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 registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.*

If you have sold or transferred *all your shares in* ***Kinetic Development Group Limited****, you should at once hand this circular 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.*

力量发展
KINETIC DEVELOPMENT GROUP

Kinetic Development Group Limited
力量發展集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1277)

DISCLOSEABLE AND CONNECTED TRANSACTION ACQUISITION OF SHARES IN STAR IDEA AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders

RAINBOW.
RAINBOW CAPITAL (HK) LIMITED
浤博資本有限公司

Capitalized terms used shall have the same meanings as those defined in the section headed "Definitions" in this circular. A letter from the Board is set up on pages 7 to 47 of this circular. A letter from the Independent Board Committee is set out on pages 48 to 49 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 50 to 97 of this circular. A valuation report from Vision Appraisal and Consulting Limited is set out on pages I-1 to I-31 of this circular.

A notice convening the EGM of Kinetic Development Group Limited to be held at 18th Floor, 80 Gloucester Road, Wanchai, Hong Kong on Friday, 28 July 2023 at 3:30 p.m. is set out on pages EGM-1 to EGM-4 of this circular.

A form of proxy for use by the Shareholders at the EGM is enclosed with this circular for dispatch to the Shareholders. Whether or not you intend to attend and/or vote at the EGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as practicable but in any event not later than 48 hours before the time specified for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

30 June 2023

CONTENTS

Page

DEFINITIONS 1

LETTER FROM THE BOARD 7

LETTER FROM INDEPENDENT BOARD COMMITTEE 48

LETTER FROM INDEPENDENT FINANCIAL ADVISER 50

APPENDIX I — VALUATION REPORT I-1

APPENDIX II — LETTER FROM THE BOARD IN RELATION TO THE FORECAST IN CONNECTION WITH THE VALUATION II-1

APPENDIX III — REPORT FROM YONGTUO FUSON ON THE CALCULATION OF THE DISCOUNTED CASH FLOWS USED IN THE VALUATION OF THE TARGET COMPANY III-1

APPENDIX IV — STATUTORY AND GENERAL INFORMATION IV-1

NOTICE OF EXTRAORDINARY GENERAL MEETING EGM-1

In this circular, unless the context otherwise requires, the following terms shall have the following meanings:

"Accounting Standards"	the accounting standards considered acceptable by the Purchaser in its sole discretion;
"Acquisition"	the proposed acquisition of the Target Company by the Purchaser from the Vendor pursuant to the terms of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement);
"Acquisition and Loan Agreements"	Acquisition and Loan Agreements as defined in the voluntary announcement by the Company dated 17 February 2023;
"Acquisition and Subscription Agreement"	the Acquisition and Subscription Agreement entered into between the Vendor, the Purchaser and the Target Company on 30 December 2022;
"associate"	has the meaning ascribed to it under the Listing Rules;
"Board"	the board of Directors;
"Business Days"	any day that is not a Saturday, Sunday, legal holiday or other day on which commercial banks are required or authorized by law to be closed in Hong Kong or Cambodia;
"Cigar Factory"	The cigar factory located in Cambodia which is licensed by the Cambodian government and operated by the Target Group Company;
"Closing"	the completion of the Acquisition in accordance with the terms of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement);
"Company"	Kinetic Development Group Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange;

"connected person(s)"	has the meaning ascribed to it under the Listing Rules;
"Consideration"	US$62,757,010.02, being the amount payable by the Purchaser to the Vendor for the Acquisition pursuant to the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement);
"Directors"	the director(s) of the Company;
"EBITDA"	Earnings Before Interest, Taxes, Depreciation and Amortization;
"EGM"	the extraordinary general meeting of the Company to be convened to consider, and, if thought fit, approve the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and the transactions contemplated thereunder;
"Group"	the Company and its subsidiaries;
"Guizhou Energy"	Guizhou Kinetic Energy Co., Ltd.* (貴州力量能源有限公司), a limited liability company established in the PRC on 27 September 2011, which is indirectly held as to 100% by Mr. Zhang Li;
"Guizhou Mining"	Guizhou Kinetic Mines Co., Ltd.* (貴州力量礦業有限公司), a limited liability company established in the PRC on 21 December 2020 and an indirect wholly-owned subsidiary of the Company;
"HK$"	Hong Kong Dollars, the lawful currency of Hong Kong;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"Independent Board Committee"	the independent committee of the Board comprising all the independent non-executive Directors;

"Independent Financial Adviser"	the independent financial adviser, Rainbow Capital (HK) Limited, which has been appointed to advise the Independent Board Committee in relation to the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and the transactions contemplated thereunder;
"Independent Shareholder(s)"	Shareholders other than (i) Mr. Zhang Li, who is considered to have a material interest in, to be interested in or involved in the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and the transactions contemplated thereunder, (ii) Mr. Zhang Liang, Johnson, being an associate of Mr. Zhang Li and (iii) the respective connected person(s) and associate(s) of Mr. Zhang Li and Mr. Zhang Liang, Johnson;
"Independent Valuer"	Vision Appraisal and Consulting Limited, an independent valuer engaged by the Company;
"Kinetic (Qinhuangdao)"	Kinetic (Qinhuangdao) Energy Co., Ltd.* (力量(秦皇島)能源有限公司), a company incorporated in the PRC with limited liability on 4 August 2011 and an indirect wholly-owned subsidiary of the Company;
"King Lok"	King Lok Holdings Limited, a company incorporated in the British Virgin Islands on 9 December 2009, which is wholly-owned by Mr. Zhang Liang, Johnson;
"Latest Practicable Date"	26 June 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Loan Agreement"	the agreement entered into by the Purchaser as the lender, and the Target Company, as the borrower, on 4 November 2022, under which the Purchaser has committed to provide a loan to the Target Company in the principal amount up to RMB200 million (but payable in HK$ of equivalent amount) for a term of 2 years;

"Loan Commitment"	the aggregate amount of the loan which the Purchaser has committed to grant to the Target Company under the Loan Agreement;
"Material Contracts"	collectively, each contract to which a Target Group Company or any of its properties or assets is bound or subject to that (i) involves obligations, payments or the dealing of assets, indebtedness or security package with a value in excess of US$100,000 per annum or has an unexpired term in excess of one year after the date hereof, (ii) licenses, transfers, assigns, sales, incurs any lien on intellectual property that is material to a Target Group Company, (iii) restricts the ability of a Target Group Company to compete or to conduct or engage in any business or in any jurisdiction, region or territory, (iv) relates to the sale, issuance, grant, exercise, award, purchase, repurchase or redemption of any equity securities, (v) involves any provisions providing for exclusivity, "change in control", "most favored nation", rights of first refusal or first negotiation or similar rights, or (vi) is with a related party;
"Mr. Zhang Liang, Johnson"	Mr. Zhang Liang, Johnson, a substantial shareholder of the Company and the son of Mr. Zhang Li;
"Obligors"	Guizhou Energy, Mr. Zhang Li and subsidiaries of Seedland;
"Pledged Shares"	5,307,450,000 shares in the Company held by the Pledgors and the direct and indirect interests derived therefrom;
"Pledgees"	the Company, Kinetic (Qinhuangdao) and Guizhou Mining;
"Pledgors"	Mr. Zhang Liang and King Lok;
"PRC"	The People's Republic of China, and for the purpose of this circular only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;

"Purchaser"	the Company;
"RMB"	Renminbi, the lawful currency of the PRC;
"Sale Shares"	36,500 shares in the Target Company, representing 73% of the total number of issued shares as at the date of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement);
"Seedland"	Guangzhou Seedland Real Estate Development Co., Ltd* (實地地產集團有限公司), a company incorporated in the PRC with limited liability and wholly-owned by Mr. Zhang Liang;
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"Share Pledge Agreement"	the share pledge agreement entered into between the Pledgors and the Pledgees dated 17 February 2023;
"Shareholder(s)"	holder(s) of share(s) of US$0.001 each in the share capital of the Company;
"Signing Date"	30 December 2022, being the date on which the Acquisition and Subscription Agreement was signed by the parties thereto;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Subsidiary"	Power Cigar Tobacco Co., Ltd, a company incorporated in the Kingdom of Cambodia with limited liability and a wholly owned subsidiary of Star Idea;
"Supplemental Agreement"	the Supplemental Agreement entered into between the Vendor, the Purchaser and the Target Company on 29 March 2023;

"Target Company" or "Star Idea"	Star Idea Enterprises Limited (星耀企業有限公司), a company incorporated in the British Virgin Islands with limited liability;
"Target Group Company"	each of the Target Company and the Subsidiary; and "Target Group Companies" or "Target Group" refer to both Group Companies collectively;
"Transaction Documents"	the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and each of the other agreements and documents otherwise required in connection with the implementation of the transactions contemplated under any of the foregoing as designated by the Purchaser from time to time;
"US$"	United States dollar, the lawful currency of United States;
"Valuation Report"	the valuation report prepared by Vision Appraisal and Consulting Limited;
"Vendor"	Mr. Zhang Li, a substantial shareholder of the Company;
"Warrantors"	the Vendor and the Target Company, collectively, and a reference to "Warrantor" is to each and every one of them;
"Yongtuo Fuson"	Yongtuo Fuson CPA Limited, certified public accountants and Registered Public Interest Entity Auditor ("**PIE Auditor**") engaged by the Company in relation to the valuation of the discounted cash flows used in the valuation of the Target Company;
"%"	per cent.

* *The English translation of the Chinese name(s) in this circular, where indicated, is included for information purpose only, and should not be regarded as the official English name(s) of such Chinese name(s).*

Kinetic Development Group Limited
力量發展集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1277)

Executive Directors:
Mr. Ju Wenzhong *(Chairman)*
Mr. Li Bo
Mr. Ji Kunpeng

Non-executive Director:
Ms. Zhang Lin

Independent Non-executive Directors:
Ms. Liu Peilian
Mr. Chen Liangnuan
Ms. Xue Hui

Registered Office:
Windward 3,
Regatta Office Park,
P.O. Box 1350,
Grand Cayman KY1-1108,
Cayman Islands

Headquarters and Principal Place of Business in the PRC:
Dafanpu Coal Mine,
Majiata Village,
Xuejiawan Town,
Zhunge'er Banner,
Ordos City, Inner Mongolia, China

Principal Place of Business in Hong Kong:
18th Floor,
80 Gloucester Road,
Wanchai,
Hong Kong

30 June 2023

To the Shareholders,

Dear Sir/Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION ACQUISITION OF SHARES IN STAR IDEA AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Reference is made to the announcements of the Company dated 30 December 2022 and 29 March 2023, where the Vendor and the Purchaser entered into the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement), pursuant to which (i) the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Shares, for the Acquisition Consideration. Upon completion of the Acquisition, the Target Company will be held as to 73% by the Company and 27% by the Vendor, and will be a direct non-wholly-owned subsidiary of the Company and its financial results will be consolidated into that of the Group.

The principal asset of the Target Company is 100% equity interest in the Subsidiary, a company incorporated in the Kingdom of Cambodia principally engaging in the manufacturing and wholesale of tobacco products, including cigarettes and hand-made cigars in Cambodia and Southeast Asia.

