

By order of the Board
China CBM Group Company Limited
Wang Zhong Sheng
Chairman

LETTER FROM THE TAKEOVERS CODE IBC

The following is the text of a letter of recommendation from the Takeovers Code IBC to the Independent Shareholders which is prepared for the purpose of inclusion in this circular.

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)

22 April 2021

To the Independent Shareholders

Dear Sir or Madam,

**(1) CONNECTED TRANSACTION IN RELATION TO
SUBSCRIPTION OF NEW SHARES BY A SUBSTANTIAL SHAREHOLDER
UNDER SPECIFIC MANDATE
AND
(2) APPLICATION FOR WHITEWASH WAIVER**

We refer to the circular of the Company dated 22 April 2021 (the “**Circular**”) of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members of the Takeovers Code IBC to advise the Independent Shareholders as to whether the terms of the Subscription and the transactions contemplated thereunder and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and to advise the Independent Shareholders how to vote at the SGM.

Euto Capital has been approved by us as the Takeovers Code IBC and has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this respect. Details of the advice of Euto Capital are contained in its letter set out on pages 24 to 60 of the Circular. Your attention is also drawn to the letter from the Board and the additional information set out in the appendices to the Circular.

LETTER FROM THE TAKEOVERS CODE IBC

Having taken into account the terms of the Subscription and the advices from Euto Capital, we consider that the terms of the Subscription and the transactions contemplated thereunder (including but not limited to the Specific Mandate) and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Subscription and the transactions contemplated thereunder and the special resolution to be proposed at the SGM to approve the Whitewash Waiver.

Yours faithfully,
For and on behalf of
the Takeovers Code IBC of
China CBM Group Company Limited

Duan Shi Chuan

Liang Feng

Non-executive Directors

Lau Chun Pong

Wang Zhi He

Xu Yuan Jian

Independent non-executive Directors

LETTER FROM THE LISTING RULES IBC

The following is the text of a letter of recommendation from the Listing Rules IBC to the Independent Shareholders which is prepared for the purpose of inclusion in this circular.

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)

22 April 2021

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF NEW SHARES BY A SUBSTANTIAL SHAREHOLDER UNDER SPECIFIC MANDATE

We refer to the circular of the Company dated 22 April 2021 (the “**Circular**”) of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members of the Listing Rules IBC to advise the Independent Shareholders as to whether the terms of the Subscription and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and to advise the Independent Shareholders how to vote at the SGM.

Euto Capital has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this respect. Details of the advice of Euto Capital are contained in its letter set out on pages 24 to 60 of the Circular. Your attention is also drawn to the letter from the Board and the additional information set out in the appendices to the Circular.

LETTER FROM THE LISTING RULES IBC

Having taken into account the terms of the Subscription and the advices from Euto Capital, we consider that the terms of the Subscription and the transactions contemplated thereunder (including but not limited to the Specific Mandate) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Subscription and the transactions contemplated thereunder and the special resolution to be proposed at the SGM to approve the Whitewash Waiver.

Yours faithfully,
For and on behalf of
the Listing Rules IBC of
China CBM Group Company Limited

Lau Chun Pong

Wang Zhi He
Independent non-executive Directors

Xu Yuan Jian



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www.eutocapital.com

22 April 2021

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

Dear Sirs and Madams,

**(1) CONNECTED TRANSACTION IN RELATION TO
SUBSCRIPTION OF NEW SHARES BY A SUBSTANTIAL SHAREHOLDER
UNDER SPECIFIC MANDATE
AND
(2) APPLICATION FOR WHITEWASH WAIVER**

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 (i) the Subscription Agreement and the transactions contemplated thereunder; and (ii) the application for Whitewash Waiver (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 22 April 2021 (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 the Circular.

1. The Subscription

Reference is made to the Announcement.

1.1 Background of the Subscription

On 31 December 2020 (after trading hours), the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Company conditionally agreed to allot and issue, and the Subscriber conditionally agreed to subscribe for, an aggregate of 758,515,714 Subscription Shares at the Subscription Price of approximately HK\$0.028 per Subscription Share for a total consideration of HK\$21,238,440. The consideration for the Subscription Shares will be set off on a dollar-to-dollar basis against the Loan.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

1.2 Implications under the GEM Listing Rules

As the Subscriber is a substantial Shareholder (has the meaning as ascribed to it under the GEM Listing Rules) and also an executive Director, the Subscriber is a connected person of the Company as defined under Chapter 20 of the GEM Listing Rules. Accordingly, the Subscription constitutes a connected transaction on the part of the Company under Chapter 20 of the GEM Listing Rules and will be subject to the announcement, reporting and approval by the Independent Shareholders' approval requirements.

As at the Latest Practicable Date, the Subscriber and his associates hold an aggregate of 394,239,983 Shares, representing approximately 29.88% of the issued share capital of the Company. The Subscriber and his associates will abstain from voting on the resolution approving the Subscription at the SGM.

1.3 Implications under the Takeovers Code

As at the Latest Practicable Date, the Subscriber and the parties acting in concert with him holds an aggregate of 394,239,983 Shares, representing approximately 29.88% of the issued share capital of the Company, among which,

- (i) as to 18,118,500 Shares, representing approximately 1.37% of the issued share capital of the Company, are held by Jumbo Lane Investments Limited, a company which is wholly owned by the Subscriber; and
- (ii) as to 376,121,483 Shares, representing approximately 28.51% of the issued share capital of the Company, are held by the Subscriber.

Upon Subscription Completion, the Subscriber and parties acting in concert with him will hold an aggregate of 1,152,755,697 Shares, representing approximately 55.47% of the voting rights of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming that other than the issue of the Subscription Shares, there is no change in the issued share capital of the Company from the Latest Practicable Date to the date of the Subscription Completion). As a result, the Subscriber and parties acting in concert with him will be obliged to make a mandatory general offer for all the issued Shares (other than those already owned or agreed to be acquired by the Subscriber and parties acting in concert with him) pursuant to Rule 26.1 of the Takeovers Code, unless the Whitewash Waiver is obtained from the Executive.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Application for Whitewash Waiver

The Subscriber has applied to the Executive for the granting of the Whitewash Waiver in respect of the allotment and issue of the Subscription Shares and which, if granted, will be subject to the approval by at least 75% and more than 50% of the votes cast by the Independent Shareholders by way of a poll in respect of the Whitewash Waiver and the Subscription (including the Specific Mandate), respectively, at the SGM. The aforesaid condition is not capable of being waived. If the Whitewash Waiver is not granted, the Subscription will not proceed.

INDEPENDENT BOARD COMMITTEE

Pursuant to the GEM Listing Rules, the Listing Rules IBC, 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 Subscription Agreement and the transactions contemplated thereunder, and as to the voting action therefor.

Pursuant to the Takeovers Code, the Takeovers Code IBC, comprising two non-executive Directors, namely Mr. Duan Shi Chuan and Mr. Liang Feng and all the independent non-executive Directors, namely Mr. Lau Chun Pong, Mr. Wang Zhi He and Mr. Xu Yuan Jian, has been established to make a recommendation to the Independent Shareholders (i) as to whether the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver are, or are not, fair and reasonable, and (ii) as to the voting action therefor in accordance with Rule 2.1 of the Takeovers Code. Mr. Wang Chen, a non-executive Director, being the son of the Subscriber, has been excluded from the Takeovers Code IBC due to his potential conflict of interests.

In our capacity as the Independent Financial Adviser, our role is to give an independent opinion to advise the Listing Rules IBC, the Takeovers Code IBC and the Independent Shareholders as to whether the terms of the Subscription Agreement and the transactions contemplated thereunder, including the Specific Mandate, and the Whitewash Waiver 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 (iv) in the interests of its Independent Shareholders; and (v) whether the Independent Shareholders should vote in favour of or against the Transaction.

OUR INDEPENDENCE

We, Euto Capital Partners Limited (“**Euto Capital**”), have been appointed as the Independent Financial Adviser to advise the Listing Rules IBC, the Takeovers Code IBC and the Independent Shareholders in this regard, and such appointment has been approved by the Listing Rules IBC and the Takeovers Code IBC pursuant to Rule 2.1 of the Takeovers Code and the Listing Rules, respectively. Euto Capital is a licensed corporation licensed under the Securities and Futures Ordinance (“**SFO**”) to carry out Type 6 (advising on corporate finance) regulated activity, and participated in and completed various independent financial advisory transactions

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

since 2015. Mr. Manfred Shiu (“**Mr. Shiu**”) and Mr. Felix Huen (“**Mr. Huen**”) are the persons signing off the opinion letter from Euto Capital contained in the Circular. Mr. Shiu has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under the SFO since 2009, while Mr. Huen has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under the SFO since 2019. Each of Mr. Shiu and Mr. Huen was participated in and completed various independent financial advisory transactions in Hong Kong.

As at the Latest Practicable Date, we confirmed that there is no relationship or interest between Euto Capital and the Company or any other parties that could be reasonably be regarded as hindrance to Euto Capital’s independence as set out under Rule 17.96 of the GEM Listing Rules to act as the Independent Financial Adviser to the Listing Rule IBC, the Takeovers Code IBC and the Independent Shareholders in respect of the Transaction.

We are not associated with and have no significant connection, financial or otherwise, with the Subscriber and parties acting in concert with him, the Company, its subsidiaries, its associates (as defined in the Takeovers Code) 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 Listing Rules IBC, the Takeovers Code IBC 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 comply with Rule 2.6 of the Takeovers Code and 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 Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver.

BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our opinion and recommendation to the Listing Rules IBC, the Takeovers Code IBC and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder, including the Specific Mandate, and the Whitewash Waiver, we have reviewed, inter alia, the Announcement, the Subscription Agreement and the annual report of the Company for the year ended 31 December 2020 (the “**2020 Annual Report**”). We have relied on (i) the information, facts and representations contained or referred to in the Circular; (ii) the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries (the “**Management**”); and (iii) our review of certain relevant public information. 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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 Circular includes particulars given in compliance with Rule 9.1 of the Takeovers Code for the purpose of giving information relating to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the 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 (other than those expressed by the Subscriber) 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. In addition, the Subscriber accepts full responsibility for the accuracy of the information (other than that relating to the Group) contained in the Circular and confirm, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in the Circular (other than those expressed by the Directors in their capacity as Directors) 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, the Subscriber or any of their associates or any party acting, or presumed to be acting, in concert with any of them, 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 Listing Rules IBC, the Takeovers Code IBC and the Independent Shareholders solely in connection with their consideration of the terms of the Subscription Agreement and the transactions contemplated thereunder, including the Specific Mandate, and the Whitewash Wavier, 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 Listing Rules IBC, the Takeovers Code IBC and the Independent Shareholders, we have considered the following principal factors and reasons:

1. Background of the Transaction

On 31 December 2020, the Company and the Subscriber entered into the Subscription 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.

1.2 Principal business of the Group

The Group is principally engaged in the exploitation, liquefaction production and sales of natural gas and coalbed gas and provision of gas supply connection services.

1.3 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 2019 and 2020 as extracted from the 2020 Annual Report.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

	For the years ended	
	31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)
Revenue		
– Sales of liquefied coalbed gas	22,304	–
– Sales of piped natural gas	140,212	144,028
– Provision of liquefied coalbed gas logistics services	4,375	4,673
– Provision of gas supply connection services	12,438	19,528
	179,329	168,229
Total revenue	179,329	168,229
Gross profit	21,310	46,767
Loss for the year	(36,430)	(68,812)

For the year ended 31 December 2020

For the year ended 31 December 2020, the audited consolidated total revenue of the Group mainly derived from (i) sales of liquefied coalbed gas; (ii) Sales of piped natural gas; (iii) provision of liquefied coalbed gas logistics services; and (iv) provision of gas supply connection services.

As set out in the above table 1, the audited consolidated total revenue of the Group for the year ended 31 December 2020 was approximately RMB179,329,000. As compared to that of the year 2019, such revenue representing an increase of approximately RMB11,100,000 or 6.60%. After our discussion with the Management, we understand that the increase in revenue was mainly attributable to an increase in sales of liquefied coalbed gas due to the resumption of liquefied natural gas (“LNG”) plant in Shanxi Province in October 2020, which contributed revenue of approximately RMB22,304,000 from sales of liquefied coalbed gas for the year ended 31 December 2020.