The purpose of this circular is to provide further information in relation to Acquisition of shares in Star Idea pursuant to the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement).

THE ACQUISITION

The principal terms of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) are set out below:

Date: 30 December 2022 (Acquisition and Subscription Agreement)

29 March 2023 (Supplemental Agreement)

Parties:

(1) The Purchaser

(2) The Vendor

(3) Target Company

Asset to be acquired: The Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Shares, being 36,500 existing shares, representing approximately 73% of the equity interest in the Target Company as at the date of the Acquisition and Subscription Agreement, which holds 100% equity interest in the Subsidiary.

Total consideration and payment: The Consideration payable by the Purchaser for the Acquisition under the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) amounts to US$62,757,010.02.

The Consideration was determined by reference to the valuation of 100% equity interest of the Target Company of RMB610.0 million as at 30 November 2022 as appraised by the Independent Valuer by way of discounted cash flow method of the income approach, and the proportional interest of the Group in the Target Company upon completion of the Acquisition.

The Consideration will be funded by internal resources of the Group.

The Consideration shall be paid in the following three instalments:

(1) as at the date of the Acquisition and Subscription Agreement, US$19,435,763.04 has been paid to the Vendor as deposit;

(2) US$20,000,000, shall be paid within 30 Business Days from (and excluding) the Signing Date which has been paid as of the Latest Practicable Date; and

(3) the balance of the Consideration shall be paid on or before Closing.

Conditions precedent: Completion of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) is conditional upon various conditions having been fulfilled, or waived by the Purchaser including, amongst others:

(1) each of the representations and warranties of the Warrantors contained in the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) is and remains true, accurate and complete;

(2) the Purchaser shall have completed satisfactory financial, legal and business due diligence with respect to the Target Group to the satisfaction of the Purchaser;

(3) each Warrantor shall have performed and complied with all obligations and conditions contained in the Transaction Documents that are required to be performed or complied with by them on or before the Closing;

(4) no provision of any applicable laws shall prohibit the consummation of any transactions contemplated under the Transaction Documents and all consents required from any competent governmental authority or other third party have been obtained;

(5) the Purchaser has obtained all approvals (including but not limited to approval from the shareholders if applicable) required for the consummation of the transactions contemplated under the Transaction Documents and has completed all procedures required therefor under the Listing Rules;

(6) all corporate and other proceedings in connection with the transactions to be completed at the Closing shall have been completed in form and substance satisfactory to the Purchaser; and

(7) since the Statement Date, no material adverse effect shall have occurred, and no event shall have occurred or arisen that would reasonably be expected to result in a material adverse effect.

Termination: The Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) may be terminated prior to the Closing (a) by written consent of all parties, (b) by the Purchaser, by written notice, if there has been a material misrepresentation (or any representation or warranty made becomes untrue, inaccurate or misleading) or material breach of a covenant or agreement contained in the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) on the part of the Vendor or any Warrantor, and such breach, if curable, has not been cured within 14 days of such notice, or (c) by the Purchaser, if any condition precedent has neither been fulfilled nor waived by 30 June 2023, or if due to change of applicable laws, the consummation of the transactions contemplated thereunder would become prohibited under applicable laws.

Such termination shall not relieve the Vendor or the Target Company from any liability arising from any breach of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) on their part(s), and shall not relieve the Vendor from any of his obligation to refund the payment made by the Purchaser under the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) in accordance with the terms therein within the time period and in the manner requested by the Purchaser.

Closing: The consummation of the sale and purchase of the Sale Shares shall take place remotely via the signing of documents and/or exchange of documents and signatures on the date which is a Business Day by which all closing conditions specified in the section "Conditions Precedent" above have either been satisfied or waived before or upon Closing or at such other time and place as the Vendor and the Purchaser shall mutually agree in writing.

At the Closing, the Target Company shall deliver to the Purchaser all corporate documents, licenses, certificates, as reasonably requested by the Purchaser.

At the Closing, the Vendor shall (1) deliver to the Purchaser (a) the relevant share certificate evidencing ownership of the Sale Shares, (b) a duly signed instrument of transfer to effect the transfer of the Sale Shares to the Purchaser, (c) resignation as director(s) signed by any existing director of the Target Company (if so requested by the Purchaser), and (2) provide all assistance reasonably required by the Purchaser to complete the registration of the Purchaser as owner of the Sale Shares and of any person nominated by the Purchaser to as director(s) of the Target Company at the relevant authority as soon as possible after Closing.

At the Closing, the Purchaser shall deliver to the Target Company duly completed application for the Subscription Shares.

Key representations and warranties:

Each of the Warrantors jointly and severally represents and warrants to the Purchaser that statements including the follows (amongst others) are true, correct, complete and not misleading as of the Closing:

(1) The issued share capital of the Target Company is and immediately prior to and after the Closing shall be US$50,000 divided into a total of 50,000 ordinary shares.

(2) The Target Company is the sole record and beneficial holder of all of the equity securities of the Subsidiary free and clear of all encumbrances other than those arising under applicable law.

(3) The Vendor does not, either on its own account or through any of its affiliates (other than the Target Group Companies), or in conjunction with or on behalf of any other person, carry on or are engaged in any business in direct competition with the main business of the Target Group Companies.

(4) There are no outstanding loans, amounts payable or any other liabilities between any Target Group Company and the Vendor or any of its affiliates, except for those disclosed to the Purchaser (if applicable).

(5) The unaudited consolidated balance sheet (the "**Balance Sheet**") and unaudited income statements and unaudited accounts for the Target Group Companies for the two years ended 31 December 2021 (the "**Statement Date**") and the unaudited consolidated balance sheet and unaudited income statements and management accounts for the Target Group Companies for the 11 months ended 30 November 2022 have been prepared in accordance with the books and records of the Target Group Companies and give a true and fair view of the financial condition and position of the Target Group Companies as of the dates indicated therein and the results of operations and cash flows of the Target Group Companies for the periods indicated therein.

(6) Since the Statement Date, each of the Target Group Companies has operated its business in the ordinary course consistent with its past practices, and there has not been any material adverse effect or any material change in the way each Target Group Company conducts its business.

(7) No Target Group Company has any liabilities or capital commitment of the type that would be disclosed on a balance sheet in accordance with the applicable Accounting Standards, except for (a) liabilities set forth in the Balance Sheet that have not been satisfied since the Statement Date and (b) current liabilities incurred since the Statement Date in the ordinary course of the Target Group business which do not exceed US$100,000 in the aggregate.

(8) The Vendor and the Target Company have disclosed to the Purchaser the information in relation to all Material Contracts, and in relation to all material capital commitment, guarantee or other contingent liabilities.

(9) Each Target Group Company has good and valid title to, or valid leasehold interest in, or right to occupy and use, all of its respective assets and real properties. The foregoing assets and real properties collectively represent all material assets and real properties necessary or desirable for the conduct of the business of each Target Group Company as presently conducted and as proposed to be conducted.

(10) Each Target Group Company owns or otherwise has sufficient rights to all intellectual property necessary or desirable for conducting its business as currently conducted by such Target Group Company and as contemplated to be conducted without any conflict with or infringement of the rights of any other person.

(11) The inventory now held by the Target Company and not written off in the Financial Statements is not obsolete or expected by the Vendor to realize less than its book value and does not include goods returned by customers of the Target Company, and is not and will not when put to its intended use become defective or unsafe.

(12) During the 24-months ending respectively on the Signing Date and the date of Closing, there has been no substantial change in the basis or terms on which any key customer, material supplier or other business partner is prepared to do business with the Target Company (apart from normal price changes), no key customer or material supplier or other business partner has ceased or substantially reduced its business with the Target Company, and no key employee ceasing or proposing to cease to work for any Target Group Company.

Waiver: The Vendor waives any right of pre-emption, right of first refusal or other right conferred on the Vendor in respect of any of the Sale Shares or Subscription Shares.

Negative covenants: Between the Signing Date and the Closing, except as the Purchaser otherwise agrees in writing, none of the Target Group Companies shall (and the Warrantors shall not permit any of the Target Group Companies to) (a) take any action that would make any representation and warranty of the Warrantors inaccurate at any Closing, (b) waive, release or assign any material right or claim, (c) take any action that would, in the opinion of the Purchaser, materially impair the value of the Target Group Companies, (d) sell, purchase, assign, lease, transfer, pledge, encumber or otherwise dispose of any material asset, (e) issue, sell, or grant any equity security, (f) declare, issue, make, or pay any dividend or other distribution with respect to any equity security, (g) incur any indebtedness for borrowed money or capital lease commitments or assume or guarantee any indebtedness of any person, (h) enter into any contract or other transaction with any related party, or (i) authorize, approve or agree to any of the foregoing.

Performance undertaking:

(a) The Vendor warrants to the Purchaser that the estimated aggregate future EBITDA to be achieved by the Target Company for the period encompassing five financial years ending 31 December 2027 (the "**Total Estimated EBITDA**", and such period the "**Warranty Period**"), the specifics of which (calculated by aggregating the earnings before interest, taxes, depreciation and amortization estimated for each of these financial years) have been set out in the Valuation Report based on which the Consideration was determined, is fair and reasonable and in line with the Vendor's understanding of the business and operation status of the Target Company and the market condition related to the business of the Target Company.

(b) The Vendor further agrees that if the total EBITDA actually achieved by the Target Company during the Warranty Period, to be calculated at the end of the Warranty Period, falls short of the Total Estimated EBITDA, it shall compensate the Purchaser in the amount to be calculated according to the formula set out in subparagraph (c) below.

(c) The compensation as referred to in paragraph (b) above shall be calculated as follows:

C = (T - A)*73%;

In which:

C is the amount of compensation to be paid by the Vendor to the Purchaser in accordance with this performance undertaking clause;

T is the Total Estimated EBITDA; and

A is the actual total EBITDA achieved by the Target Company during the Warranty Period, to be calculated at the end of the Warranty Period. The actual total EBITDA excludes any income or loss of the Target Group generated by activities outside the ordinary and usual course of its business.

(d) The Vendor agrees that the compensation methodology and arrangement set out in this performance undertaking clause represents a reasonable estimate of the Purchaser's loss in the circumstance of a shortfall in the total EBITDA achieved by the Target Company, and does not constitute and shall not be regarded or disputed as a penalty in any event.

The Company wili comply with the disclosure requirements set out in Rule 14A.63 of the Listing Rules if the total EBITDA achieved by the Target Company is less than the Total Estimated EBITDA.

Reversal of termination of the Loan Agreement: Given that the Vendor, the Purchaser and the Target Company agreed not to carry out the Subscription, there is no need for the outstanding loan principal and accrued interest under the Loan Agreement to be referred to, and treated, as part of the Subscription Price payable by the Purchaser in connection with the Subscription any more. As a result, the arrangement to terminate the Loan Agreement upon closing under the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) will be reversed as well.

With regards to the conditions precedent as referred to in the section "Conditions Precedent" above, to the best knowledge of the Company, as at the date of this circular, all conditions precedent have been fulfilled, except for the conditions that (i) the Purchaser shall have obtained all shareholder approvals required for the consummation of the transactions contemplated under the Transaction Documents and have completed all procedures required therefor under the Listing Rules, which are being sought via the EGM; and (ii) the provision by the Target Company of the audited accounts, which the Company has engaged an external auditor to prepare for 4 years ended 31 December 2022 in accordance with the Cambodian International Financial Reporting Standards ("**CIFRS**"). There is no significant discrepancy between CIFRS and the International Financial Reporting Standards ("**IFRS**").