Apart from the revenue, it is noted from the above table 1 that the audited consolidated gross profit of the Group for the year ended 31 December 2020 was approximately RMB21,310,000, representing a decrease of approximately RMB25,457,000 or 54.43% as compared to that of the year ended 31 December 2019. In addition, the gross profit margin decreased from approximately 27.80% for the year ended 31 December 2019 to approximately 11.88% for the year

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ended 31 December 2020. As advised by the Management, such decrease in gross profit, together with the gross profit margin, was mainly due to the following reasons:

- (i) as mentioned above, the Group resumed its LNG business with production of liquefied coalbed gas in Shanxi Qinshui Basin in October 2020. However, due to the emergency measures announced by the local government of Shanxi Province in December 2020 to impose limitation on natural gas supply for LNG plant, the Group suspended its LNG business from December 2020 to January 2021. Owing to such limitation, the daily output in 2020 amounted to approximately 200,000 cubic meters (i.e. optimum capacity is 500,000 cubic meters). Given the fixed cost remained constant, the unit cost of liquefied coalbed gas increased. Operation and sales were resumed once again in the beginning of 2021; and
- (ii) the operation of LNG terminal for the sales of piped natural gas in Beihai city in Guangxi Province was terminated as a result of accident occurred in November 2020. The tight supply of LNG in November and December 2020 led to a significant increase in cost of LNG in piped natural gas business in Guangxi Province. Having said that the Group did not pass the cost increment to its customers, the overall gross profit margin was pulled down for the year.

Finally, the audited consolidated loss for the year of Group was approximately RMB36,430,000 for the year ended 31 December 2020, representing a decrease of approximately RMB32,382,000 or 47.06% as compared to that for the year ended 31 December 2019. As further advised by the Management, such decrease was mainly due to the combined effects of (i) the decrease in gross profit as mentioned above; (ii) an increase in other income of approximately RMB18,451,000 mainly due to the recognition of an extra service income generated from providing extraction of coalbed gas services during the year which was not conducted in 2019; (iii) a decrease in impairment loss on property, plant and equipment of approximately RMB17,282,000 which was still recognised for the year due to cessation of construction work for construction in progress conducted in 2020; and (iv) a decrease in total administrative expenses of approximately RMB17,780,000 which included staff cost, depreciation and other operation expenses, due to operation cost savings during the year.

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It is noted after review of the 2020 Annual Report that the Group recording a continual loss since 31 December 2015. Also, the Company has been suffering from material going concern issues with a net current liabilities position of approximately RMB294,524,000 as at 31 December 2020. Based on this, we have discussed with the Management and understand that in order to improve the financial performance and position of the Group, the Group resumed its LNG production plants and it is anticipated that a daily output of 500,000 cubic meters production capacity of liquefaction plants could be fully unleashed at the end of 2022. The Group's LNG plant will get the stable gas supply, as the number of upstream wells and gas output are both steadily increasing. For details of the Management's plan to resolve the going concern issues, please refer to the sub-section headed "2.2.2 *Liquidity and financial position of the Group*".

1.4 Financial position of the Group

Set out below is the Group's audited consolidated financial position as at 31 December 2019 and 2020 as extracted from 2020 Annual Report.

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Table 2: Consolidated financial position of the Group

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)
		(restated)
Non-current assets	430,763	501,869
Current assets		
– Inventories	7,316	7,674
– Trade and other receivables	36,689	29,097
– Tax recoverable	2,000	2,000
– Bank balances and cash	25,880	18,265
	<hr/>	<hr/>
	71,885	57,036
Total assets	502,648	558,905
Current liabilities		
– Trade and other payables	260,815	278,270
– Bank and other borrowings	54,200	54,200
– Lease liabilities	6,652	4,947
– Convertible bonds	–	15,604
– Provision	21,583	19,078
– Contract liabilities	20,180	14,724
– Tax payable	2,979	4,187
	<hr/>	<hr/>
	366,409	391,010
Net current liabilities	(294,524)	(333,974)
Total assets less current liabilities	136,239	167,895
Non-current liabilities	17,445	14,752
Net assets	118,794	153,143
Gearing ratio	49.65%	44.99%

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As set out in the table 2 above, the Group recorded an audited consolidated net current liabilities of approximately HK\$294,524,000 as at 31 December 2020. As set out above, such net liabilities position was mainly due to recognition of (i) significant total bank and other borrowings of approximately RMB59,200,000, of which RMB54,200,000 was due within 1 year and recognised under current liabilities; and (ii) the zero-coupon Convertible Bonds in the principal amount of HK\$21,238,440 which have become matured and due on 9 December 2020.

In additions, the Group's gearing ratio, which is calculated by the Group's total external borrowings divided by its shareholders' fund, was maintained at a level of approximately 44.99% and 49.65% as at 31 December 2019 and 2020, respectively. It is further noted that the Group's cash and bank balances are not able to repay the Loan unless the Group obtains new funds from equity fund raising or debt financing.

Based on (i) the above financial position of the Group, which indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern, (ii) continual loss performance of the Group for the recent years since 31 December 2015; and (iii) the significant gearing ratio, we concur with the Directors that there is a liquidity pressure on the Group to meet the liabilities obligation unless the Group obtains new funds from equity fund raising or debt financing.

1.5 Information of the Subscriber

The Subscriber has been appointed as chairman of the Board, an executive Director and the compliance officer of the Company since May 2006. From 9 January 2004 to 26 May 2006, the Subscriber was an executive director of Tianjin Jinran (formerly known as Tianjin Tianlian Public Utilities Company Limited), a company listed on the Main Board of the Stock Exchange (Stock Code: 1265, former stock code: 8290), and was responsible for its business strategies. He graduated from the University of Tianjin with a bachelor degree in engineering in 1984. The Subscriber is also a director of Tianjin Leason Investment Group Company Limited (天津市聯盛投資集團有限公司).

As at the Latest Practicable Date, the Subscriber is a substantial Shareholder (has the meaning as ascribed to it under the GEM Listing Rules), which holds 394,239,983 Shares in person or through controlled corporation, representing approximately 29.88% of the issued share capital of the Company and is interested as a grantee of the Options to subscribe for 324,750 Shares under the Share Option Scheme. The Subscriber was also the holder of the Convertible Bonds in the principal amount of HK\$21,238,440 which have become matured and due on 9 December 2020.

As at the Latest Practicable Date, save as disclosed above, the Subscriber and parties acting in concert with him do not hold, control or have director over any outstanding options, warrants, or any securities that are convertible into Shares or any

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derivatives in respect of securities in the Company, or hold any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company.

1.5.1 Future intentions of the Subscriber regarding the Group

The Subscriber intends to continue the existing principal businesses of the Group. He has no intention to (i) discontinue the employment of any employees of the Group; (ii) redeploy the fixed assets of the Company other than those in its ordinary and usual course of business; or (iii) change the current Board composition.

The Subscriber and the Company also intend to maintain the listing of the Shares on the GEM following the Subscription Completion.

2. Reasons for and benefits of entering into the Subscription Agreement

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

2.1 The Board's view on the reasons and benefits of the Subscription

As stated in the Letter, the Board considers that the entering into the Subscription Agreement allows the Group (i) to repay the Loan in order to improve its gearing position; and (ii) retain its cash reserves for business operation, future business development and/or capturing any prospective investment opportunity as and when it arises.

In light of the current financial position of the Group, it is infeasible for the Company to repay the Loan.

The Board has considered various fund-raising methods apart from the Subscription. As regards debt financing, the Board considers it commercially not viable to obtain further debt financing from third parties without further personal guarantee given by the Subscriber and pledge of assets. Further, it will increase the gearing level and interest burden of the Group. As regards other equity financing methods, given the financial result and liquidity of the Shares, the Directors consider it is infeasible to identify any placing agents or rights issue or open offer subscribers without a substantial discount on the market price per Share. The Company has approached financial institutions for new borrowings but was either turned down or requested for personal guarantee from substantial Shareholder and/or pledge of assets. The Company has also approached potential placing agents for equity financing opportunity but was turned down mainly due to the poor trading price performance of the Shares and significant loss position of the Group. Further, the Directors consider that the rights issue or open offer would incur costly underwriting commission and the

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process would be relatively time-consuming. The Company has also considered the possibility for an extension of the maturity date of the Convertible Bonds. However, the Subscriber is not willing to allow prolonged extension of the maturity date after considering (i) the prevailing poor trading price performance of the Shares, thus whether and when the Share price could reach the conversion price under the Convertible Bonds is uncertain; and (ii) zero interest was received by him from the 5-year Convertible Bonds, thus an interest on the extension of the maturity date of the Loan is expected given the underlying cost of money borne by him in offering an interest free convertible bonds or loan to the Company. The Subscriber has requested for a market rate interest on the Loan for such extension, which would increase the interest burden of the Group. As estimated by the Directors, the market rate interest ranged from around 4.5% to 4.7% per annum based on the interest rate currently charged by banks on the Group's borrowings. Moreover, it would still be necessary for the Company to repay the Loan upon the extended maturity date. As such, the Board considers the Subscription as an expedient way to resolve the Loan.

In light of the above, the Board is of the view that equity financing by way of the Subscription is the most appropriate means to resolve the Loan arising from the overdue Convertible Bonds and the benefit of which outweigh the extension of the maturity date of the Convertible Bonds and other alternatives as discussed above, after considering the dilution effect on the existing Shareholders' interests resulting from the Subscription.

The Directors are of the view that the terms of the Subscription Agreement are fair and reasonable, including but not limited to the Subscription Price which represented a significant discount to the net asset value per Share as at 30 September 2020 after taking into consideration (i) the consecutive significant loss position of the Group for the last five financial years since 2015; and (ii) the descending Share price trend during the 12 months prior to the date of the Subscription Agreement and up to and including the Last Trading Day, and the Subscription is in the interest of the Independent Shareholders.

As set out in the section headed "3. Indebtedness" in Appendix I to this Circular, apart from the Loan, there was not any other overdue loans or borrowings that requires the Company to settle immediately as at the Latest Practicable Date. Save for the Subscription, the Company has no agreement, arrangement, understanding, intention, negotiation (concluded or otherwise) on any potential fund-raising activities in the next twelve months. The Company intends to settle its outstanding liabilities when they fall due by financial resources available to the Group including the internally generated funds, the present bank and other facilities and/or debt or equity financing. As a result of the settlement of the Loan by way of Subscription, the amount of net current liabilities of the Group as at 31 December 2020 would decrease by the amount of Loan of HK\$21,238,440 (equivalent to approximately RMB17.69 million), i.e. approximately RMB276.83 million assuming that there will be no other settlements of the Group's liabilities or new borrowings.

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2.2 Our view on the reasons and benefits of the Subscription

Before arriving at our view on the reasons and benefits of the Subscription, we have considered the following factors.

2.2.1 Reasons of and factors considered by the Subscriber regarding the Subscription

According to the terms of the instrument constituting the Convertible Bonds executed by the Company as a deed on 9 September 2015, the Convertible Bonds had a term of 5 years which were matured on 9 December 2020 and the initial conversion price of which was HK\$0.2256 (the “**Initial Conversion Price**”). After having made enquiries with the Subscriber and reviewed the prevailing market price of the Shares, we noticed that the market price of the Shares had been kept at a level below the Initial Conversion Price since completion of the issuance of the Convertible Bonds on 11 December 2015. Besides, we also understand that the Subscriber had further considered the uncertainties to the future Share price performance, particular due to the consecutive loss-making position of the Group for the recent financial years since 2015, resulted that the Subscriber did not exercise the conversion rights attached to the Convertible Bonds during the relevant exercise period and held the Convertible Bonds until maturity.

Before the Convertible Bonds being matured, the Directors had discussed with the Subscriber regarding his intention on the arrangement of the Convertible Bonds. It was indicated by the Subscriber that after considered (i) the uncertainty on whether and when the Share Price could reach the Initial Conversion Price; and (ii) the underlying cost of money of the outstanding principal amount of the Convertible Bonds borne by the Subscriber, the Subscriber is not willing to allow such extension unless an expected annual market interest rate ranged from around 4.5% to 4.7% (as estimated by the Directors) could be agreed between the Company and the Subscriber.