With regards to the performance undertaking as referred to in the section "Performance Undertaking" above:

a) The Total Estimated EBITDA, calculated by aggregating the earnings before interest, taxes, depreciation and amortization estimated for each of the five financial years ending 31 December 2027, as set out in the Valuation Report, is RMB145.5 million.

b) The Company expects to obtain the audited financial statements of the Target Company for the five financial years ending 31 December 2027, for determining the actual EBITDA, by the end of March 2028.

c) The Target Company is expected to adopt the CIFRS in compiling its audited financial statements for the five financial years ending 31 December 2027.

d) If the actual total EBITDA achieved by the Target Company during the Warranty Period falls short of the Total Estimated EBITDA, such shortfall, multiplied by 73% as per the formula set out in the announcement dated 29 March 2023, is expected to be paid to the Company in the form of compensation within 3 months after the issuance of the audited report of the Target Company for the year ending 31 December 2027.

e) Based on the formula for calculating the compensation, in case of a shortfall between the above-mentioned actual total EBITDA and the Total Estimated EBITDA:

    i. if "A", which represents the actual total EBITDA achieved, is a negative figure, then the calculation of (T–A) will yield a figure equal to:

        - "T", which represents the Total Estimated EBITDA, plus

        - the absolute value of "A";

        which calculation will in effect produce a number larger than T; and

    ii. such number represents the amount payable to the Purchaser by the Vendor.

BASIS OF DETERMINATION OF CONSIDERATION

The Consideration payable by the Purchaser under the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) amounts to US$62,757,010.02, which is determined by reference to the valuation of 100% equity interest of the Target Company of RMB610.0 million as at 30 November 2022 as appraised by the Independent Valuer by way of discounted cash flow method of the income approach.

Since the discounted cash flow method of the income approach was adopted in the preparation of the Valuation Report, such valuation constitutes profit forecasts under Rule 14.61 of the Listing Rule and the Company will make a further announcement in due course.

As informed by the Vendor, the original cost of the Target Company was approximately US$74,457,549.61, which included the costs and expenses incurred for the incorporation of, and investment into, the Target Group Companies.

The Consideration is determined by reference to the valuation of 100% equity interest of the Target Company of RMB610 million, which means that 73% of the equity interest represents a value of RMB445.3 million (approximately US$63.803 million based on the RMB:US$ currency exchange rate of 6.9793:1). The Consideration of US$62.757 million represents a discount of approximately 1.64% over the appraised value calculated based on the valuation i.e. US$63.803 million.

Profit forecasts under the Valuation Report

As disclosed above, the Consideration is determined by reference to the valuation of 100% equity interest of the Target Company of RMB610.0 million as at 30 November 2022 as appraised by the Independent Valuer by way of discounted cash flow method of the income approach, and the proportional interest of the Group in the Target Company upon completion of the Acquisition.

Since the discounted cash flow method of the income approach was adopted in the preparation of the Valuation Report, such valuation constitutes profit forecasts under Rule 14.61 of the Listing Rule and the Company has issued a further announcement on 30 June 2023.

Assumptions of Valuation

Pursuant to Rule 14.62(1) of the Listing Rules, details of the principal assumptions, including commercial assumptions, upon which the Valuation Report was based are as follows:

- The information provided and the representations made by the management with regard to the Target Group's financial, business affairs, business plan and financial projection are accurate and reliable;

- The Subsidiary represents the major assets held by the Target Group and the financial statements of the Subsidiary provided by the management have been adopted;

- The Target Group will continue to operate as a going concern and has sufficient liquidity and capability to achieve the business operations;

- The Target Group has obtained or will obtain all necessary permits, business certificates, licenses and legal approvals to operate the business and all relevant permits, business certificates, licenses and legal approvals to operate the business in the localities in which the Target Group operates or intends to operate would be officially obtained and renewable upon expiry with de minimis expenses;

- The financial projection in respect of the Target Group has been prepared on a reasonable basis after due and careful consideration by the management and will be materialized according to schedule;

- The Target Group has acquired, or will acquire, adequate financial capital for the investments in projected capital expenditure and working capital from time to time, and any scheduled interest or repayment of loan and payable will be paid on time;

- There will be sufficient supply of technical staff in the industry in which the Target Group operates or intends to operate, and the Target Group will retain competent management, key personnel and technical staff to support their ongoing operations and developments;

- The senior management of the Target Group will implement only those prospective financial and operational strategies that will maximize the efficiency of the operation of the Target Group;

- The senior management of the Target Group has sufficient knowledge and experience in respect of the operation of the Target Group, and the turnover of any director, management or key person will not affect the operation of the Target Group;

- There will be no major changes in the current taxation laws in the localities in which the Target Group operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;

- There will be no major changes in the political, legal, economic or market conditions in the localities in which the Target Group operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Target Group;

- There will be no material changes in the relevant interest rates and exchange rates that would impact the Target Group's business;

- The occurrence of any natural disaster such as fire, flood and hurricane will not affect the operation of the Target Group;

- There are no undisclosed actual or contingent assets or liabilities, no unusual obligations or substantial commitments, other than in the ordinary course of business and as reflected in the financials, nor any litigation pending or threatened, which would have a material impact on the value of the Target Group as of the date of valuation; and

- Apart from the figures shown in the financial statements available to us, the Target Group has no material asset and liability as of the date of valuation.

The Board has confirmed that they have made the forecast after due and careful enquiry. The reporting accountants of the Company, Yongtuo Fuson, has reported on the calculation of the discounted future cash flows used in the valuation. The report from Yongtuo Fuson on the discounted cash flows used in the valuation has been set out in Appendix III. The discounted future cash flows do not involve the adoption of accounting policies.

A letter from each of the Board and Yongtuo Fuson has been submitted to the Stock Exchange and are included in Appendices II and III respectively to this circular for the purposes of Rule 14.62 of the Listing Rules.

The Board's assessment on the competency and independence of the Independent Valuer

With respect of competency

The Board has:

(i) carried out some research based on publicly available information to make sure that the Independent Valuer is a well-established professional appraisal and consultancy firm experienced in providing business and assets valuation services for investment funds, private and public companies operating in Hong Kong, Mainland China, Southeast Asia, Europe and North America; and

(ii) obtained the relevant qualifications and credentials of the team members involved in the valuation of the equity interest of the Target Company and understood that they have been appointed as the valuer by over 15 Hong Kong listed companies in the past. Besides, Dave Yang, the signatory of the Valuation Report, is a Chartered Financial Analyst (CFA) and has accumulated over 8 years of experience in business and financial valuation services, business consulting and M&A advisory services for a wide variety of industries including natural resources, renewable energy, e-commerce platforms, electric vehicles, tourism, manufacturing, banking and financial services, entertainment and multimedia.

With respect of independence

The Board has:

(i) conducted public searches to check that there is no relationship among the Independent Valuer, the Target Group Companies, the Vendor and their respective connected persons from the management, operational and financial perspectives;

(ii) discussed with the Independent Valuer and obtained their confirmation that they are independent from the Target Group Companies, the Vendor and their respective connected persons, and

(iii) confirmed that there is no relationship between the Company and the Independent Valuer.

As such, the Board has no reason to doubt the competency and independence of the Independent Valuer.

The Board's assessment on the valuation methodology and key assumptions

With respect of valuation methodology

The Board noted that, as set out in the Valuation Report, the Independent Valuer considered that:

(i) the income approach is the most appropriate valuation approach for the valuation of the Target Group, as it takes into consideration the future growth potential and company-specific issues of the Target Group Companies;

(ii) the discounted cash flow method, which begins with an estimation of the annual cash flows that a market participant acquirer would expect the asset to generate over a discrete projection period, is appropriate because the purpose of purchasing and subscribing for shares in the Target Company is for the Company to benefit from the future income to be generated by the Target Company. Therefore, the prospect of future income-generating is the central factor to consider when it comes to gauging the value of the Target Company from the perspective of the Company;

(iii) in estimating the value of the Target Company, it's appropriate to apply certain discount rates such as the weighted average cost of capital and an additional discount for lack of liquidity given the shares purchased and subscribed for are shares of privately held companies rather than publicly held companies, which the Board concurs.

With respect to the major assumptions of the Valuation Report

The Board has reviewed the major assumptions in the Valuation Report, which have been set out in full at Section 7 of the Valuation Report. Based on the information obtained and available so far in the due diligence process and the discussion with the management of the Target Group, the Board is not aware of any fact or circumstance which is contradictory to or materially diverts from any of these assumptions, and considers it reasonable and necessary for the Independent Valuer to rely on these assumptions to produce the Valuation Report. On this basis, the Board considers each of these assumptions fair and reasonable.

With respect to the main assumptions of the DCF method

The Board have also reviewed the main assumptions adopted in the DCF method, which have been set out in full at Section 8 of the Valuation Report. Based on the information obtained and available so far in the due diligence process and the discussion with the management of the Target Group, the Board is not aware of any fact or circumstance which is contradictory to or materially diverts from any of these assumptions.

In addition, the Board has discussed with the Independent Valuer and has also carried out its independent research to come to the conclusion that it is reasonable and necessary for the Independent Valuer to rely on these assumptions in implementing the DCF method.

In particular, in relation to the following assumptions with regards to the expected financial performance of the Target Group:

i. the revenue is expected to be doubled in each of the five financial years ending 31 December 2027;

ii. the expected gross profit margin of 70% in each of the five financial years ending 31 December 2027; and

iii. the expected net profit margin of 14.5% and 30.9% in the financial year 2026 and 2027 respectively,

the key factors taken into account by the Board in this respect include the follows:

In respect of the above-mentioned expected revenue

a) According to the business plan and financial projection provided by the Target Group, the Target Group will be focusing on more direct sales to retailers and business clients in Cambodia during the projection period. Direct sales will allow the Target Group to earn a higher margin, benefiting from better relationships and marketing strategies with their loyal clients. Sales through distributors, on the other hand, build on the sales network developed by distributors, who are responsible for the marketing and selling of the tobacco products, and for delivering the tobacco products to the end customers through retailers. The collaborative relationship under this model, therefore, is primarily between the Target Group and the distributors, as opposed to the retailers directly.

In terms of the markets to be covered through the application of different sales models, direct sales is used for the markets in key provinces and cities in Cambodia, such as Phnom Penh, Siem Reap and Preah Sihanouk, and distributors are engaged for the markets in peripheral areas like Battambang, Takéo, Kampong Cham, and Kampong Speu. The Target Company has initiated a preliminary collaboration with distributors in Takéo, Kompong Thanh Yang and Komgpong Cham, which are understood to cover approximately 800 retailers. The Target Group expects to develop one to three distributors in each peripheral area, each of which is understood to have the capacity of covering 6,000 to 8,000 retailers, with the aim of reaching 30,000 retailers through distributors by the end of 2027. In terms of the plan of the Target Group to increase the number of direct sales of its tobacco products:

- Currently, there are approximately 90,000 cigarette retailers in Cambodia, and the Target Group has established collaborative relationships with more than 8,000 of these retailers as at the end of 2022, all through direct sales. The Target Group plans to gradually increase the number of retailers whom it collaborates with for direct sales of its tobacco products to approximately 20,000 by 2025, in order to increase the volume of direct sales of its tobacco products.

  A. The Target Group projects that the number of direct sale retailers will grow as follows:

	2023	**2024**	**2025**	**2026**	**2027**
Total target number of retailers	10,000	22,000	28,000	40,000	50,000
Target number of retailers through distributors	2,000	8,000	8,000	20,000	30,000
Target number of retailers for direct sales	8,000	14,000	20,000	20,000	20,000

  This expansion plan took into account, among other factors, the Target Group's track-record of having successfully built a team of approximately 60 persons, comprising a sales team of 35 sales personnel and a promotional/supporting team of 25 people, and developed a retail network comprising 5,000 retailers in 2019, before the COVID-19 pandemic hit.

B. It is anticipated the size of the sales team will be as follows:

	2023	2024	2025	2026	2027
Total target team size	70	130	180	220	260
Number of personnel responsible for developing and maintaining business with distributors	10	30	30	70	110
Number of personnel responsible for developing and maintaining direct sales business	60	100	150	150	150

C. In terms of the maintenance of relationships with the direct sales retailers, each salesperson in the direct sales team is expected to cover 160 to 200 stores. There will be generally one supervisor assigned for every seven salespeople, and one regional manager assigned for every seven supervisors.

- The Target Group is prepared to implement a range of marketing and promotion strategies to increase the direct sales of its tobacco products, including but not limited to:

A. "Empty pack for full pack" promotion, where consumers could return an empty pack of cigarettes of certain brands to the retailers, in exchange for a full pack of cigarettes of the same brand;

B. Gift promotion, where retailers who managed to achieve a certain sales volume of cigarettes are entitled to certain gifts to be provided by the Target Group; and

C. Rebate promotion, where the Target Group will provide certain rebates to retailers who managed to achieve a certain sales volume of cigarettes.

b) According to the public information published on Statista, a well-known online provider of market data, the market size of the tobacco market in Cambodia is projected to grow progressively from US$220 million (equivalent to approximately RMB1,500 million) in 2022 to US$240 million (equivalent to approximately RMB1,600 million) by 2027. The Company believed that the market depth in Cambodia will allow the Target Group to achieve what was proposed in the business plan and the financial projection. In terms of the ability of the Target Group to achieve the growth rate expected in the financial projection:

- The expected growth in revenue of the Target Group mainly takes into account the future ability of carrying out direct sales through an estimate of 20,000 retail stores, as mentioned in paragraph (a) above. In terms of the revenue of tobacco products, the Target Group aims to capture approximately 4.12% of the Cambodian market by the end of 2027.

  A. It is expected that by 2027, the revenue of the Target Group for cigarette sales in the Cambodian market will reach approximately US$10.04 million, with sales of approximately 350 million sticks of cigarette will derive from both direct sales and the distributor network.

  B. The sales volume is projected to increase from 42 million sticks of cigarette in 2023 to approximately 350 million sticks of cigarette in 2027, with the number of retailers selling tobacco products, including both direct sales and distribution channels, increasing from 10,000 in 2023 to 50,000 in 2027.

  C. To achieve sales of 350 million sticks of cigarette by 2027, the Target Group expects to achieve an average daily sales volume of one pack of cigarettes per retailer, with a planned average daily sales volume of 0.5 pack per retailer in 2023 taking into account both direct sales and distribution channels. Each pack of cigarettes contains 20 sticks of cigarette. The annual growth rate in average daily sales per retailer will therefore be approximately 20%. This target can be achieved taking into account multiple factors such as the accumulative effect of the market promotion activities, increasing brand awareness, improving consumer acceptance, and the increasing activeness of the distribution network.

D. As a reference, in terms of the historical daily sales volume per retailer before the COVID-19 pandemic, the ASIA STAR new product, Mint Burst, was launched in July 2020 with 900 stores launching the product and sales of 15,000 packs achieved within a month, translating into the daily sales volume of 0.5 pack per retailer.

- The tobacco products of the Target Company are generally more competitively priced than international brands who do not manufacture their tobacco products in Cambodia. This is due to the facts that (i) the Target Group, with its local factory in Cambodia, is not subject to import duty for its locally sold and distributed tobacco products, which may amount to 31% for cigarettes (35% for cigars) of the sale price and (ii) the relatively lower labor cost for local production. For example, the Target Group's flagship product, Asia Star, is priced 15% lower than similar competing products of international brands sold in the Cambodian market.

- By producing and selling locally, the Target Group is expected to be able to respond to the market needs more promptly, and to timely identify market trends and react to the needs and tastes of consumers for different tobacco products.

- The Target Group also expects to benefit from the granular building of the brand awareness of its tobacco products in the market, and subsequently be able to charge a premium for their tobacco products, resulting in higher revenue.

c) Among the Association of Southeast Asian Nations (ASEAN) countries, Cambodia has a young population. It is expected that Cambodia will experience a faster growth in average income, and so in the depth of the overall market. The local policy appears to be more friendly to companies that are associated with China. The Target Group has many years of operating experience in Cambodia, tackling the market with more specific and active marketing strategies. The Company believed that the ASEAN countries including Cambodia will benefit from the economy bounceback, especially as China proactively restarts its economy with the ease of the COVID-19 situation in the future.

d) According to the business plan and financial projection provided by the Target Group, the Target Group will first try to explore and develop their client relationships in the Southeast Asia region through the dealer network in 2023 and 2024. After that, the Target Group will be able to strategically sell their products to those Southeast Asia countries with their direct sales strategy. The direct sales strategy, together with the well-established dealer network, are expected to allow the Target Group to have a wide coverage in the Southeast Asia region. In terms of the implementation of the development strategy in the Southeast Asian region, an incremental development strategy will be adopted with the aim to successfully develop and promote the sales of the Target Group's cigarettes by the end of 2027, which includes:

- From 2023 to 2024, the entry into the Southeast Asian market is expected to be through distributors rather than direct sales, with a focus on 2-3 countries in the Southeast Asian region, including Indonesia, Vietnam and Myanmar developing sales on a country-to-country basis. The sales target for these two years represents a proportion between approximately 0.01% and 0.02% of the estimated total sales volume of the Southeast Asian region (500 billion sticks of cigarette).

- By 2025, as the distributor network for the Target Group's tobacco products develops in a Southeast Asian country, building up brand awareness of these tobacco products in this process, the Target Group will then introduce the direct sales model to such country, with a total sales target representing a proportion of approximately 0.05% of the estimated total sales volume of the Southeast Asian region (500 billion sticks of cigarette). The process will then repeat for the next country in 2026 and 2027, developing sales first through domestic distributor network, followed by the introduction of the direct sales model into the relevant market.

- By 2026 and 2027 respectively, with the direct sales model in the relevant markets consolidated and improved, and the distributor network reached a certain scale, the Target Group expects to achieve the sales target representing a proportion of approximately 0.14% and 0.29% respectively of the estimated total sales volume of the Southeast Asian region (500 billion sticks of cigarette).

  The Target Group's plan to increase the number of retailers from 2023 to 2027 in Southeast Asia is based on and formulated around its plan to (i) expand its sales team for direct sales who will reach out to and maintain relationship with the retailers directly and (ii) collaborate with distributors who will bring in retailers from their sales network. The Target Group expects that:

  A. for direct sales, each sales personnel will be responsible for developing and maintaining relationship with approximately 160 retailers. This projection is based on the Target Group's track-record of successfully building a sales team in Cambodia of approximately 35 sales personnel, and creating a retail network of approximately 5,000 retailers, in 2019, prior to the outbreak of the COVID-19 pandemic;

B. for sales through distributors:

- the Target Group will progressively establish collaborative relationships with distributors in Southeast Asia, with the number eventually stabilized within the range of 15 to 20 in 2027. Each distributor is expected to cover approximately at least 5,000 to 10,000 retailers in Southeast Asia, based on Target Group's understanding of the capacity of the distributors through its negotiation with them. For example, amongst the distributors with whom the Target Group has signed various non-legally binding memorandum of understanding ("**MOU**"), the Target Group understands that WYZ Pte Ltd (Myanmar), Algold Wine & Spirals PTE Ltd (Pakistan) and Kaimay Pte Ltd (Singapore), could in their full capacity cover approximately 30,000 retailers in Myanmar, 20,000 retailers in Pakistan and 30,000 retailers across Bangladesh and Afghanistan, respectively; and

- the number of the sales personnel for distribution channels will be determined based on the number of retailers within the distributors' network. These sales personnel shall be responsible for providing support to the distributors, with an estimated ratio of approximately 400 retailers per sales personnel.

The detailed plan of the Target Group to achieve the projected revenue in the Southeast Asian market between 2023 and 2027, through its sales team consisting of team members responsible for developing business with distribution channels and for developing direct sales business, are set out in the table below:

Southeast Asian Country		**2023**	**2024**	**2025**	**2026**	**2027**
Indonesia	**Sales volume (0,000' sticks of cigarette)**	0	5,040	16,200	40,800	87,600
	Sales through **distributor** (0,000' sticks of cigarette)	0	5,040	6,500	17,058	36,625
	Sales through **Direct sale** (0,000' sticks of cigarette):	0	0	9,700	23,742	50,975
	Number of retailers (including through distributors and direct sales)	0	11,000	30,000	67,200	120,800
	Sales team size — For direct sales	0	0	135	211	379

Southeast Asian Country			2023	2024	2025	2026	2027
		For distribution channels	0	28	28	84	150
Vietnam	**Sales volume (0,000' sticks of cigarette)**		450	1,200	7,400	14,000	32,500
	Sales through **distributor** (0,000' sticks of cigarette)		450	1,200	3,132	5,740	13,325
	Sales through **Direct sale** (0,000' sticks of cigarette):		0	0	4,268	8,260	19,175
	Number of retailers (including through distributors and direct sales)		982	2,619	16,000	30,000	70,000
	Sales team size	For direct sales	0	0	69	92	215
		For distribution channels	2	7	12	38	89
Myanmar	**Sales volume (0,000' sticks of cigarette)**		750	1,500	3,877	13,249	26,320
	Sales through **distributor** (0,000' sticks of cigarette)		750	1,500	1,590	5,432	10,791
	Sales through **Direct sale** (0,000' sticks of cigarette):		0	0	2,287	7,817	15,529
	Number of retailers (including through distributors and direct sales)		344	687	2,094	8,044	19,086
	Sales team size	For direct sales	0	0	9	25	59
		For distribution channels	1	2	2	10	24
In total	**Sales volume (0,000' sticks of cigarette)**		4,237*	8,474*	27,477	68,049	146,420
	Sales through **distributor** (0,000' sticks of cigarette)		4,237*	8,474*	11,222	28,230	60,741
	Sales through **Direct sale** (0,000' sticks of cigarette)		0	0	16,255	39,819	85,679
	Number of retailers (including through distributors and direct sales)		1,326	14,306	48,094	105,244	209,886
	Sales team size	For direct sales	0	0	213	328	653
		For distribution channels	3	37	42	132	263

*Note: With respect to total sales volume through distribution channels, this would include 30,370,000 sticks of cigarette in 2023 and 7,340,000 sticks of cigarette in 2024 expected to be sold in other countries, potentially from Malaysia, Thailand, Bangladesh, Pakistan, Laos, which countries the Target Group is negotiating with distributors over.