However, the Directors had reviewed the financial position of the Group and recognised that the Group’s existing financial resources are not able to repay the Loan unless new funds could be obtained from equity and/or debt financing, therefore, having consider (i) the fund raising ability of the Company under a continuous loss making position since 2015, (ii) the cost of finance and repayment ability of the Company; and (iii) the economics and financial impact of the Company, (such as the Share issuance price, liquidity of the Shares, cost of the fund raising exercise and dilution effect) through an equity fund raising, it was finally agreed between the Company and the Subscriber that the Subscription could (i) relieve the Company’s obligation to repay the outstanding Loan without incurring cash outlay and additional interest burden on the Group; and (ii) allow the Subscriber to convert the whole outstanding Loan amount into Shares using

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an adjusted conversion price, being the Subscription Price which was determined based on the prevailing market price of the Shares.

In assessing whether (i) the Subscription outweigh the extension of the maturity date of the Convertible Bonds; and (ii) the terms of the Subscription are fair and reasonable to the Company for the settling the Loan, we have further performed the following work done:

- (a) reviewed the latest liquidity and financial position of the Group (please refer to sub-section headed “2.2.2 *Liquidity and financial position of the Group*” below);
- (b) assessed the alternative method of financing considered by the Management (please refer to sub-section headed “2.2.3 *Alternative method of financing*” below); and
- (c) evaluated the Subscription price with reference to (a) the historical Share price performance; (b) the liquidity of the Shares and (c) the market comparables in respect of the recent issuance of subscription shares (please refer to section headed “4.2 *Evaluation on the Subscription Price*”).

2.2.2 Liquidity and financial position of the Group

According to the Letter, as at the date of the Subscription Agreement, the Group was indebted to the Subscriber in the sum of HK\$21,238,440, which was arising from a sum of the same for the redemption of the Convertible Bonds issued by the Company to the Subscriber and due on 9 December 2020.

We have discussed with the Management about the Loan, and were advised that as at the Latest Practicable Date, the Loan is unsecured and interest-free, and there is no specific repayment schedule agreed between the Company and the Subscriber in respect of the Loan. However, the Subscriber is not willing to allow prolonged extension of the maturity date and has also requested for interest on the Loan for such extension.

As mentioned above, we understand that the Directors had reviewed the financial position of the Group before arriving at a decision of entering into the Subscription Agreement. After certain review, it is noticed by the Directors that save for the Loan, there are other outstanding liabilities which may require the Group to settle or repay in the next 12 months commencing from the maturity date of the Convertible Bonds (i.e. 9 December 2020).

For details of the outstanding liabilities of the Company, please refer to the section headed “3. Indebtedness” in Appendix I to this Circular. As advised by

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the Directors, apart from the Loan, there was not any other overdue loans or borrowings that requires the Company to settle immediately as at the Latest Practicable Date.

As mentioned previously, the Subscriber is not willing to allow an extension unless an expected annual interest rate (i.e. ranged from 4.5% to 4.7% as estimated by the Directors) could be agreed. However, even though the said proposed interest rate is lower than the other existing borrowings, which bear an interest rate of 7.2%, having considered (i) as compared with other existing borrowings, the term of the Convertible Bonds had been expired on 9 December 2020; (ii) the existing financial resources of the Group is insufficient to settle the Loan; and (iii) the Subscription provides an opportunity to relieve the Company's obligation to repay the Loan without any cash outlay and additional interest; we are of the view that as at the Latest Practicable Date, the Loan falls due if the proposed interest rate is not accepted by the Company for further extension, and after considering the reasons mentioned in the sub-section headed "*2.2.1 Reasons of and factors considered by the Subscriber regarding the Subscription*", we concur with the Directors' view that the Subscription is beneficial and in the interests of the Independent Shareholders.

Apart from the indebtedness position of the Group, the Directors also noticed that the Group had non-current liabilities of approximately RMB17,445,000 as at 31 December 2020. These conditions indicated an existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Nevertheless, we have made enquiries with the Management regarding the Group's overall planning to settle the aforesaid outstanding liabilities, we understand that the Directors had considered the following measures in order to resolve the going concern issue of the Group:

- (i) the Directors had discussed with the Subscriber and the Subscriber has agreed that when necessary, the Subscriber will provide continuing financial support to enable the Group to meet in full its financial obligations as and when they fall due;
- (ii) it is anticipated by the Directors that the Group will continue to generate positive cash flows from its existing operating activities;
- (iii) the Management will negotiate with certain existing creditors of the Group to agree on an extension of the outstanding payables and a new repayment schedule;
- (iv) the Group will seek to obtain additional equity financing including but not limited to open offer and/or placing of the new shares; and

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- (v) the Directors will continue to implement measures aiming at improving the working capital and cash flows of the Group, including close monitoring of general administrative expenses and operating costs.

In addition, based on point (i) above, we have inquired the Subscriber and understand that if the Company is in need of any financial support, the Subscriber is willing to provide assistance by way of either equity (i.e. subscription of new Shares) and/or debt financing (i.e. provision of the Shareholder's loans), subject to any acceptable terms, including the issue price and/or interest rate to cover its cost of financing, agreed between the Company and the Subscriber. Having said that (a) as at the Latest Practicable Date, the Initial Conversion Price is far beyond the Share price level; and (b) the zero-interest term of the Convertible Bonds is not able to cover his cost of financing, the Subscriber refuses to allow any extension unless the proposed interest rate could be agreed.

From the Company's perspective, before obtaining any shareholders' loan, the Company will consider factors including but not limited to (1) the maturity period; (2) the finance cost; (3) the use of proceeds; (4) any other alternative method (i.e. other equity financing method); and (5) the financial position of the Group, if the considerable benefits outweigh the relevant cost, the Company will proceed and based on the agreed terms to obtain the loan. Alternatively, the Company will consider other ways of financing. For details of the alternative method considered by the Company, please refer to the sub-section headed "2.2.3 *Alternative method of financing*".

In assessing the above, we have requested the Management to provide and carried out a detailed review of the working capital forecast of the Group for the next twelve (12) months commencing from 1 January 2021 taking into account the effect of the above measures, we noted that assuming the Loan has been settled by way of the Subscription and the above resolving measures have been taken into account, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements as and when they fall due in the next twelve (12) months commencing from 1 January 2021 and accordingly, the going concern issue of the Company could be resolved. Conversely, the Company's obligation to repay the outstanding Loan and additional interest cost incurred after such extension will impose further liquidity burden to the Company which may indicate an existence of a material uncertainty that may cast significant doubt about the Group's ability to continue under a going concern basis.

As at the Latest Practicable Date, the Company has not entered into any agreement, arrangement, understanding, intention, negotiation (concluded or otherwise) on any potential fund-raising activities in the next twelve months (save for the Subscription).

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Having considered the financial position of the Group as detailed in the sub-paragraph headed “1.4 Financial information of the Group” under the paragraph headed “1. Information of the Company and the Group” above, in particular, (i) the Group recorded continual loss for the recent financial years since 31 December 2015; (ii) the Group recorded an audited net current liabilities position of approximately RMB17,445,000 as at 31 December 2020; (iii) the Group’s total bank and other borrowings amounted to approximately RMB59,200,000 as at 31 December 2020; (iv) the Group’s audited cash and bank balances of approximately RMB25,880,000 as at 31 December 2020 is not able to cover the aforesaid bank and other borrowings and the Loan and (v) the expected additional interest (i.e. ranged from around 4.5% to 4.7% per annum (as estimated by the Directors)) which may be requested by the Subscriber for extension of the maturity of the Loan will incur additional cash flow burden to the Group, we consider that the Group may not be able to meet the repayment obligation of its liabilities (including but not limited to the Loan) unless the Group obtains new funds from equity fund raising or debt financing. Therefore, we concur with the Management’s view that the Subscription will, on one hand, alleviate the repayment pressure of the Loan on the Group without cash outlay and, on the other hand, lower the gearing ratio of the Group thereby strengthening the Group’s financial position.

2.2.3 Alternative method of financing

Apart from the financial position, we have further discussed with the Board regarding whether the Company has considered alternative methods of financing and 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 note that the Board has considered other alternative settlement method such as the issuance of other types of debt securities. However, considering the finance costs as well as the impact on the gearing ratio of the Company, the Board considers that the issuance of other debt securities shall involve financial institutions which (i) may require the Group to make guarantees and/or pledge assets of the Group; and (ii) will charge a financing cost if such pledge-free loan facilities are to be provided by such financial institutions. The capital structure of the Company may also need to be altered substantially to meet the granting criteria, including but not limited to, limitations on debt level and leverage, minimum requirements on equity level and interest coverage etc..

Moreover, given the Company’s current debt level, it is considered that any further financing aid from external parties would: (i) demand an interest rate that shall rise steeply as the Company’s financial need grows; (ii) impose further financial burden of interest expenditure on the Company’s cash flows; (iii) continue to raise the Company’s gearing ratio, which might hinder the

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Company's other financing and/or operating plans; and (iv) impose covenants by which the Company's debt financing ability would be limited. As such, we are of the view that borrowings from financial institutions are of limited accessibility and the elimination of such settlement method is justifiable.

Notwithstanding the above, the Board has also considered other possible fund-raising methods, such as placing of new Shares to raise funds from independent third party(ies) of the Company for settlement of the Loan and/or other borrowings. Given the funding needs for settlement of the Loan is HK\$21,238,440, raising the relevant funds through placing of new Shares will involve the need to seek shareholders' approval for a specific mandate, given the number of Shares to be allotted and issued will exceed the limit under the remaining general mandate granted to the Directors on 29 May 2020 (assuming the placing price (as the case may be) is equal to the Subscription Price).

As the Loan amount is substantial, the Board, have the following reservations on using the fund-raising methods of placing of new Shares:

- (i) due to the substantial amount of Shares required to be allotted and issued in order to settle the outstanding Loan, the potential investor(s) will require a placing discount to the trading price of the Shares, and the Directors anticipate such discount to be more than 20%; and
- (ii) the Directors found it difficult to secure placing agents and subscribers in light of the amount of securities involved in the placing or subscription (as the case may be).

As regard to the alternative fund raising methods of placing or subscription, we have considered (i) the comparatively thin trading volume of the Shares and its low liquidity as described in the sub-section headed "Review on the trading volume of the Shares"; (ii) the costly placing commission which is generally 1%–3% to the placing amount; (iii) difficulty in securing placing agent in light of the sizeable amount of securities; and (iv) that the price of the Share has not been trending strongly as described in the sub-section headed "4.3.1 Review on historical Share price performance", we consider that a discount to attract potential investors would be required by the placing agent and the outcome would remain substantially uncertain. In that case, it is highly probable that the Company might not be able to achieve its financing goal. As such, we concur with the Board's view that a placement is of high uncertainty and such funding method may not be in the interests of the Independent Shareholders.

Given that equity financing under the issuance of Subscription Shares (i) does not incur interest obligations on the Group as compared with bank financing; (ii) less costly and no commission would be incurred as compared with the placement of new Shares; and (iii) allows the Group to raise funds to

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settle the outstanding Loan in a relatively short period of time, we consider that the issuance of Subscription Shares for settlement of the Loan is fair and reasonable and in the interests of the Independent Shareholders.

Conclusion

Having considered the above-mentioned factors, in particular,

- (i) given the outstanding liabilities of the Group as at the Latest Practicable Date may require repayment as and when they fall due within next 12 months commencing from 1 January 2021, the Group require to retain its cash resource to meet certain liabilities obligation;
- (ii) the expected additional interest (i.e. ranged from around 4.5% to 4.7% per annum (as estimated by the Directors)) which may be requested by the Subscriber for extension of the maturity of the Loan will incur additional cash flow burden to the Group;
- (iii) compared with other overdue loans/borrowings, the Subscription could alleviate the repayment pressure of the Loan on the Group without any cash outlay and avoid additional interest incurred by the Company after further extension of the Loan;
- (iv) the Subscription allows the Group to retain working capital for its daily operation and future business development;
- (v) the Subscription will lower the gearing ratio of the Group thereby strengthening the Group's financial position, which will, in turn, place the Group at a better position to negotiate and obtain fund raising arrangements or debt financing for its business development and expansion in future when necessary;
- (vi) the Subscription will enlarge the Company's capital base given the Subscription Shares, when allotted and issued, will be recognised entirely as equity of the Company; and
- (vii) the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned (please refer to the paragraph headed "3. Principal terms of the Subscription Agreement" below for our relevant analysis),

we are of the view that the Subscription outweigh the extension of the maturity date of the Convertible Bonds and therefore it is in the interests of the Independent Shareholders.

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3. Principal terms of the Subscription Agreement

The table below summarise the principal terms of the Subscription Agreement:

Date:	31 December 2020
Parties:	(i) the Company (as the issuer); and (ii) Mr. Wang Zhong Sheng (as the Subscriber).
Number of Subscription Shares:	The Company conditionally agreed to allot and issue, and the Subscriber conditionally agreed to subscribe for, an aggregate of 758,515,714 Subscription Shares. Assuming that other than the issue of the Subscription Shares, there will be no change in the issued share capital of the Company between the Latest Practicable Date and the Subscription Completion, the 758,515,714 Subscription Shares represent (i) approximately 57.49% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 36.50% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.
Subscription Price:	HK\$0.028 per Subscription Share

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4. Evaluation on the Subscription Price

4.1 Basis of the Subscription Price

As set out in the Letter, the Subscription Shares will be allotted and issued at the Subscription Price, which represents:

- (i) represents a discount of approximately 17.65% over the closing price of HK\$0.034 per Share on the Latest Practicable Date;
- (ii) equals to the closing price of HK\$0.028 per Share on the Last Trading Day;
- (iii) a premium of approximately 0.72% over the average closing price of HK\$0.0278 per Share for the last 5 consecutive trading days immediately prior to and including the Last Trading Day;
- (iv) a premium of approximately 2.19% over the average closing price of HK\$0.0274 per Share for the last 10 consecutive trading days immediately prior to and including the Last Trading Day;
- (v) a discount of approximately 81.70% to the net asset value per Share of approximately HK\$0.153 per Share based on the unaudited net asset value attributable to owners of the Company of approximately RMB170,447,000 as at 30 September 2020 and 1,319,484,534 Shares in issue; and
- (vi) a discount of approximately 78.95% to the net asset value per Share of approximately HK\$0.133 per Share based on the audited net asset value attributable to owners of the Company of approximately RMB147,739,000 as at 31 December 2020 and 1,319,484,534 Shares in issue as at the Latest Practicable Date.

The Subscription Price was determined after arm's length negotiations between the Company and the Subscriber with reference to the market prices and the trading performance of the Shares.

4.2 Evaluation on the Subscription Price

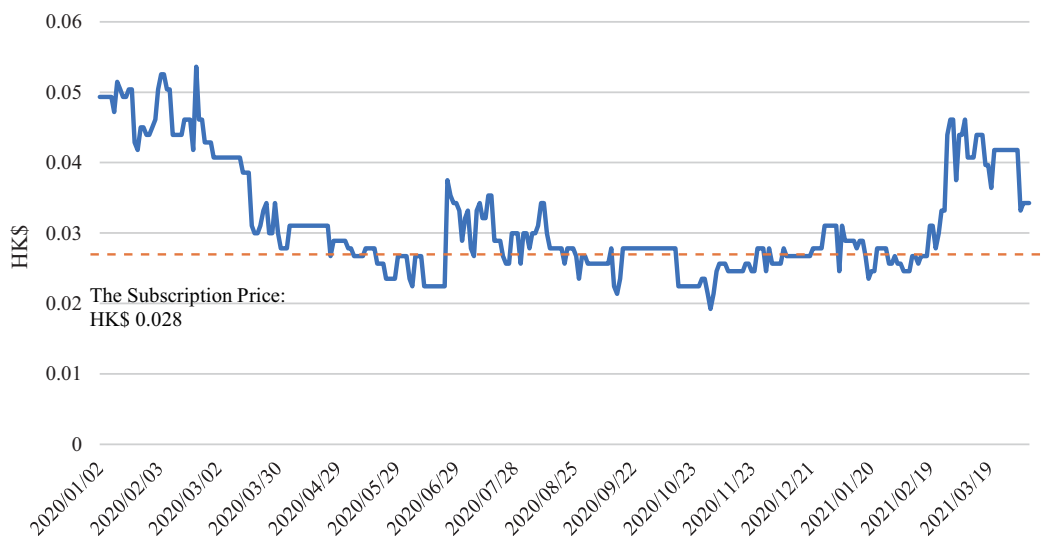
In assessing the fairness and reasonableness of the basis of the Subscription Price, we have compared the Subscription Price with reference to (i) the historical Share price performance; (b) trading volume and liquidity of the Shares; and (c) the market comparables in respect of the recent issuance of subscription shares.

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4.2.1 Review on the historical Share price performance

Set out below is a chart illustrating the movement of the closing prices of the Shares during the period commencing from 2 January 2020 to 19 April 2021, being approximately 15 months prior to the date of the Subscription Agreement, up to and including the Latest Practicable Date (the “**Review Period**”).

Historical closing price of the Share during the Review Period



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

As illustrated by the chart above, the closing Share prices fluctuated from the lowest of HK\$0.02 per Share to the highest of HK\$0.052 per Share, with an average closing price of approximately HK\$0.032 per Share. The Subscription Price of HK\$0.028 per Share represents (i) a premium of 40.0% over the lowest closing Share price (i.e. HK\$0.020) during the Review Period; (ii) a discount of approximately 46.15% to the highest closing Share price (i.e. HK\$0.052); and (iii) a discount of approximately 12.50% to the average closing Share price (i.e. HK\$0.032).

As shown in the chart above, the Share price closed between HK\$0.03 per Share and HK\$0.052 per Share during the period from 2 January 2020 to 27 March 2020. During such period, the Company released the announcements relating to (i) the delay in despatch of circular in relation to a major transaction announced by the Company on 4 November 2019 (the “**MT Circular**”); (ii) the change of company secretary and authorized representative of the Company; and (iii) the change of head office and principal place of business in Hong Kong. Save for the aforesaid released announcements, we are not aware of any reasons for the fluctuations during such periods and believed that it was the result of the market response to the information released by the Company through the relevant announcements.

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After the release of the Company's 2019 annual results announcement on 29 March 2020, the Share price was on a descending trend dropping from HK\$0.034 per Share on 30 March 2020 to HK\$0.023 per Share on 24 June 2020. On 30 June 2020, the Company released the poll results of the annual general meeting of the Company and change of Director. After the release of such announcement, the Share price was on an ascending trend rising from HK\$0.023 per Share on 24 June 2020 to HK\$0.034 on 12 August 2020.

On 14 August 2020, the Company published the 2020 Interim Report, demonstrating a deteriorating financial performance of the Group for the six months ended 30 June 2020 as compared to the corresponding period in 2019. The Share price decreased to HK\$0.028 per Share on the next trading day after the release of the 2020 Interim Report and further dropped gradually to HK\$0.022 per Share on 17 September 2020.

Further, the MT Circular was released by the Company on 29 September 2020. After the release of the MT Circular, the closing price of the Shares dropped gradually from HK\$0.028 per Share on 29 September 2020 to HK\$0.026 per Share on 12 November 2020 and recorded a minimum Share price of HK\$0.02 on 6 November 2020. After the publication of the 2020 third quarter results announcement of the Company for the nine months ended 30 September 2020 on 13 November 2020, the closing price of the Shares maintained at a level between HK\$0.025 per Share and HK\$0.028 per Share during the period from 16 November 2020 to the date of the Subscription Agreement (i.e. 31 December 2020).

After the Company released the Announcement, the Share price rose up to HK\$0.031 on 4 January 2021. During the period from 4 January 2021 and up to the Latest Practicable Date, the closing price of the Shares is ranged from HK\$0.024 per Share to HK\$0.045 per Share.

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

In order to assess the fairness and reasonableness of the Subscription Price as compared to the recent closing price of the Shares (being the closing price prior to the date of agreement and the last 5 days prior to the date of the Subscription 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 "4.2.3 Comparison with recent transactions" for details of the analysis. For our view on the dilution effect to minority shareholders upon issue of Subscription Shares, please refer to the section headed "5. Effects on the Company's shareholding structure".

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4.2.2 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 Shares	Number of trading days in the month	Average daily trading volume of the Shares	Total issued Shares at the end of each month	trading volume of the Shares to the total issued Shares	Percentage of
						average daily trading volume of the Shares to total number of Shares held by the public Shareholders as at the Latest Practicable Date
2020	(A)	(B)	(C) = (A)/(B)	(D)	(C)/(D)	(C)/925,244,551
	(Shares)	(days)	(Shares)		Approx. %	Approx. %
January	7,052,000	20	352,600	1,319,484,534	0.027	0.038
February	5,250,000	20	262,500	1,319,484,534	0.020	0.028
March	11,871,000	22	539,591	1,319,484,534	0.041	0.058
April	1,445,000	19	76,053	1,319,484,534	0.006	0.008
May	3,190,000	20	159,500	1,319,484,534	0.012	0.017
June	1,700,000	21	80,952	1,319,484,534	0.006	0.009
July	5,890,500	22	267,750	1,319,484,534	0.020	0.029
August	2,531,000	21	120,524	1,319,484,534	0.009	0.013
September	6,571,000	22	298,682	1,319,484,534	0.023	0.032
October	1,402,000	18	77,889	1,319,484,534	0.006	0.008
November	8,664,928	21	412,616	1,319,484,534	0.031	0.045
December	5,674,000	22	257,909	1,319,484,534	0.020	0.028
2021						
January	18,920,000	20	946,000	1,319,484,534	0.072	0.102
February	10,321,500	18	573,417	1,319,484,534	0.043	0.062
March	39,818,500	23	1,731,239	1,319,484,534	0.131	0.187
April (up to and including the Latest Practicable Date)	620,000	10	62,000	1,319,484,534	0.005	0.007

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

Notes:

- 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.
- The total number of Shares held by the public Shareholders as at the Latest Practicable Date is 925,244,551 Shares.

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Based on the above table, the monthly trading volume of the Shares during the Review Period has not been consistent. The average daily trading volume of the Shares from the lowest of 62,000 to the highest of 1,731,239, representing approximately 0.005% and 0.131% of the total issued Shares and approximately 0.007% and 0.187% of the total number of Shares held by public Shareholders respectively. It is noted that the number of Shares traded daily decreased significantly after the publication of the 2019 annual results announcement of the Company on 29 March 2020 and increased after publication of the 2020 Interim Report on 14 August 2020. Besides, we also note that after publication of the MT Circular on 29 September 2020, the average daily trading volume of the Shares decreased gradually from an average daily trading volume of approximately 298,682 Shares during September 2020 to an average daily trading volume of approximately 77,889 Shares during October 2020. After the Company released the Announcement, the average daily trading volume of the Shares rose to 946,000 Shares in January 2021, 573,417 Shares in February 2021, 1,731,239 Shares in March 2021.

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 to settle the outstanding Loan.

4.2.3 Comparison with recent transactions

In assessing the fairness and reasonableness of the basis of the Subscription Price, we have considered to conduct comparison of the Subscription Price against the comparable transactions by comparing the followings:

- the premium/(discount) of the issue price over/to the closing price of the last trading day prior to the date of the relevant agreement;
- the premium/(discount) of the issue price over/to the closing price of the last 5 trading days prior to the date of the relevant agreement; and
- the premium/(discount) of the issue price over/to the net asset value per share as at the latest audited financial year end date prior to the date of the relevant agreement.