- The Target Group has signed various non-legally binding MOUs with distributors in the Southeast Asian market, namely, WYZ Pte Ltd (Myanmar), Algold Wine & Spirals PTE Ltd (Pakistan), and Kaimay Pte Ltd (Singapore), pursuant to which the sales volume target of respectively 20 million, 20 million and 10 million by the end of 2024 were mutually agreed upon. In addition, the Target Group has signed a supplementary MOU with Kaimay Pte Ltd and Algold Wine & Spirits PTE Ltd respectively, that upon delivery of the first order, the parties shall enter into a sales contract with each other reflecting the unit price and quantity recorded in the respective MOU.

  In terms of the status of operation under these MOUs:

  A. Sample sticks have been delivered to WYZ Pte Ltd in Myanmar, currently, the product launch is in the process of being distributed to retailers. The total revenue of the agreed-upon first batch of 5 million sticks of cigarette is US$75,000, which is expected to be recognised in the third quarter of 2023.

  B. The MOU signed with Kaimay Pte Ltd designates it an agent for the Bangladeshi market. The parties have reached an agreement on the pricing of the first batch of 4 million sticks of cigarette, and the distributor is currently in the process of applying for the relevant import quotas. The total revenue of the said 4 million sticks of cigarette is US$60,000, which is expected to be recognised in the third quarter of 2023.

  C. The specific order quantity and amount under the MOU with Algold Wine & Spirals PTE Ltd are still under active negotiation between parties.

- The Subsidiary has also entered into a legally binding sales contract with Noi Bai Airport Services Joint Stock Company of Vietnam, pursuant to which 500,000 sample sticks of cigarette have been delivered to Nasco Nam Phuong duty-free store in Vietnam by the end of April. It is expected that the revenue will be recognised by September 2023, and 1 million sticks will be ordered in the third quarter for US$15,000. Based on the sales contract and the above-mentioned

MOUs, the total planned purchase amounted to approximately RMB5.4 million, which have covered approximately 36% of the projected revenue of the Target Group in all markets for the year ending 31 December 2023.

- The Subsidiary has also entered into a legally binding agency agreement with an existing client at the end of March 2023 with planned purchase amount of approximately RMB1 million in 2023. So far, the agency contract has generated revenue of US$23,000. Taking into account aforesaid MOUs, sales contract and agency agreement, the total planned purchase amount of approximately RMB6.4 million represents approximately 43% of the projected revenue of the Target Group in all markets for the year ending 31 December 2023. The other projected revenue is attributable to direct sales and distribution through other distributors in the market.

e) Compared with the 16 million population of Cambodia, Southeast Asian countries have a population of more than 600 million and the multinational tobacco companies do not have any absolute market dominance in the region. The Company believed that the large smoker population in the region provides plenty of room for growth in cigarette consumption. Based on the advantages and strategies mentioned in (a), (b) and (d) above, the Target Group is expected to be able to establish a competitive position in the Southeast Asian market. The experience and strategy that have been successful in developing the Cambodian market consist of initiating broad-based distributor engagement to achieve market penetration, expanding brand awareness and gaining insight into the needs of the customers, and gradually introducing a direct sales model to enhance sales performance. Such measures are transferrable when it comes to developing the Southeast Asian markets and can be directly implemented in this process.

f) The Company believes that as the COVID-19 pandemic has gradually eased and the Target Group will be able to recover so as to achieve a level of income that matches its own operating capabilities. The Company believed that the maturity of sales models (especially the direct sales in Cambodia and Southeast Asia region), management execution and brand influence will be further improved and allow the Target Group to achieve what was proposed in the business plan and the financial projection.

g) The Target Group has well-established distribution channels via retailers and business clients. Airport duty-free stores, among them, constitutes one of the major distribution channels of the Target Group. The COVID-19 pandemic hit at the end of 2019, the revenue of the Target Group generated from airport duty-free stores amounted to US$253,000, accounting for approximately 7.69% of the total revenue of the Target

Group for the year ended 31 December 2019. Although the business operation of the Target Group was adversely affected by the airport closure during the COVID-19 pandemic, the situation is currently alleviating and is expected to improve further in the future.

h) The cigar factory operated by the Subsidiary is the only one in Cambodia licensed by the Cambodian government and the maximum manufacturing capacity could reach 2 billion sticks cigarettes and 300,000 handmade cigars. Although cigar sales are expected to account for only a small portion of the Target Group's revenue (between approximately 3%–12%), the Target Group's ownership of a cigar factory would ensure control on its own production capacity of cigars to meet market needs, and also to make it possible to meet the production requirements of third parties.

i) From the financial year 2023 to 2027, on the other hand, the main income streams of the Target Group will be contributed by the sales of its own branded tobacco products through its existing distribution network, and through the dealer sales and direct sales in Cambodia and the Southeast Asia region. Hence the nature of the revenue streams will be more similar to that in 2018, with the expected revenue estimated on the basis that approximately 1.92 billion sticks of cigarette will be sold in 2027. Based on the development strategy for the Cambodian and Southeast Asian markets mentioned in (a), (b) and (d) above, it is expected that in 2027, approximately 350 million sticks of cigarette can be sold through direct sales and distributors in Cambodia, while approximately 850 million sticks of cigarette can be sold through direct sales channels in the Southeast Asian market, and another 600 million sticks of cigarette to be sold through distributor channels in the Southeast Asian market. In addition, sales outside Southeast Asia, including in Asia Pacific and other global markets is expected to generate the sales of approximately 100 million sticks of cigarette, making up 5.5% of the total sales volume of cigarette in 2027. The cigarette sales outside Southeast Asia are mainly through the duty-free channel. The Target Group has in its workforce former senior employees from the four major tobacco companies' duty-free channels and has established good relationships with several large Chinese duty-free companies.

j) In terms of the selling price of each pack of cigarettes, depending on the geographical markets and the Target Group's expansion strategy in each of these markets (e.g. whether or not to rely on distributors in rolling out the products), the price may differ amongst different sales channels. Specifically, in markets other than Cambodia, the intended average selling price for each pack is US$0.574 through direct sales, US$0.254 through distribution channels, and US$0.288 through duty-free channels. In Cambodia, on the other hand, the average selling price for each pack is the same across the direct sales and distribution channels, i.e., US$0.574. The determination of the selling prices is based on the past actual prices negotiated with counterparties in these channels, taking into account the following factors: (1) production costs, (2) the Target Group's costs in direct sales (applicable to direct sales), and (3) the distributor's profit under the distributor model (applicable to sales through distributors).

k) In relation to the cigarette production, the maximum production capacity of cigarette is mainly dependent on the existing machineries and equipment. In the forecast period, it is expected to sell approximately 1.92 billion sticks of cigarette in 2027, which is lower than the annual manufacturing capacity of 2 billion sticks of cigarette. The Target Group will be able to produce the required quantity of cigarette products to achieve the sales in the forecast period as planned. In relation to the hand-made cigar production capacity, the main consideration is the recruitment and the training of workers who will be rolling the cigar products. The Target Group will flexibly recruit the necessary manpower when needed and no additional machineries or equipment is required.

l) The Target Group could achieve the sales of the maximum annual manufacturing capacity, according to the business plan, through the major segments of direct sales in Cambodia, running dealer sales and direct sales in the Southeast Asia region. It is expected that over 1.8 billion sticks of cigarette will be sold and that will contribute over 80% of the projected revenue in the year ended 31 December 2027, based on the advantages and strategies mentioned in (a), (b) and (d) above.

In respect of the expected gross profit margin and net profit margin

a) In addition to the above-mentioned factors in respect of the expected revenue, with regards to the cost elements, after the past few years of operation, the Target Group had developed a good and stable relationship with the suppliers. Also, the increase in the purchase scale during the forecast period should allow the Target Group to have a relatively stronger bargaining power over the suppliers. On this basis, the Target Group is confident that it will be able to maintain and control the direct costs as planned in the forecast period.

b) The projected gross profit margin of 70% for the financial year 2023 to 2027, as adopted in the Valuation, are relatively comparable to the historical financial performance in 2018, the year preceding the outbreak of COVID-19 pandemic, due to the similar nature of the revenue streams (i.e. selling own brand tobacco products with higher gross profit margin), in which the Target Group was able to reach the gross profit level of 74.82%.

c) The projected net profit margin of 14.5% and 30.9% in the financial year 2026 and 2027 are estimated based on the expected levels of revenue and cost for those years.

The Board's assessment on the terms of the performance undertaking

The Board have reviewed the terms of the performance undertaking, which have been set out in full in the section "Performance Undertaking" above, and based on the information obtained and available so far in the due diligence process and the discussion with the management of the Target Group, the Board is of the opinion that the terms of the performance undertaking are fair and reasonable.

In particular, in relation to the following aspects concerning the protection of the interest of the Company and its shareholders:

i. whether and how the performance undertaking arrangement can sufficiently protect the interest of the Company and its shareholders as a whole; and

ii. the financial position of the Vendor in honoring the performance undertaking,

the key factors taken into account by the Board in this respect include the follows:

a) Given that the purpose of the Acquisition is to create further income streams for the Group and to enable the generation of income from a new sector, the Board would seek to ensure that the Target Company is able to generate the level of revenue as expected in the Valuation Report, based on which the Consideration was determined.

b) In order to ensure that the Target Company will generate the level of revenues as expected in the Valuation Report, the Group has negotiated with the Vendor a performance undertaking to the effect that in case of a shortfall in the EBITDA so generated by the Target Company, such shortfall will be made up by the Vendor to the Group in proportion to the shareholding of the Group in the Target Company.

c) As such, the Group will have recourse to the Vendor in case of any shortfall in the EBITDA generated by the Target Company as expected in the Valuation Report, and will therefore be able to ensure that the Target Company will generate the expected revenues for the Group, so as to sufficiently protect the interest of the Company and its shareholders as a whole.

d) The performance of the Vendor's payment obligation under the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) is secured by a share pledge provided by Mr. Zhang Liang, Johnson and King Lok, comprising 5,307,450,000 shares in the Company held by the Mr. Zhang Liang, Johnson and the direct and indirect interests derived therefrom, as announced in the voluntary announcement by the Company dated 17 February 2023.

SHARE PLEDGE AGREEMENT

The principal terms of the Share Pledge Agreement are set out below:

Date: 17 February 2023

Parties:
(1) The Pledgors

(2) The Pledgees

Pledged Shares: 5,307,450,000 shares in the Company held by the Pledgors and the direct and indirect interests derived therefrom. As at the Latest Practical Date, the market value of the Pledged Shares is approximately HK$2,706,799,500.

Term: The pledge of shares shall become effective from the date of this Share Pledge Agreement and expire two years from the date on which the Obligors have fully performed their obligations under the Acquisition and Loan Agreements.