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(i) Criteria for identifying and selecting the Comparables

In order to carry out the above analysis, we have based on the information available from the Stock Exchange's website, identified an exhaustive list of 4 transactions announced by 4 companies listed on the Stock Exchange during 1 July 2019 to and including the date of the Subscription Agreement (i.e. 31 December 2020), being the last 18 months preceding the date of announcement of the Subscription (the "**Comparables**"). We consider that such 18 months comparison could provide the most recent information and hence a reasonable and meaningful comparison could be reached. For the purpose of our selection of the Comparables, the basis of our selection of the Comparables is as follows:

- companies listed on the Stock Exchange;
- companies that had published announcements in relation to issuance of shares for loan capitalisation, placing and/or subscription of new shares and/or securities convertible into shares under specific mandate with proceeds used for settlement of indebtedness during the period from 1 July 2019 up to and including the date of the Subscription Agreement (i.e. 31 December 2020); and
- the above relevant transaction constituted a connected transaction with an application of whitewash waiver.

Based on above criteria, we considered that the Comparables provide a relevant benchmark for the purpose of assessing the Subscription Price. We consider the Comparables an exhaustive list of relevant comparable companies based on the said criteria above and the selection of comparable companies within an approximate 18-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 Subscription Shares were determined.

(ii) Analysis conducted to assess the fairness and reasonableness of the Subscription Price

As mentioned previously, we have further considered to conduct comparison against comparable transactions by comparing the followings:

- the premium/(discount) of the issue price over/to the closing price of the last trading day prior to the date of the relevant agreement;

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- the premium/(discount) of the issue price over/to the closing price of the last 5 trading days prior to the date of the relevant agreement; and
- the premium/(discount) of the issue price over/to the net asset value per share as at the latest audited financial year end date prior to the date of the relevant agreement.

We have considered the above methodologies and concluded that the methodologies are appropriate because:

- the Share price as at the Last Trading Day has already reflected the fundamentals of the Company as analysed in the section headed “4.2.1 Review on the historical Share price performance”; and
- the selection criteria of the Comparables include (1) companies listed on the Stock Exchange; (2) companies that had published announcements in relation to issuance of shares for loan capitalisation, placing and/or subscription of new shares and/or securities convertible into shares under specific mandate with proceeds used for settlement of indebtedness; and (3) such placing and subscription of new shares constituted a connected transaction with an application of whitewash waiver, therefore identical comparison could be conducted in terms of the issue price as compared to the Subscription.

In light of the above, we considered that the above methodologies are relevant and appropriate for comparison and assessment of determination of the Subscription Price.

Given both (i) the premium/(discount) of issue price over/(to) the closing price of the last trading day prior to the date of the relevant agreement; (ii) the premium/discount of issue price over/(to) the average closing price of the last 5 trading days prior to the date of the relevant agreement; and (iii) the premium/(discount) of the issue price over/to the net asset value per share as at the latest audited financial year end date prior to the date of the relevant agreement are the necessary disclosure of each transactions required under the applicable GEM Listing Rules or Listing Rules, we consider that the aforesaid periods represent the benchmark rate and period of each Comparables to facilitate analysis of the Subscription Price for comparison.

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Set out below is the list of transaction involved issue of subscription shares as announced by the Comparables during the last 18 months prior to and including the date of the Subscription Agreement.

Date of initial announcement	Stock code	Company name	Premium/ (discount) of the placing/ subscription/ issue price over/(to) closing price per share on the last trading day prior to the date of the corresponding agreement (%)	Premium/ (discount) of the placing/ subscription/ 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 placing/ subscription/ issue price over/(to) the net asset value per share as at the latest audited financial year end date prior to the date of the corresponding agreement
19 November 2019	686	Panda Green Energy Group Limited	7.76	9.17	(48.98)
6 February 2020	875	China Finance Investment Holdings Limited	(31.60)	(35.00)	(64.3)
24 August 2020	2363	Tongda Hong Tai Holdings Limited	(13.33)	(13.79)	(79.44)
11 September 2020	33	Amber Hill Financial Holdings Limited	(23.66)	(27.55)	– (Note)
		Maximum	7.76	9.17	(48.98)
		Minimum	(31.60)	(35.00)	(79.44)
		Average	(15.21)	(16.79)	(64.24)
		The Subscription	0	0.72	(81.70)

Note: As at 31 December 2019 and 30 June 2020, Amber Hill Financial Holdings Limited had consolidated net liabilities attributable to its shareholders in the amount of approximately HK\$110.15 million and approximately HK\$129.57 million respectively and hence the disclosure of the relevant subscription price to the net asset value per share is not applicable.

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Comparison against the Comparables based on the prevailing market price of the share

As shown in the above table of the Comparables, the issue prices of the Comparables to the relevant closing price on the date of the agreement ranged from a premium of approximately 7.76% to a discount of approximately 31.6%, with an average discount of approximately 15.21%. We note that the Subscription Price of HK\$0.028 equals to the closing price of the Shares on the date of the Subscription Agreement, being the date of announcement of the issue price, and such deviation of 0% lies between the abovementioned range of the Comparables.

Further, the issue prices of all of the Comparables to the relevant average closing price for the five trading days immediately prior to the day of announcement of the issue price ranged from a premium of approximately 9.17% to a discount of approximately 35.0%, with an average discount of approximately 16.79% and the Subscription Price of HK\$0.028 represents a premium of approximately 0.72% to the average of the last five consecutive trading days immediately prior to the date of signing of the Subscription Agreement and such premium lies between the relevant range of the Comparables.

Comparison against the Comparables based on the net asset value per share

We have further considered other alternative comparison method, such as the comparison between net asset value per share and the issue price of the relevant transactions.

As shown in the above table, the issue price of the Comparables to the relevant net asset value per share ranged from a discount of approximately 48.98% to a discount of approximately 79.44%, with an average discount of approximately 64.24%. We note that the discount of approximately 81.70% of the Subscription Price to the consolidated net asset value per Share as at 30 September 2020 lies above the range of the Comparables.

We understand from the Management that while determining the Subscription Price, the Company has taken into account the dilemma between the substantial discounts to the consolidated net asset value per Share and the premium to the prevailing market prices. Due to the fact that the Subscription Price was determined by the Directors with reference to the prevailing market prices of the Shares at the time of the Subscription, the substantial discount to the consolidated net asset value per Share attributable to the Shareholders as at 30 September 2020 was resulted from recent Share price movement. As set out in the section headed “4.2.1 Review

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on the historical Share price performance” above, the Share price performance displayed a general declining trend during the period commencing from 2 January 2020 up to and including the Last Trading Day (the “**Pre-announcement Period**”) and the closing price per Share for most of the trading days during the Pre-announcement Period were substantial below approximately HK\$0.149 per Share, being the consolidated net asset value per Share attributable to the Shareholders as at 30 September 2020. The highest and lowest closing prices of HK\$0.052 and HK\$0.020 per Share were recorded during the Pre-announcement Period, representing discounts of approximately 65.10% and 86.58%, respectively. In the event the Subscription Price be determined at a lower discount to the consolidated net asset value per Share attributable to the Shareholders as at 30 September 2020, the Subscription Price may represent an even higher premium to the prevailing market prices of the Shares which are considered less attractive to the Subscriber. Having considered the benefits of the Subscription as discussed in the section headed “2.2 *Our view on the reasons and benefits of the Subscription*”, we are of the view that the discount to the consolidated net asset value per Share attributable to the Shareholders as at 30 September 2020 would encourage the Subscriber to subscribe for the Subscription Shares at the Subscription Price the and the liquidity and financial position of the Group would be improved.

Despite the fact that the Subscription Price still represents a significant discount to the consolidated net asset value per Share attributable to the Shareholders as at 30 September 2020, having considered the Shares were traded at substantial discount to the consolidated net asset value per Share throughout the Pre-announcement Period, we concur with the Directors that (i) the prevailing market prices of the Shares is a better reflection of the fair market value of the Shares traded on the Stock Exchange and it would be more appropriate to compare the Subscription Price against such benchmark, rather than referencing to the consolidated net asset value per Share attributable to the Shareholders; and (ii) as to other equity financing alternatives, while the Company approached two potential independent securities brokers in mid December 2020, none of them was willing to or prepared, under the recent market sentiment, to act as placing agents for such equity financing opportunities, the Subscription was considered the most feasible option to the Group for the Loan repayment; the Company is of the view, which we concur, that it is necessary to offer a significant discount to the consolidated net asset value per Share attributable to the Shareholders as at 30 September 2020 in order to reach a compromise with the Subscriber to agree on the terms of the Subscription.

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Based on the above, we concluded that the potential benefits that would have been made available from the implementation of the Subscription would outweigh the significant discount to the consolidated net asset value per Share attributable to the Shareholders as at 30 September 2020. As set out in the section headed “5. *Effects on the Company’s shareholding structure*” below, immediately upon the allotment and issue of the Subscription Shares (assuming there are no other changes in the issued share capital of the Company from the Latest Practicable Date to the Subscription Completion), the Company will have 2,078,000,248 Shares in issue. For illustration purpose only, upon Subscription Completion, the theoretical net asset value as at 31 December 2020 will decrease .

Conclusion

We noted that the number of Comparables as shown in the above table is only four in total, however, considering (i) the Comparables represent an exhaustive list which provide the most recent information as published in the Stock Exchange; (ii) the selection of the Comparables has taken into account the placement or subscription of new Shares with an application of whitewash waiver and proceeds used for settlement of indebtedness which represent as fair and reasonable sample size; and (iii) there is no specific reasons to eliminate any of the criteria from the selection of Comparables for a fair comparison, we consider that the Comparables is representatives and the above analysis provides a meaningful analysis for the fairness and reasonableness of the Subscription Price.

4.2.4 Results of the analysis of the Subscription Price

Given that (i) the thin liquidity of the Shares during the Review Period; (ii) the determination of the Subscription Price is within the range of that of the Comparables when compared to (a) the closing price per share on the last trading day and (b) the average closing price per share for the last five consecutive trading days, prior to the date of the corresponding agreement; and (iii) as mentioned in the section headed “3. *Reasons and benefits of entering into the Subscription Agreement*” of this letter, the Subscription is in the interests of the Independent Shareholder, we consider that the determination of the Subscription Price is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned.

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5. Effects on the Company's shareholding structure

As at the Latest Practicable Date, there are an aggregate 32,119,074 outstanding Options to subscribe for 32,119,074 Shares, all of which were granted on 18 May 2011 at exercise price of HK\$3.81 per Share.

As at the Latest Practicable Date, the Company has 1,319,484,534 Shares in issue. Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon the allotment and issue of the Subscription Shares (assuming there is no other changes in the issued share capital of the Company from the Latest Practicable Date to the Subscription Completion); and (iii) immediately upon the allotment and issue of the Subscription Shares and the exercise of all outstanding options (assuming there is no other changes in the issued share capital of the Company from the Latest Practicable Date to the Subscription Completion):

	As at the Latest Practicable Date		Immediately upon the allotment and issue of the Subscription Shares		Immediately upon the allotment and issue of the Subscription Shares and the exercise of all outstanding options	
	<i>Number of Shares</i>	<i>Approx. %</i>	<i>Number of Shares</i>	<i>Approx. %</i>	<i>Number of Shares</i>	<i>Approx. %</i>
The Subscriber	376,121,483	28.51	1,134,637,197	54.60	1,134,961,947	53.79
Jumbo Lane Investments Limited (<i>Note 1</i>)	<u>18,118,500</u>	<u>1.37</u>	<u>18,118,500</u>	<u>0.87</u>	<u>18,118,500</u>	<u>0.86</u>
The Subscriber and the parties acting in concert with him	394,239,983	29.88	1,152,755,697	55.47	1,153,080,347	54.65
Public Shareholders (<i>Note 2</i>)	<u>925,244,551</u>	<u>70.12</u>	<u>925,244,551</u>	<u>44.53</u>	<u>957,038,875</u>	<u>45.35</u>
Total	<u>1,319,484,534</u>	<u>100.00</u>	<u>2,078,000,248</u>	<u>100.00</u>	<u>2,110,119,222</u>	<u>100.00</u>

Notes:

- The Subscriber 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.

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2. As at the Latest Practicable Date, other than the Subscriber, none of the other Directors hold any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company. The Directors (other than the Subscriber) are presumed to be acting in concert with the Subscriber under presumption class (6) of the definition of “acting in concert” of the Takeovers Code.