Scope of the pledge: All obligations of the Obligors under the Acquisition and Loan Agreements;

Enforcement of the pledge: The Pledgees shall be entitled to enforce the pledge under the Share Pledge Agreement, if any of the following circumstances occurs:

(i) the behavior of the Obligors constitutes one or more fundamental breach(es) under the Acquisition and Loan Agreements;

(ii) the behavior of the Pledgors constitutes a fundamental breach under this Share Pledge Agreement.

In the event of the above-mentioned circumstances, the Pledged Shares may be enforced by way of:

(i) sale or auction of the Pledged Shares, in which event the proceeds generated from such sale or auction shall be used to compensate the Pledgees for their losses arising from Obligors' breach of their obligations under the Acquisition and Loan Agreements; or

(ii) transfer of the Pledged Shares to Pledgees at a price agreed between the Pledgors and the Pledgees in lieu of compensation.

When enforcing the Pledged Shares, the Company shall, on behalf of the Pledgees, sign the relevant documents and complete the relevant procedures accordingly. The Pledgors undertake to cooperate in signing of the relevant documents where necessary.

Representations and warranties: The Pledgors represent and warrant to the Pledgees as follows:

(i) the Pledgors are independent entities with all necessary capacities to perform obligations under this Share Pledge Agreement and to bear civil liabilities independently;

(ii) all clauses of this Share Pledge Agreement reflect the true intention of the Pledgors, and are legally binding to them;

(iii) the execution and performance of this Share Pledge Agreement shall not violate the laws, articles of association, or the relevant documents, judgments or rulings of competent authorities that the Pledgors shall abide by, and shall not conflict with any contract or agreement signed by the Pledgors or any other obligations undertaken by the Pledgors;

(iv) the Pledged Shares are legally held by the Pledgors and are transferable according to the relevant laws; the Pledgors shall have complete legal ownership of the Pledged Shares, and except as provided by the relevant laws or this Share Pledge Agreement, the Pledged Shares are free of any encumbrance or pre-emptive right, and there is no dispute of ownership, limitation of rights or other defect in the rights over the Pledged Shares; and

(v) from the date of this Share Pledge Agreement, they will not dispose of the Pledged Shares in any manner, including but not limited to mortgage, pledge, transfer, and the establishment of any third-party right.

The Board's assessment on Consideration

Taking into account the consideration and factors detailed above, and the additional factors below, the Board has made the assessment that Consideration is fair and reasonable and in the interest of the Company and its shareholders as a whole:

a) Vision Appraisal and Consulting Limited, the Independent Valuer, is engaged to prepare an independent valuation of the Target Company. The Board has not noticed any information in the draft Valuation Report or any circumstance which lead the Board to conclude that the Valuation Report prepared by the Independent Valuer shall not be relied upon.

b) The Board has considered and agreed with the Independent Valuer's views set out in the Valuation Report that amongst the common approaches for asset and business valuation such as the market approach, income approach, and cost approach, the income approach is the most appropriate valuation approach for this valuation as it takes the future growth potential into consideration.

INFORMATION ON THE TARGET COMPANY AND THE SUBSIDIARY

The Target Company is an investment holding company incorporated in the British Virgin Islands, which is wholly owned by the Vendor.

The Subsidiary is a company incorporated in the Kingdom of Cambodia with limited liability, which is wholly owned by the Target Company. The Subsidiary is principally engaged in manufacturing and wholesale of tobacco products, mainly cigarettes and hand-made cigars in Cambodia and Southeast Asia.

The Target Company was incorporated in 2014 in Cambodia. Construction of the cigar factory started in November 2015 and was completed in June 2017. In December 2017, Grandlead series of handmade cigars and machine-made cigars were launched. The Subsidiary had been in operation since then.

According to the unaudited consolidated management accounts of the Target Company, (i) the net loss before and after taxation and extraordinary items for the 12 months ended 31 December 2020 were US$5,207,092.36 and US$5,207,092.36 respectively; and (ii) the net loss before and after taxation and extraordinary items for the 12 months ended 31 December 2021 were US$5,094,650.36 and US$5,094,650.36 respectively; and (iii) the net loss before and after taxation and extraordinary items for the year ended 31 December 2022 were US$8,290,803.17 and US$8,290,803.17, respectively. The unaudited consolidated total net assets of the Target Company as of 31 December 2022 were approximately US$34,897,704.84.

INFORMATION OF THE GROUP AND THE PARTIES INVOLVED IN THE TRANSACTION

The Purchaser is the Company. Its principal business is extraction and sales of coal products.

The Vendor is Mr. Zhang Li, a substantial shareholder of the Company.

The Target Company is a company incorporated in the British Virgin Islands with limited liability, the ultimate beneficial owner of which is Mr. Zhang Li. Its principal asset is equity interest in the Subsidiary, which is principally engaged in the manufacturing and wholesale of tobacco products, including cigarettes and hand-made cigars in Cambodia and Southeast Asia.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company has been looking to diversify its business activities in anticipation of the potential energy market cycle and fluctuation of coal price, to create different income streams for the Group and to enable the generation of income from a wider range of sectors.

In addition, as disclosed in the interim report of the Group for the six months ended 30 June 2022, the Group has sufficient cash and cash equivalents which amount to approximately RMB1,438.7 million in total. Given the Company has been looking to utilize its surplus cash with a view to generate return for its shareholders, the Company may benefit from the future operation and management of the Target Group Companies by acquiring and subscribing for equity interest in the Target Company, taking into account the prospects of the Target Company.

In making the decision, the Board also took into account the commercial and operational factors set out in the section "The Board's assessment on the valuation methodology and key assumptions" above and the fact that the COVID-19 pandemic situation has been alleviating, which is positive news for the business of the Subsidiary, and the strategy of putting itself in a good position to grab the market shares before the global and regional market players completely recover from the COVID-19 pandemic situation.

It is expected that the Target Group will continuously increase its market shares of tobacco products in Cambodia and Southeast Asia based on the factors including, amongst other things, its strengths in relation to (A) the direct sales and distributor sales network in Cambodia, (B) the direct sales and distributor sales in the Southeast Asia region, (C) the development of original equipment manufacturer ("**OEM**") business, (D) the expanding pool of its own brands, (E) the ability to adapt to the developing taste of consumers, and (F) the competitive prices of the tobacco products.

In Cambodia, the Target Group will be focusing on strengthening its direct sales to retailers and business clients. Direct sales will allow the Target Company to leverage its brand influence in Cambodia and keep a long-term relationship with their loyal clients through conducting more front-line visits to monitor, evaluate and improve the quality of their products and services as well.

In the Southeast Asia region, the Target Group will try to explore and develop their relationship with new clients in the Southeast Asia region through the dealer network in the initial stage of the forecast period. After that, the Target Company plans to replicate its business model in Cambodia, adopting the direct sales strategy to the Southeast Asia region as well. The direct sales strategy, maintaining a long-term relationship with their loyal clients, together with the well-established dealer network, will allow the Target Company to distribute their products widely in the Southeast Asia region.

Although the Target Company is only expected to break even by end of the financial year 2025 and make profit in the financial year 2026, the Board is taking a medium to long term view of the business and its revenue-generating capacity, and is of the opinion that the Company may benefit from the future operation of the business of the Target Company in the medium and long term.

Although as of the Latest Practicable Date, the Company had no relevant experience or expertise in the Target Group's business, the Company confirms that upon closing of the Acquisition, the core management team of the Target Group will continue to be retained so as to continue with its existing business operations. In addition, the Company plans to hire external personnel with relevant expertise and experience in tobacco industry, including (amongst others) R&D, manufacturing and sales specialists and experts, to assist the core management team of the Target Group with the daily business operations.

The Company plans to take the following measures to monitor the business performance of the Target Group after completion of the Acquisition including:

a) replacing the chairman of the Target Group with one of the senior management of the Company so that the Company will have direct and immediate visibility over the Target Group's business operations and performance;

b) appointing the Company's financial personnel to the Target Group to monitor and supervise the financing activities and financial performance of the Target Group;

c) hiring external personnel with relevant expertise and experience in the tobacco industry to assist the core management team of the Target Group with daily business operations, and the relevant personnel shall report to the senior management of the Company regularly, and

d) utilizing the existing internal control and reporting systems of the Company to ensure effective monitoring of the business performance of the Target Group including timely access to the latest management accounts.

The terms and conditions of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) are negotiated on an arm's length basis between the Vendor and the Purchaser. The Board (excluding the independent non-executive Directors who reserve their views pending receipt of advice from the Independent Financial Adviser) is of the view that the terms of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) are fair and reasonable, Ms. Zhang Lin, a non-executive Director, being associate of Mr. Zhang Li, has a material interest in the transactions and has abstained from voting on the Board meeting approving the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement).

FINANCIAL EFFECTS OF THE ACQUISITION

Upon completion of the Acquisition, the Target Company will be held as to 73% by the Company and 27% by the Vendor, and will be a direct non-wholly-owned subsidiary of the Company and its financial results will be consolidated into that of the Group.

As the Company will fund the Consideration with cash, the cash balance of the Group will decrease which will in turn reduce the net current assets of the Group, although it is expected that there will not be material adverse effect on either net assets or working capital sufficiency of the Group upon completion of the Acquisition. It is expected that the Acquisition will not have any material impact on the financial performance of the Group immediately following completion of the Acquisition either.

LISTING RULES IMPLICATIONS

As the Acquisition is proposed to be carried out by the Group within a 12-month period after the consummation of the Loan Agreement, and the Company and the Target Company are respectively the lender and the borrower under the Loan Agreement, the Loan Agreement and the Acquisition are aggregated as a series of transactions pursuant to Rule 14.22 of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the transactions contemplated under the Loan Agreement, and the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement), on an aggregate basis, are more than 5% and less than 25%, the Loan Agreement and the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) constitute a series of discloseable transactions for the Company and are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the date of this circular, the Vendor is a connected person of the Company under Chapter 14A of the Listing Rules by virtue of being a substantial shareholder of the Company. Accordingly, the transaction contemplated under the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) constitutes a connected transaction of the Company under Chapter 14A the Listing Rules and is subject to the announcement, reporting, and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will convene the EGM for the Independent Shareholders to consider and approve, if thought fit, the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and the transactions contemplated thereunder. Mr. Zhang Li, Mr. Zhang Liang, Johnson and their respective associates will abstain from voting at the EGM. As at 31 December 2022, Zhang Liang, Johnson (via King Lok) and the Vendor hold 5,307,450,000 and 943,314,000 ordinary shares of the Company, representing approximately 62.96% and 11.19% of the issued share capital of the Company, respectively. An Independent Board Committee of the Company has been formed to advise the Independent Shareholders in respect of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and the transactions contemplated thereunder. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

EXTRAORDINARY GENERAL MEETING

The EGM will be held by the Company at 18th Floor, 80 Gloucester Road, Wanchai, Hong Kong on Friday, 28 July 2023 at 3:30 p.m., to consider and if thought fit, to approve, among other things, the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and the transactions contemplated thereunder. A form of proxy for use at the EGM is enclosed with this circular.