The Share issue allows the Company to reduce the cash consideration required for the settlement of the Loan. Assuming the Subscription Shares would be issued and delivered to Subscriber in full and there was no further issue of Shares between the Latest Practicable Date and the date of Subscription Completion, Independent Shareholders’ holdings upon Subscription Completion would be diluted from approximately 70.12% to approximately 44.53% of total shareholdings, that is a 25.59% reduction. Assuming all outstanding options are to be exercised by the relevant option holders, the Independent Shareholders’ holdings upon Subscription Completion would further diluted to 45.35%. Despite the Subscription will incur dilution effect on the shareholding of the existing Shareholders, taking into account that (i) the Subscription Price equals to the market price of the Shares as of the date of the Subscription Agreement, reflecting the prevailing market Share price; (ii) the determination of the Subscription Price is within the range of the Comparables when compared with (a) the closing price per share on the last trading day and (b) the average closing price per share for the last five consecutive trading days, prior to the date of the corresponding agreement which is fair and reasonable; (iii) the Company can release from pressure to satisfy the Loan and retain the cash resources to the meet other outstanding liabilities obligations as and when they fall due; (iv) the Subscription Shares, when allotted and issued, will be recognized entirely as equity of the Company which in turn will reduce the gearing ratio, enlarge the capital base and enhance the net asset position of the Company; (v) the Company can save any future interest expenses arising from the Loan; (vi) the Subscription allows the Group to retain working capital for its daily operation and future business development which may indirectly help to resolve the going concern issue of the Group; and (vii) the discount to the consolidated net asset value per Share represented more attractive Subscription Price compared to the prevailing market prices of the Shares as an encouragement to the Subscriber for the Subscription, given that the Subscription was considered the most feasible option to the Group for the Loan repayment as set out in the section headed “*Comparison against the Comparables based on the new asset value per share*” above, we consider that the Subscription outweighs the extension of the maturity date of the Convertible Bonds, even though the Subscription will result in dilution effects of (1) approximately 25.59% (immediately upon the allotment and issue of the Subscription Shares) and (2) approximately 24.77% (immediately upon the allotment and issue of the Subscription Shares and the exercise of all outstanding options) on the minority shareholders.

6. Financial effects of the Subscription

6.1 Effect on gearing ratio

As at 31 December 2020, the gearing ratio of the Group (which was calculated based on the Group’s total external borrowings of approximately RMB73.35 million and the Group’s shareholders’ equity of approximately RMB147.74 million) was

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approximately 49.65%. Upon Subscription Completion, the Group's net debt will be substantially reduced by the settlement of the Loan of HK\$21,238,440 (equivalent to approximately RMB17.96 million) and the Shareholders' equity will be enlarged by the allotment and issue of the Subscription Shares. Accordingly, the gearing ratio of the Group will be substantially improved by approximately 16.22% to 33.43% as a result of the decrease in the Group's total borrowings and the enlarged capital base of the Group.

6.2 Effect on total liabilities and net assets

According to the 2020 Annual Results, the audited total liabilities of the Group as at 31 December 2020 amounted to approximately RMB383.85 million. Upon Subscription Completion, the Group's total liabilities will be decreased by the amount of the Loan of HK\$21,238,440 (equivalent to approximately RMB17.96 million) to approximately RMB365.89 million assuming that there will be no other settlements of the Group's liabilities or new borrowings.

In light of the decrease of total liabilities, the net assets position of the Group, which was amounted to approximately RMB118.79 million as at 31 December 2020, will be increased by the amount of the Loan to approximately RMB136.75 million. Accordingly, the current ratio of the Group will be improved by approximately 1.01% to approximately 20.63% as at 31 December 2020 as a result of the Subscription.

6.3 Effect on working capital

As the Loan will be settled in full by the allotment and issue of the Subscription Shares without cash outlay by the Group, the Subscription would enable the Company to free the cash flow for the development of its business.

7. The Whitewash Waiver

As at the Latest Practicable Date, the Subscriber and the parties acting in concert with him holds an aggregate of 394,239,983 Shares, representing approximately 29.88% of the issued share capital of the Company, among which,

- (i) as to 18,118,500 Shares, representing approximately 1.37% of the issued share capital of the Company, are held by Jumbo Lane Investments Limited, a company which is wholly owned by the Subscriber; and
- (ii) as to 376,121,483 Shares, representing approximately 28.51% of the issued share capital of the Company, are held by the Subscriber.

Upon Subscription Completion, the Subscriber and parties acting in concert with him will hold an aggregate of 1,152,755,697 Shares, representing approximately 55.47% of the voting rights of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming that there is no change in the issued share capital of the Company from

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the Latest Practicable Date to the date of the Subscription Completion other than the issue of the Subscription Shares). As a result, the Subscriber and parties acting in concert with him will be obliged to make a mandatory general offer for all the issued Shares (other than those already owned or agreed to be acquired by the Subscriber and parties acting in concert with him) pursuant to Rule 26.1 of the Takeovers Code, unless the Whitewash Waiver is obtained from the Executive.

The Subscriber has applied to the Executive for the granting of the Whitewash Waiver in respect of the allotment and issue of the Subscription Shares and which, if granted, will be subject to the approval by at least 75% and more than 50% of the votes cast by the Independent Shareholders by way of a poll in respect of the Whitewash Waiver and the Subscription (including the Specific Mandate), respectively, at the SGM. The aforesaid condition is not capable of being waived. If the Whitewash Waiver is not granted, the Subscription will not proceed.

Based on our analysis regarding the terms of the Subscription Agreement, we consider that the Subscription is in the interests of the Independent Shareholders. We are of the view that for the purpose of implementing the Subscription, the approval of the Whitewash Waiver by the Independent Shareholders at the SGM is in the interests of the Independent Shareholders.

RECOMMENDATION

Having considered the above principal factors and reasons, in particular:

As regard to the Subscription,

- (i) the Subscription will alleviate the repayment pressure of the Loan on the Group without cash outlay and allow the Group to retain working capital for its daily operation and future business development;
- (ii) the Subscription will lower the gearing ratio of the Group thereby strengthening the Group's financial position, which will, in turn, place the Group at a better position to negotiate and obtain fund raising arrangements or debt financing for its business development and expansion in future when necessary
- (iii) the Subscription will enlarge the Company's capital base;
- (iv) the Subscription, to a certain extent, reflects the Subscriber's commitment and confidence on the long-term prosperity of the Group; and
- (v) the Subscription Price equals to the closing price of the Shares on the Last Trading Day and represents a premium to the average closing price per Share for the last five consecutive trading days prior to the date of the Subscription Agreement, which lies above the range of the Comparables

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We consider that although the Subscription is not in the ordinary and usual course of business, it is incidental to the Group's development of its ordinary and usual course of business. The terms of the Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the entering into of the Subscription Agreement is in the interests of the Independent Shareholders.

As regard to the Whitewash Waiver

- (i) the Subscription Price is justifiable for reasons as discussed in the sub-section headed "Evaluation on the Subscription Price" in page 45 of this letter;
- (ii) the Subscription will have an overall positive financial effect on the Group's financial position and is in the interest of the Independent Shareholders; and
- (iii) the Whitewash Waiver is one of the conditions precedent for the Subscription Completion, failure of which the Subscription will not proceed,

we consider that seeking of the grant of the Whitewash Waiver is fair and reasonable so far as the Company and the Independent Shareholders are concerned and the approval of the Whitewash Waiver by the Independent Shareholders is in the interests of the Independent Shareholders.

We therefore advise the Listing Rules IBC, the Takeovers Code IBC to recommend, and ourselves recommend, the Independent Shareholders to vote in favor of (i) the ordinary resolutions and (ii) the special resolution to be proposed at the SGM to approve, among others, (i) the entering into of the Subscription Agreement and the transactions contemplated thereunder, including the Specific Mandate, and (ii) the Whitewash Wavier, respectively.

Yours faithfully
For and on behalf of
Euto Capital Partners Limited
Felix Huen
Director

Yours faithfully
For and on behalf of
Euto Capital Partners Limited
Manfred Shiu
Director

* *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.*

1. SUMMARY OF FINANCIAL INFORMATION

The financial information of the Group for the three financial years ended 31 December 2018, 31 December 2019 and 31 December 2020 can be found in the annual reports of the Company for each of the three financial years ended 31 December 2018, 31 December 2019 and 31 December 2020 (pages 58 to 190 of the 2018 Annual Report published on 28 March 2019, pages 50 to 192 of the 2019 Annual Report published on 15 May 2020 and pages 59 to 198 of the 2020 Annual Report published on 31 March 2021) respectively, all of which have been published on the HKExnews website at www.hkexnews.hk and the company's website at web.iprofpl.com/8270/info_e.html.

The Company's annual reports for the three financial years ended 31 December 2020 is accessible via the following hyperlink:

- 2018 Annual Report:
rss.iprofpl.com/pdfs/8270/CW08270%281%29.pdf
- 2019 Annual Report:
rss.iprofpl.com/pdfs/8270/EW08270-AR.pdf
- 2020 Annual Report:
rss.iprofpl.com/pdfs/8270/EW08270%20AR.pdf

Set out below is a summary of the audited consolidated financial statements of the Group for the years ended 31 December 2018, 2019 and 2020.

RESULTS

	For the year ended 31 December		
	2020	2019	2018
	RMB'000	RMB'000	RMB'000
Revenue	<u>179,329</u>	<u>168,229</u>	<u>168,097</u>
Loss from operations	(4,948)	(18,295)	(73,469)
Finance costs	(8,127)	(9,880)	(9,296)
Impairment loss on goodwill	–	–	–
Impairment loss on intangible assets	–	–	–
Impairment loss on property, plant and equipment	<u>(23,355)</u>	<u>(40,637)</u>	<u>(39,090)</u>
Loss before taxation	(36,430)	(68,812)	(121,855)
Income tax credit/(expense)	<u>206</u>	<u>1</u>	<u>(78)</u>
Loss for the year	<u>(36,224)</u>	<u>(68,811)</u>	<u>(121,933)</u>
Attributable to:			
Equity shareholders of the Company	(40,627)	(63,510)	(105,686)
Non-controlling interests	<u>4,403</u>	<u>(5,301)</u>	<u>(16,247)</u>
	<u>(36,224)</u>	<u>(68,811)</u>	<u>(121,933)</u>
Loss per Share (HK cents per Share):			
Basic and diluted	<u>(3.08)</u>	<u>(4.81)</u>	<u>(8.01)</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

	For the year ended 31 December		
	2020	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Loss for the year	(36,224)	(68,811)	(121,933)
Other comprehensive income (loss) for the year:			
Item that may be reclassified subsequently to profit or loss – Exchange differences on translation of financial statements of foreign operations	<u>2,812</u>	<u>(1,271)</u>	<u>11,533</u>
Total comprehensive loss for the year	<u><u>(33,412)</u></u>	<u><u>(70,082)</u></u>	<u><u>(110,400)</u></u>
Total comprehensive loss attributable to:			
Equity shareholders of the Company	(37,815)	(64,781)	(94,153)
Non-controlling interests	<u>4,403</u>	<u>(5,301)</u>	<u>(16,247)</u>
	<u><u>(33,412)</u></u>	<u><u>(70,082)</u></u>	<u><u>(110,400)</u></u>

ASSETS AND LIABILITIES

	At 31 December		
	2020	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total assets	502,648	558,905	668,220
Total liabilities	<u>(383,854)</u>	<u>(405,762)</u>	<u>(444,995)</u>
	<u><u>118,794</u></u>	<u><u>153,143</u></u>	<u><u>223,225</u></u>
Attributable to:			
Equity shareholders of the Company	147,739	185,554	250,335
Non-controlling interests	<u>(28,945)</u>	<u>(32,411)</u>	<u>(27,110)</u>
	<u><u>118,794</u></u>	<u><u>153,143</u></u>	<u><u>223,225</u></u>

The auditors of the Company, KTC Partners CPA Limited, issued unqualified opinion on the consolidated financial statements of the Group for the years ended 31 December 2018, 2019 and 2020. For each of the three financial years ended 31 December 2018, 2019 and 2020, no dividend or distribution was declared or paid.

2. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The upstream business of the Company is improving steadily and the well construction and gas output are both increasing constantly. During 2017, the Company made technological upgrade to some old wells to improve production capacity and output, laying a solid foundation for the Company's long-term performance. However, the shortage in supply of raw gas kept handicapping the Company. Daily gas output of the upstream business was insufficient to allow the 500,000 cubic meters daily production capacity of liquefaction plant to be fully unleashed. In view of this, the Group commenced the R&D on C-H to Synthesis of natural gas production in 2017 and which is temporarily named as High-temperature-water Activate C-H to Synthesis of Natural-gas Technology. As at the date of this report, the experiment on C-H to Synthesis of natural gas production was successfully completed. The Group has commenced the process of commercialized design in the second half of 2019 and small-scale production is expected to start at the end of 2021. In addition, the Group plans to realize the daily output to 500,000 cubic meters at the end of 2022. The Group's LNG plant will get the stable gas supply, as the number of upstream wells and gas output are both steadily increasing, and the group successfully developed C-H to Synthesis of natural gas production. The Group's raw gas supply will be further consolidated and the advantage of vertical integration business will emerge. The production capacity of liquefaction plant will be fully unleashed. In 2020, thanks to the stable supply from self-produced well gas, the Company will be gradually less affected by external factors and the uncontrollable risks involved in the operation of the Company will become less.

As there are growing concerns over the environmental issues, it is foreseen that the highly-polluted energy will be eliminated from the market more rapidly and the use of replaceable clean energy will be 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. Management of the Company will endeavour to overcome difficulties and be devoted to making contribution to the Company's long-term development.

3. INDEBTEDNESS

Statement of Indebtedness

Bank and other borrowings

As at 28 February 2021, the Group had secured bank borrowings of approximately RMB30,000,000 from Postal Savings Bank of China to be due in July 2021 (RMB15,000,000) and November 2021 (RMB15,000,000), bearing an interest rate of 4.7% per annum and secured by the exclusive right to operate in gas pipeline infrastructure of the subsidiary; and unsecured and unguaranteed bank borrowing of approximately RMB5,000,000 from Guangxi Beiliu Liuyin Country Bank Co., Ltd., to be due in March 2022, bearing an interest rate of 45 basic points above one year national funding centre's loan prime rate (i.e. 4.5% per annum).

Other borrowing of approximately RMB24,200,000 from 沁水縣盛融投資有限責任公司 (Shanxi Qinshui Prefecture Chengrong Investment Limited[#]), a state-owned enterprise in the PRC according to publicly available information, was unsecured and unguaranteed as at 28 February 2021 to be due in December 2022, bearing an interest rate of approximately 7.12% per annum.

Amounts due to non-controlling shareholders of subsidiaries

The Group had amounts due to non-controlling shareholders of subsidiaries of the Group of approximately RMB3,437,000 in aggregate was unsecured, unguaranteed, interest-free and repayable on demand as at 28 February 2021. The aforesaid non-controlling shareholders of subsidiaries included 孫桂蘭 (Sun Guilan[#]) and 鄭州貞成能源技術服務有限公司 (Zhengzhou Zhengcheng Energy Technology Service Company Limited[#]) which was held by 張蔓 (Zhang Man[#]) and 范華 (Fan Hua[#]) according to publicly available information.

Amounts due to directors/ultimate controlling party

The Group had amounts due to directors and ultimate controlling party of approximately RMB581,000 and RMB18,590,000 respectively as at 28 February 2021, which were unsecured, unguaranteed, interest-free and repayable on demand.

Lease liabilities

The Group had lease liabilities of approximately RMB13,085,000 were secured by the Group's certain properties, pipelines, equipment, 100% equity interest in Qinshui Energy, 60% equity interest in Yangcheng Huiyang and guaranteed by certain subsidiaries of the Company. The net book value of the pipelines and, the equipment as at 28 February 2021 was approximately RMB74,531,000 and approximately RMB8,000 respectively. The 100% equity interest in Qinshui Energy and 60% equity interest in Yangcheng Huiyang is of negative net book value of approximately RMB74,425,000 and RMB67,390,000 respectively as at 28 February 2021.

Capital commitment

The Group had approximately RMB30,978,000 capital commitments contracted as at 28 February 2021.

[#] transliteration

Disclaimer

Save as disclosed above and apart from intra-group liabilities and normal trade payables, the Group did not have any outstanding bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance lease, hire purchases commitments, which were either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities at the close of business on 28 February 2021.

There has been no material change in indebtedness (mainly included bank and other borrowings, amounts due to non-controlling shareholders of subsidiaries, amounts due to directors/ultimate controlling party and lease liabilities of approximately RMB94.9 million in aggregate as stated above) or contingent liabilities of the Group since 28 February 2021 and up to the Latest Practicable Date.

For the avoidance of doubt, the outstanding Loan (resulting from the matured Convertible Bonds) has not been included above in the indebtedness statement. The outstanding Loan has not been included in the indebtedness statement as a result of the entering into of the Subscription Agreement and will be eliminated upon completion of the Subscription.

4. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that, taking into consideration the financial resources available to the Group including the internally generated funds, the present bank and other facilities, the Group will have sufficient working capital for at least twelve months from the date of this circular.

5. MATERIAL CHANGE

The Directors confirmed that as at the Latest Practicable Date, there had been no material change in the financial or trading position or outlook of the Group since 31 December 2020, being the date to which the latest published audited financial statements of the Company were made, up to the Latest Practicable Date.

1. RESPONSIBILITY STATEMENT

The Directors jointly and severally accept full responsibility for the accuracy of the information (other than that relating to the Subscriber and parties acting in concert with him) contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Subscriber) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The Subscriber accepts full responsibility for the accuracy of the information (other than that relating to the Group) contained in this circular and confirm, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this circular (other than those expressed by the Directors in their capacity as Directors) have been arrived at after due and careful consideration, and there are no other facts not contained in this circular the omission of which would make any statement in this circular misleading.

This circular, for which the Directors collectively and individually accept full responsibility, includes particular given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. 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 is not misleading or deceptive and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL**(i) As at the Latest Practicable Date**

<i>Authorised:</i>		<i>HK\$</i>
<u>20,000,000,000</u>	Shares of HK\$0.01 each	<u>200,000,000.00</u>
<i>Issued and fully-paid:</i>		
<u>1,319,484,534</u>	Shares of HK\$0.01 each	<u>13,194,845.34</u>

(ii) Immediately following the allotment and issue of the Subscription Shares

<i>Authorised:</i>		<i>HK\$</i>
<u>20,000,000,000</u>	Shares of HK\$0.01 each	<u>200,000,000.00</u>
 <i>Issued and fully-paid:</i>		
1,319,484,534	Shares of HK\$0.01 each	13,194,845.34
<u>758,515,714</u>	Subscription Shares to be allotted and issued under the Subscription	<u>7,585,157.14</u>
<u>2,078,000,248</u>	Shares of HK\$0.01 each	<u>20,780,002.48</u>

All the Shares in issue are fully-paid and rank pari passu in all respects including all rights as to dividends, voting and return of capital.

Save for the Subscription Shares to be issued under the Subscription, the Company had not issued any Shares since 31 December 2019.

No application is being made or is currently proposed or sought for the Shares or the Subscription Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

As at the Latest Practicable Date, there is no arrangement under which future dividends are/will be waived or agreed to be waived.

As at the Latest Practicable Date, the relevant securities of the Company comprise:

- (i) 1,319,484,534 Shares in issue; and
- (ii) 32,119,074 outstanding Options with exercise price of HK\$3.81 per Share (in which (i) 324,750 outstanding Options were granted to the Subscriber; and (ii) the rests were granted to other employees and consultants of the Group) entitling the holders thereof to subscribe for a total of 32,119,074 Shares.

With the Convertible Bonds become due and matured on 9 December 2020, the Convertible Bonds no longer entitle the holder thereof to convert the same into Shares in accordance with the terms of the Convertible Bonds but the principal amount of the Convertible Bonds became due and payable by the Company.

Save as disclosed above, the Company has no other outstanding securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares as at the Latest Practicable Date.

3. MARKET PRICES

The table below shows the closing prices of the Share on the Stock Exchange on (i) the Latest Practicable Date; (ii) the Last Trading Day; and (iii) the last trading day of each of the calendar months during the Relevant Period:

Date	Closing Price per Share <i>HK\$</i>
30 June 2020	0.034
31 July 2020	0.030
31 August 2020	0.024
30 September 2020	0.028
30 October 2020	0.023
30 November 2020	0.028
31 December 2020 (the Last Trading Day)	0.028
29 January 2021	0.028
26 February 2021	0.031
31 March 2021	0.041
19 April 2021 (the Latest Practicable Date)	0.034

The highest and lowest closing price per Share as quoted on the Stock Exchange during the Relevant Period were HK\$0.020 per Share on 6 November 2020 and HK\$0.045 per Share on 8 March 2021 respectively.

4. DISCLOSURE OF INTERESTS

(a) Director's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the following Director had or was deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) or which

were otherwise required to notify the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange; or (iv) which were required to be disclosed under the Takeovers Code:

(i) *Long positions in the Shares and the underlying shares*

Name	Capacity	Nature of interest	Number of ordinary shares/ underlying shares	Approximate % of shareholdings
Mr. Wang Zhong Sheng	Interest of controlled corporation	Corporate interest	18,118,500 (Note 1)	1.38%
	Beneficial owner	Personal	376,446,233 (Note 2)	28.53%

Notes:

- Such shares are owned by Jumbo Lane Investments Limited.

Mr. Wang Zhong Sheng 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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

- Out of the 376,446,233 long positions, Mr. Wang Zhong Sheng is interested as (i) a grantee of options to subscribe for 324,750 shares under the new share option scheme adopted by the Company on 18 May 2011 and (ii) a beneficial owner of 376,121,483 issued shares of the Company. On 31 December 2020, the share subscription agreement was signed between the Company and Mr. Wang Zhong Sheng with an aggregate of 758,515,714 subscription shares. The share subscription agreement is subject to the requirements of announcement and the approval of the shareholders by way of poll at the extraordinary general meeting of the Company. For details, please refer to the announcement of the Company dated 31 December 2020, 11 January 2021, 21 January 2021, 11 February 2021 and 26 March 2021.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were otherwise required to notify the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange; or (iv) which were required to be disclosed under the Takeovers Code.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders

So far as is known to the Directors, as at the Latest Practicable Date, the following person (not being Directors or chief executive of the Company) had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Number of shares	Nature of Interest	Approximate percentage of shareholding
Ms. Zhao Xin (<i>Note</i>)	488,706,754	Interest of spouse	37.04%

Note: Ms. Zhao Xin (the spouse of Mr. Wang Zhong Sheng) is deemed to be interested in her spouse's interest in the Company pursuant to the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contracts with the Company or any member of the Group or any associated company of the Company which (a) (including continuous and fixed term contracts) have been entered into or amended within the Relevant Period; (b) are continuous contracts with a notice period of 12 months or more; (c) are fixed term contracts with more than 12 months to run irrespective of the notice period; or (d) are not determinable by any member of the Group within one year without payment of compensation (other than statutory compensation).

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or substantial Shareholder or any of their respective associates has any interest in business which competes with or may compete with the business of the Group or has any other conflict of interests which any person has or may have with the Group.

7. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

8. QUALIFICATIONS AND CONSENT OF EXPERT

The following are the qualifications of the expert who has given opinions or advice which are contained in this circular:

Name	Qualifications
Euto Capital	a corporation licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO

The above expert has given and confirmed that it has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, report, advice, opinion and/or references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, the above expert did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group.

As at the Latest Practicable Date, the above expert did not have any interest, either directly or indirectly, in any assets which have been since 31 December 2020 (being the date to which the latest published audited consolidated financial statements of the Company were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

9. INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, no contract or arrangement of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Directors had a material interest, whether directly or indirectly, subsisted as at the Latest Practicable Date.

None of the Directors nor expert referred to in paragraph 8 below has any direct or indirect interests in any assets which had been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, the Company or any of its subsidiaries during the period since 31 December 2020, the date to which the latest published audited financial statements of the Group were made up, up to and including the Latest Practicable Date.

10. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the date of the Announcement and up till the Latest Practicable Date which are or may be material:

- (a) the finance lease agreement (the “**Finance Lease Agreement**”) entered into between 山西沁水順泰能源發展有限公司 (Shanxi Qinshui Shuntai Energy Development Co., Ltd.) (“**Qinshui Energy**”), a company established in the PRC with limited liability and a direct wholly-owned subsidiary of the Company, and 中集融資租賃有限公司 (CIMC Capital Ltd.) (“**CIMC**”), a company established in the PRC with limited liability on 25 July 2019 in relation to the sale and lease of certain liquefied natural gas equipment (“**Equipment**”). Pursuant to the Finance Lease Agreement, (i) Qinshui Energy conditionally agreed to sell and CIMC conditionally agreed to purchase the Equipment for a total consideration of RMB50,000,000 (equivalent to approximately HK\$56,085,250); and (ii) Qinshui Energy conditionally agreed to lease from CIMC, and CIMC conditionally agreed to lease to Qinshui Energy, the Equipment for a total consideration of RMB64,070,000 (equivalent to approximately HK\$71,867,639)^(Note);
- (b) the guarantees executed by the Company, 洛陽順和能源有限公司 (Luoyang Shunhe Energy Co., Ltd.), 廣西北流燃氣有限公司 (Guangxi Beiliu Gas Co., Ltd.), 陽城縣順安集輸管道有限公司 (Yangcheng Shun An Gathering Pipeline Co., Ltd.), 河北順泰能源有限公司 (Hebei Shuntai Energy Resource Company Limited, 陽城縣惠陽新能源發展有限公司 (Yangcheng Huiyang New Energy Development Co., Ltd.) and 山西陽城順泰能源發展有限公司 (Shanxi Yangcheng Shuntai Energy Development Co., Ltd.) (“**Shanxi Yangcheng**”) in favour of CIMC to secure due payment by Qinshui Energy to CIMC under the Finance Lease Agreement;
- (c) the share pledge agreement entered into by the Company on 25 July 2019, pursuant to which the Company conditionally agreed to pledge 100% equity interest in Qinshui Energy in favour of CIMC;
- (d) the share pledge agreement entered into by Shanxi Yangcheng, pursuant to which Shanxi Yangcheng conditionally agreed to pledge 60% equity interest in Yangcheng Huiyang in favour of CIMC; and
- (e) the Subscription Agreement.

Note: The relevant amounts in RMB are translated into HK\$ at an exchange rate of RMB0.8915:HK\$1 (source: www.hkab.org.hk). No representation has been made by the Company that any amount have been, could have been or could be converted at such rate or at any other rates or at all.

11. ADDITIONAL DISCLOSURE OF INTERESTS AND DEALINGS IN SECURITIES

As at the Latest Practicable Date,

- (a) save for the Subscription, none of the Subscriber and parties acting in concert with him held any securities, options, warrants, convertible securities and derivatives of the Company;
- (b) save for the Subscription, none of the Subscriber and parties acting in concert with him had dealt in the securities, options, warrants, convertible securities and derivatives of the Company during the Relevant Period;
- (c) no Shares to be acquired by the Subscriber and parties acting in concert with him pursuant to the Subscription will be transferred, charged or pledged to any other persons;
- (d) no person had irrevocably committed themselves to vote for or against the resolutions to be proposed at the SGM to approve the Subscription and the Whitewash Waiver;
- (e) no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between the Subscriber and parties acting in concert with him and any other person;
- (f) no agreement, arrangement or understanding (including any compensation arrangement) existed between the Subscriber and parties acting in concert with him and any Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Subscription and/or the Whitewash Waiver;
- (g) save for the Subscription Agreement, there were no agreements or arrangements to which any member of the Subscriber and parties acting in concert with him is a party which relate to the circumstances in which it/he may or may not invoke or seek to invoke a condition to the Subscription and the consequences of its doing so, including details of any break fees payable as a result;
- (h) none of the Company or the Directors (other than the Subscriber) had any interest in the securities, options, warrants, convertible securities and derivatives of the Subscriber and/or any parties acting in concert with him;
- (i) save for the Subscription by the Subscriber, none of the Directors had dealt for value in the securities, options, warrants, convertible securities and derivatives of the Company or the Subscriber during the Relevant Period;

- (j) none of (i) the subsidiaries of the Company; (ii) the pension fund of the Company or of any of its subsidiaries; nor (iii) any person who is presumed to be acting in concert with the Company (by virtue of class (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate with the Company by virtue of class (2) of the definition of “associate” under the Takeovers Code), had any interest in the securities, options, warrants, convertible securities and derivatives of the Company and/or had dealt in the securities, options, warrants, convertible securities and derivatives of the Company during the Relevant Period;
- (k) there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of acting in concert under the Takeovers Code or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of associate under the Takeovers Code;
- (l) no securities, options, warrants, convertible securities and derivatives of the Company were managed on a discretionary basis by any fund managers connected with the Company, nor did any such fund managers deal in any securities, options, warrants, convertible securities and derivatives of the Company during the Relevant Period;
- (m) during the Relevant Period, no securities, options, warrants, convertible securities and derivatives of the Company had been borrowed or lent by any of the Directors or by the Company or by the Subscriber or parties acting in concert with him;
- (n) save for the Subscription Agreement, there was no agreement or arrangement between any of the Directors and any other person which was conditional or dependent on the outcome of the Subscription and/or the Whitewash Waiver or otherwise connected with the Subscription and/or the Whitewash Waiver;
- (o) no benefit had been given or will be given to any Directors as compensation for loss of office or otherwise in connection with the Subscription and/or the Whitewash Waiver;
- (p) save for the Subscription Agreement entered into by the Subscriber, there was no material contract entered into by the Subscriber or parties acting in concert with him in which any Director had a material personal interest; and
- (q) save for the Subscriber, none of the Directors beneficially held any Shares and accordingly, none of them (other than the Subscriber) will be entitled to vote to accept or reject the Subscription and/or the Whitewash Waiver.

12. MISCELLANEOUS

- (a) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.
- (b) The head office and principal place of business of the Company in Hong Kong is Room 20, 19/F., Fortune Commercial Building, 362 Sha Tsui Road, Tsuen Wan, Hong Kong.
- (c) The branch share registrar and transfer office in Hong Kong of the Company is Tricor Tengis Limited located at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) The company secretary of the Company is Mr. Tse Chun Lai, who has been appointed as the company secretary and authorised representative of the Company since 31 January 2020. Mr. Tse obtained a degree of bachelor of arts in Accounting and Finance from Leeds Beckett University (formerly known as Leeds Metropolitan University). He is a certified public accountant of Hong Kong Institute of Certified Public Accountants. Mr. Tse has over 15 years of experience in business and taxation advisory.
- (e) The address of the Subscriber is Room 20, 19/F., Fortune Commercial Building, 362 Sha Tsui Road, Tsuen Wan, Hong Kong.
- (f) The address of Ms. Zhao Xin, the spouse of the Subscriber, is Room 20, 19/F., Fortune Commercial Building, 362 Sha Tsui Road, Tsuen Wan, Hong Kong.
- (g) The address of Mr. Wang Chen, son of the Subscriber, is Room 20, 19/F., Fortune Commercial Building, 362 Sha Tsui Road, Tsuen Wan, Hong Kong.
- (h) The registered address of Jumbo Lane Investments Limited is Sea Meadow House, Blackburne Highway, Road Town, Tortola, British Virgin Islands. Jumbo Lane Investments Limited is wholly owned by the Subscriber and its sole director is the Subscriber.

13. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection (i) during normal business hours from 9:00 a.m. to 5:00 p.m. (other than Saturdays, Sundays and public holidays) at the head office and principal place of business in Hong Kong of the Company at Room 20, 19/F., Fortune Commercial Building, 362 Sha Tsui Road, Tsuen Wan, Hong Kong; (ii) on the SFC's website at www.sfc.hk; and (iii) the website of the Company at web.iprofpl.com/8270/info_e.html, from the date of this circular up to and including the date of the SGM:

- (a) the memorandum of continuance of the Company and the bye-laws of the Company;
- (b) the annual reports of the Company for each of the three financial years ended 31 December 2018, 2019 and 2020;
- (c) the letter from the Board, the text of which are set out on pages 5 to 19 of this circular;
- (d) the letter from the Takeovers Code IBC, the text of which are set out on pages 20 to 21 of this circular;
- (e) the letter from the Listing Rules IBC, the text of which are set out on pages 22 to 23 of this circular;
- (f) the letter of advice from Euto Capital, the text of which are set out on pages 24 to 60 of this circular;
- (g) the written consent referred to in the section headed "8. Qualifications and Consent of Expert" in this appendix;
- (h) the material contracts referred to under the paragraph "Material contracts" in this appendix; and
- (i) this circular.

NOTICE OF SGM

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)

NOTICE IS HEREBY GIVEN that a special general meeting (the “**Meeting**”) of China CBM Group Company Limited (the “**Company**”, together with its subsidiaries as the “**Group**”) will be held at Conference room, 14/F, Building B, Phase 1, Tianan Innovation Tech-Square, 25 Tairan 4th Road, Futian District, Shenzhen, China on Friday, 21 May 2021 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution with or without amendments as resolutions of the Company:

ORDINARY RESOLUTION

1. “**THAT**

- (a) the conditional subscription agreement (the “**Subscription Agreement**”) dated 31 December 2020 and entered into between the Company as issuer and Wang Zhong Sheng (the “**Subscriber**”) as subscriber in relation to, among others, the subscription of the 758,515,714 new shares of HK\$0.01 each in the share capital of the Company (the “**Subscription Shares**”) at the subscription price of HK\$0.028 per Subscription Share (a copy of which is produced to the Meeting marked “A” and signed by the Chairman of the Meeting for the purpose of identification), and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) conditional upon, among others, the Stock Exchange granting the listing of, and permission to deal in, the Subscription Shares, the allotment and issue of the Subscription Shares in accordance with the terms and conditions of the Subscription Agreement and the transactions contemplated thereunder be and is hereby approved;
- (c) the board (the “**Board**”) of directors (each a “**Director**”) of the Company be and is hereby granted with a specific mandate to allot and issue the Subscription Shares to the Subscriber; and
- (d) any one Director be and is hereby authorised to do all such things and acts as he may in his discretion consider as necessary, expedient or desirable for the purpose of or in connection with the implementation of the Subscription Agreement and the transactions contemplated thereunder, including but not limited to the execution all such documents under seal where applicable, as he considers necessary or expedient in his opinion to implement and/or give effect

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to the allotment and issue of the Subscription Shares and to agree with such variation, amendment or waiver as, in the opinion of the Directors, in the interests of the Company and its Shareholders as a whole.”

SPECIAL RESOLUTION

2. “**THAT**, subject to the granting of the Whitewash Waiver (as defined below) by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any of his delegate(s) and any conditions that may be imposed thereon, the waiver (the “**Whitewash Waiver**”) of the obligation on the part of the Subscriber and parties acting in concert with him to make a mandatory general offer to the shareholders of the Company for all the issued shares of the Company (other than those already owned or agreed to be acquired by Subscriber and parties acting in concert with him) which might otherwise arise as a result of the Subscriber subscribing for the Subscription Shares under the Subscription Agreement pursuant to Note 1 on Dispensations from Rule 26 of The Code on Takeovers and Mergers be and is hereby approved, and that any one or more of the Directors be and is/are hereby authorised to do all such acts and things and execute all such documents under seal where applicable as he considers necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to any of the matters relating to, or incidental to, the Whitewash Waiver.”

By order of the Board
China CBM Group Company Limited
Wang Zhong Sheng
Chairman

Hong Kong, 22 April 2021

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

*Head office and principal place of
business in Hong Kong:*
Room 20, 19/F
Fortune Commercial Building
362 Sha Tsui Road
Tsuen Wan, Hong Kong

NOTICE OF SGM

Notes:

1. Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, in the event of a poll, vote in his/her stead. A proxy need not be a member of the Company.
2. In order to be valid, the form of proxy must be duly lodged at the Company's branch registrar in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is duly signed or a notarially certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or any adjourned meeting.
3. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above meeting or any adjournment thereof, should he so wish, and in such event, the form of proxy shall be deemed to be revoked.