Any Shareholder and his or her or its associates with a material interest in the resolutions will abstain from voting on the resolutions to be proposed at the EGM. To the best knowledge, information and belief of the Directors having made all reasonable enquires, save for Mr. Zhang Li, Mr. Zhang Liang, Johnson and their respective associates, no other Shareholders were required to abstain from voting on the resolutions at the EGM as at the Latest Practicable Date.

The notice convening the EGM is set out on pages EGM-1 to EGM-4 of this circular.

For those who intend to direct a proxy to attend the EGM, please complete the form of proxy and return the same in accordance with the instructions printed thereon. In order to be valid, the above documents must be delivered to the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 48 hours before the time appointed for the

EGM or any adjournment thereof. The register of members of the Company will be closed from Tuesday, 25 July 2023 to Friday, 28 July 2023 (both days inclusive), during which time no share transfers will be effected. In order to qualify for attending the EGM or any adjournment thereof, all transfers of Shares accompanied by the relevant share certificate(s) must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on Monday, 24 July 2023.

The holders of the Shares whose names appear on the register of members of the Company on Friday, 28 July 2023 are entitled to attend and vote in respect of the resolutions to be proposed at the EGM.

You are urged to complete and return the form of proxy and reply slip whether or not you will attend the EGM. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM (or any subsequent meetings following the adjournments thereof) should you wish to do so.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all independent non-executive Directors has been formed to advise the Independent Shareholders on the reasonableness and fairness in respect of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and the transactions contemplated thereunder. Rainbow Capital (HK) Limited, the Independent Financial Adviser, has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on the above issues. The text of the letter from the Independent Board Committee is set out on pages 48 to 49 of this circular and the text of the letter from the Independent Financial Adviser containing its advice is set out on pages 50 to 97 of this circular.

RECOMMENDATIONS

The Directors (including the independent non-executive Directors, after considering the advice from the Independent Financial Adviser) consider that the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms are fair and reasonable and in the interests of the Company and its Shareholders as a whole. As such, the Directors recommend that the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM.

ADDITIONAL INFORMATION

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

By Order of the Board
Kinetic Development Group Limited
Ju Wenzhong
Chairman and Executive Director

力量发展
KINETIC DEVELOPMENT GROUP

Kinetic Development Group Limited
力量發展集團有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1277)

30 June 2023

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION
ACQUISITION OF SHARES IN STAR IDEA

We refer to the circular of the Company dated 30 June 2023 (the "**Circular**") of which this letter forms part. Unless the context otherwise requires, terms defined in this letter shall have the same meanings as in the Circular.

We have been appointed by the Board to form the Independent Board Committee to consider and advise the Independent Shareholders as to whether, in our opinion, the entering into of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Having considered the terms of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and the advice of the Independent Financial Adviser in relation thereto as set out on pages 50 to 97 of the Circular, we are of the opinion that the terms of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) are fair and reasonable and on normal commercial terms.

The independent board committee further considers that the entry into of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement), while not in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to approve the entering into of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and the transactions contemplated thereunder at the EGM.

Yours faithfully,
Independent Board Committee

Ms. Liu Peilian	**Mr. Chen Liangnuan**	**Ms. Xue Hui**
Independent Non-executive Director	*Independent Non-executive Director*	*Independent Non-executive Director*

The following is the full text of a letter of advice from Rainbow Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition and Subscription Agreement and the transactions contemplated thereunder, which has been prepared for the purpose of incorporation in this circular.

RAINBOW.
RAINBOW CAPITAL (HK) LIMITED
浤博資本有限公司

30 June 2023

To the Independent Board Committee and the Independent Shareholders

Kinetic Development Group Limited
Dafanpu Coal Mine
Majiata Village, Xuejiawan Town
Zhunge'er Banner, Ordos City
Inner Mongolia, China

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION
ACQUISITION AND SUBSCRIPTION OF SHARES IN STAR IDEA

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and the transactions contemplated thereunder, details of which are set out in the "Letter from the Board" (the "**Letter from the Board**") contained in the circular issued by the Company to the Shareholders dated 30 June 2023 (the "**Circular**"), of which this letter forms a part of. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 30 December 2022 (after trading hours), the Vendor and the Purchaser entered into the Acquisition and Subscription Agreement, pursuant to which (i) the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Shares, for the Acquisition Consideration, and (ii) the Purchaser has conditionally agreed to subscribe for the Subscription Shares at the Subscription Price. The Acquisition and the Subscription are inter-conditional upon each other.

As at the Last Trading Day, approximately US$9,098,333.64 out of the Loan Commitment has been drawn down. In line with the Acquisition and Subscription Agreement as it was entered into, the Company, the Target Company and the Vendor agreed and intended that subject to compliance with all relevant and applicable laws and regulations and any arrangement for the Vendor to bear and take over any debt owed by the Target Company, the outstanding loan principal and accrued interest shall be treated as part of the Subscription Price payable by the Purchaser in connection with the Subscription. Upon Closing, the balance of the Loan Commitment will not be drawn down by the Target Company, and the Loan Agreement will be terminated with immediate effect.

On 29 March 2023, the Vendor, the Purchaser and the Target Company entered into the Supplemental Agreement, where, among others, each of the parties agreed to (i) remove all references to the Subscription and all arrangements directly related thereto under the Acquisition and Subscription Agreement (including without limitation the arrangement that the consummation of the acquisition of the Sale Shares shall be inter-conditional with the consummation of the subscription of the Subscription Shares); (ii) add a new clause in relation to performance undertaking in favor of the Company; and (iii) cancel the termination of the Loan Agreement, which termination was originally intended to take effect upon closing of the Acquisition and Subscription Agreement. Save as varied by the Supplemental Agreement, the Acquisition and Subscription Agreement shall continue in full force and effect.

As of the Latest Practicable Date, the Target Company is wholly owned by the Vendor. Upon completion of the Acquisition, the Target Company will be held as to 73% by the Company and 27% by the Vendor, and will be a direct non-wholly-owned subsidiary of the Company and its financial results will be consolidated into that of the Group.

The principal asset of the Target Company is 100% equity interest in the Subsidiary, a company incorporated in the Kingdom of Cambodia principally engaging in the manufacturing and wholesale of tobacco products, including cigarettes and hand-made cigars in Cambodia and Southeast Asia.

As the Acquisition is proposed to be carried out by the Group within a 12-month period after the consummation of the Loan Agreement, and the Company and the Target Company are respectively the lender and the borrower under the Loan Agreement, the transactions under the Loan Agreement and the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) are aggregated as a series of transactions pursuant to Rule 14.22 of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Loan Agreement and the Supplemental Agreement, on an aggregate basis, are more than 5% and less than 25%, the Loan Agreement and the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and the transactions contemplated thereunder collectively constitute a series of discloseable transactions for the Company and are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, the Vendor is a connected person of the Company under Chapter 14A of the Listing Rules by virtue of being a substantial shareholder of the Company. Accordingly, the Loan Agreement and the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and the transactions contemplated thereunder collectively constitute a series of connected transactions of the Company under Chapter 14A the Listing Rules and are subject to the announcement, reporting, and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will convene the EGM for the Independent Shareholders to consider and approve, if thought fit, the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and the transaction contemplated thereunder. Mr. Zhang Li, Mr. Zhang Liang, Johnson and their respective associates will abstain from voting at the EGM. As at 31 December 2022, Zhang Liang, Johnson (via King Lok) and the Vendor hold 5,307,450,000 and 943,314,000 ordinary shares of the Company, representing approximately 62.96% and 11.19% of the issued share capital of the Company, respectively. An Independent Board Committee of the Company, comprising all the three independent non-executive Directors, namely Ms. Liu Peilian, Mr. Chen Liangnuan and Ms. Xue Hui, has been formed to advise the Independent Shareholders in respect of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and the transaction contemplated thereunder.

We, Rainbow Capital, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on whether (i) the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) is entered into in the ordinary and usual course of business of the Group; and (ii) the terms of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) are on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and advise the Independent Shareholders as to voting.

As at the Latest Practicable Date, we did not have any relationships or interests with the Group and the Vendor that could reasonably be regarded as relevant to our independence. We have acted as the independent financial adviser to the independent board committee and the independent shareholders of the Company in relation to (i) a disclosable and connected transaction in relation to acquisition of target properties, details of which are set out in the circular of the Company dated

30 September 2022; and (ii) a major and connected transaction in relation to acquisition of 75% equity interest in Liupanshui Changlin Real Estate Development Co., Ltd, details of which are set out in the announcement of the Company dated 24 December 2021. Other than these, there was no engagement or connection between the Group or the Vendor and us in the last two years. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received any fees or benefits from the Group or the Vendor. Accordingly, we are qualified to give independent advice in respect of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and the transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Group.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group, the Vendor, the Target Company or their respective substantial shareholders, subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering the fairness and reasonableness of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and the transactions contemplated thereunder, we have taken into account the principal factors and reasons set out below:

1. Information on the Group

The Group is principally engaged in the extraction and sales of coal products. As a leading integrated coal enterprise in China, the Group's business activities operate through the whole coal industry chain, covering coal production, washing, loading, transportation and trading.

(i) Financial performance

The tables below set forth a summary of the consolidated financial information of the Group for the three years ended 31 December 2022 ("**FY2020**, "**FY2021**" and "**FY2022**", respectively) as extracted from the annual reports for the year ended 31 December 2021 ("**2021 Annual Report**") and the year ended 31 December 2022 ("**2022 Annual Report**") of the Company:

	FY2022	**FY2021**	**FY2020**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	*(Audited)*	*(Audited)*
Revenue	**6,155,830**	**5,580,702**	**2,961,404**
Cost of sales	(2,132,372)	(1,976,544)	(1,679,187)
Gross profit	**4,023,458**	**3,604,158**	**1,282,217**
Other incomes and losses, net	(65,535)	145,036	69,306
Losses on fair value changes of financial assets	(39,860)	(134,648)	—
Selling expenses	(23,264)	(8,441)	(8,049)
Administrative expenses	(225,417)	(190,910)	(125,383)
Profit from operations	**3,669,382**	**3,415,195**	**1,218,091**
Share of profits of an associate	14,538	19,060	23,187
Finance costs	(49,893)	(11,959)	(13,122)
Profit before taxation	**3,634,027**	**3,422,296**	**1,228,156**
Income tax expense	(977,712)	(954,737)	(413,360)

	FY2022 *RMB'000* *(Audited)*	**FY2021** *RMB'000* *(Audited)*	**FY2020** *RMB'000* *(Audited)*
Profit attributable to the Shareholders	**2,664,533**	**2,468,626**	**814,796**
Net cash flows from operating activities	3,094,173	3,030,173	1,195,970

FY2021 compared to FY2020

Revenue of the Group increased by approximately 88.4% from approximately RMB2,961.4 million for FY2020 to approximately RMB5,580.7 million for FY2021, which was primarily due to (a) the increase in the sales volume of coal in light of the robust demand for electricity consumption as driven by the economic recovery; and (b) the increase in average selling price of the Group's coal products as the overall coal price rose sharply and hit a historical peak during the year.

Gross profit of the Group increased by approximately 181.1% from approximately RMB1,282.2 million for FY2020 to approximately RMB3,604.2 million for FY2021. Such increase was mainly due to (a) the increase in revenue as stated above; and (b) the increase in gross profit margin as a result of the combined effect of the increase in sales price and sales volume.

The Group recorded a profit attributable to the Shareholders of approximately RMB2,468.6 million for FY2021, which represented a significant increase of approximately 203.0% from approximately RMB814.8 million for FY2020. Such increase was mainly due to the increase in revenue for FY2021 as stated above.

FY2022 compared to FY2021

Revenue of the Group increased by approximately 10.3% from approximately RMB5,580.7 million for FY2021 to approximately RMB6,155.8 million for FY2022, which was primarily due to the increase in the Group's selling price of coal.

In consistent with the increase in revenue as stated above, gross profit of the Group increased by approximately 11.6% from approximately RMB3,604.2 million for FY2021 to approximately RMB4,023.5 million for FY2022.

The Group recorded a profit attributable to the Shareholders of approximately RMB2,664.5 million for FY2022, which represented an increase of approximately 7.9% from approximately RMB2,468.6 million for FY2021. Such increase was mainly due to (a) the increase in revenue for FY2022 as stated above; and (b) the decrease in losses on fair value changes of financial assets by approximately RMB94.8 million, which was partially offset by (a) the turnaround from net other incomes of approximately RMB145.0 million for FY2021 to net other losses of approximately RMB65.5 million for FY2022 primarily attributable to the decrease in government grants and interest income, as well as the increase in loss on disposal of property, plant and equipment, donation, penalty and foreign exchange losses; (b) the increase in administrative expenses by approximately RMB34.5 million primarily attributable to the increase in staff cost during FY2022; (c) the increase in selling expenses by approximately RMB14.9 million primarily attributable to the increase in marketing related expenses during FY2022; and (d) the increase in finance costs by approximately RMB37.9 million as a result of newly borrowed long-term loans.

(ii) Financial position

Set out below is a summary of the consolidated statements of financial position of the Group as at 31 December 2020, 2021 and 2022, as extracted from the 2021 Annual Report and the 2022 Annual Report:

	As at 31 December		
	2022	**2021**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	*(Audited)*	*(Audited)*
Non-current assets, including:	**7,880,432**	**2,823,202**	**1,964,612**
Property, plant and equipment	1,716,365	1,247,473	1,219,320
Intangible assets	3,210,599	537,815	568,634
Prepayments for proposed acquisitions	2,546,892	885,700	—
Other non-current assets	143,037	10,855	68,145
Current assets, including:	**1,612,209**	**3,219,009**	**1,708,038**
Financial assets at fair value through profit or loss	190,899	269,382	465,787
Inventories	110,213	63,442	73,027
Trade and other receivables	220,718	236,351	108,681
Pledged and restricted deposits	475,903	155,595	57,003
Cash at bank	551,866	2,387,239	877,745
Bank balances and cash	1,027,769	2,542,834	934,748

	As at 31 December		
	2022	**2021**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	*(Audited)*	*(Audited)*
Current liabilities, including	**1,815,415**	**1,391,272**	**854,650**
Trade and other payables	518,906	329,560	263,953
Contract liabilities	196,283	118,557	139,224
Bank loans	300,000	275,695	210,410
Income tax payable	784,328	667,460	241,063
Non-current liabilities, including:	**1,360,436**	**78,897**	**58,280**
Bank loans	583,000	—	—
Lease liabilities	79,542	2,268	—
Long-term payables	638,992	26,391	25,001
Deferred tax liabilities	52,865	44,800	28,380
Net current (liabilities)/assets	**(203,206)**	**1,827,737**	**853,388**
Net assets	**6,316,790**	**4,572,042**	**2,759,720**

As at 31 December 2022, non-current assets of the Group were approximately RMB7,880.4 million, which mainly consisted of (a) property, plant and equipment of approximately RMB1,716.4 million; (b) intangible assets of approximately RMB3,210.6 million; and (c) prepayments for proposed acquisitions of approximately RMB2,546.9 million. The significant increase in intangible assets from approximately RMB537.8 million as at 31 December 2021 to approximately RMB3.2 billion as at 31 December 2022 was mainly due to the acquisition of Ningxia Kinetic Mining Co., Ltd. (whose former name is Ningxia Sunshine Mining Co., Ltd.) ("**Ningxia Kinetic**"), while the increase in prepayments for proposed acquisitions from approximately RMB885.7 million as at 31 December 2021 to approximately RMB2,546.9 million as at 31 December 2022 was primarily attributable to the prepayments for acquisition of the Target Company, Guizhou Lilang Energy Co., Ltd. and properties.

As at 31 December 2022, current assets of the Group were approximately RMB1,612.2 million, which mainly consisted of (a) pledged and restricted deposits of approximately RMB475.9 million; (b) cash at bank of approximately RMB551.9 million; (c) trade and other receivables of approximately RMB220.7 million; and (d) financial assets at fair value through profit or loss of approximately RMB190.9 million. The significant decrease in cash at bank from approximately RMB2,387.2 million as at 31 December 2021 to approximately RMB551.9 million as at 31 December 2022 was mainly due to the prepayments made by the Group for acquisitions as stated above.

As at 31 December 2022, current liabilities of the Group were approximately RMB1,815.4 million, which mainly consisted of (a) income tax payable of approximately RMB784.3 million; (b) bank loans of approximately RMB300.0 million; and (c) trade and other payables of approximately RMB518.9 million.

As at 31 December 2022, non-current liabilities of the Group were approximately RMB1,360.4 million, which mainly consisted of (a) bank loans of approximately RMB583.0 million; and (b) long-term payables of approximately RMB639.0 million. The increase in long-term payables from approximately RMB26.4 million as at 31 December 2021 to approximately RMB639.0 million as at 31 December 2022 was mainly due to the payables in relation to mining rights arising from the acquisition of Ningxia Kinetic which is expected to be settled from 2023 to 2032.

As at 31 December 2022, the Group had net current liabilities of approximately RMB203.2 million and has undertaken several acquisitions with estimated total consideration of over RMB3 billion, of which the remaining amounts for the acquisitions and other capital expenditure amounting to approximately RMB1.5 billion will be paid in the near future. As stated in the 2022 Annual Report, the Directors consider that the Group is able to continue as a going concern, based on (a) the Group's current cash at bank balances; (b) the expected operating cash flows of the Group for the 12 months ending 31 December 2023; and (c) the Group's capital expenditure forecast for the 12 months ending 31 December 2023, with the potential gap to be satisfied by external borrowings. The Directors are of the opinion that as the Group will carefully monitor its liquidity position and assuming that the Group is able to generate sufficient cash inflows from future operations and obtain borrowings from bank or other financial institutions when needed, the Group will be able to meet its liabilities as and when they fall due for the 12 months ending 31 December 2023.

Net assets of the Group increased from approximately RMB2,759.7 million as at 31 December 2020 to approximately RMB6,316.8 million as at 31 December 2022, which is primarily attributable to the net profit generated by the Group.

Overall comment

The financial performance of the Group was improved significantly for FY2021 and FY2022 as driven by the increase in demand and selling price of coal. Despite the net current liabilities position as at 31 December 2022, the Group recorded increase in revenue, net profit, cash inflows from operating activities, and net assets for FY2021 and FY2022. We consider the Group's prospects shall continue to be positive given the gradual recovery of the domestic economic activities from the impact of COVID-19 and the relatively high level of the overall coal price. As advised by the management of the Group, the Group intends to capture market opportunities, leverage on its core competitiveness and actively promote the acquisition of quality projects to strive for outstanding returns for the Shareholders.

2. Information on the Target Company and the Subsidiary

The Target Company is an investment holding company incorporated in the British Virgin Islands, which is wholly owned by the Vendor. The principal asset of the Target Company is 100% equity interest in the Subsidiary, a company incorporated in the Kingdom of Cambodia principally engaging in the manufacturing and wholesale of tobacco products, including cigarettes and hand-made cigars in Cambodia and Southeast Asia.

The Target Company was incorporated in 2014 in Cambodia. Construction of the cigar factory started in November 2015 and was completed in June 2017. In December 2017, Grandlead series of handmade cigars and machine-made cigars were launched. The Subsidiary had been in operation since then.

As advised by the Directors, the construction and development of the cigar factory had already been completed, and it had been two years since the cigar factory held by the Subsidiary started its trial operation, with an annual manufacturing capacity of 2 billion cigarette sticks and 300,000 handmade cigars, before the COVID-19 pandemic hit at the end of 2019. During the pandemic period, the operation of the Subsidiary had to be suspended from time to time in accordance with local government control requirements or due to employee infection. However, its operation has resumed since December 2022 after the situation concerning COVID-19 pandemic started alleviating.

The Subsidiary recorded a loss for the two years ended 31 December 2021, mainly due to (i) airport closure during the COVID-19 pandemic; (ii) that the supply and logistics of raw materials, consumers' demand on tobacco products and OEM (as defined below) orders have been negatively affected by the outbreak of the COVID-19; and (iii) that the operation of the Subsidiary had to be suspended from time to time in accordance with local government control requirements or due to employee infection, as a result of which the cigar factory temporarily suspended its manufacturing activities to conserve cash and limit losses.

According to the unaudited consolidated management accounts of the Target Company, (i) the net loss before and after taxation and extraordinary items for the year ended 31 December 2020 were US$5,207,092.36 and US$5,207,092.36, respectively; (ii) the net loss before and after taxation and extraordinary items for the year ended 31 December 2021 were US$5,094,650.36 and US$5,094,650.36, respectively; and (iii) the net loss before and after taxation and extraordinary items for the year ended 31 December 2022 were US$8,290,803.17 and US$8,290,803.17, respectively. The unaudited consolidated total net assets of the Target Company as of 31 December 2022 were approximately US$34,897,704.84.

3. Reasons for and benefits of the Acquisition

As advised by the management of the Company, since the change of the Company's name from "Kinetic Mines and Energy Limited" to "Kinetic Development Group Limited" in October 2021, the Company has been devoted to transform its direction of future development from being a leading coal enterprise to a diversified company. The Company has been looking to diversify its business activities by stepping into new business other than mining in anticipation of the potential energy market cycle and fluctuation of coal price, to create different income streams for the Group and to enable the generation of income from a wider range of sectors. As such, the Acquisition is in line with the development strategy of the Group and represents a suitable investment opportunity for the Group to diversity its business activities.

As stated in the Letter from the Board, given the Company has been looking to utilize its surplus cash with a view to generate return for its Shareholders, the Company may benefit from the future operation and management of the Target Group Companies by acquiring for equity interest in the Target Company, taking into account the prospects of the Target Company. In particular, the Directors took into account (i) the commercial and operational factors; (ii) the fact that the COVID-19 pandemic situation has been alleviating, which is positive news for the business of the Subsidiary; (iii) the strategy of putting itself in a good position to grab the market shares before the global and regional market players completely recover from the COVID-19 pandemic situation so as to take advantage of the future development of the tobacco industry; and (iv) the tobacco industry has a relatively higher profit margin with lower required entry funds as compared to the investment required in a new mining project target.

As advised by the Directors, in assessing the future prospects of the Target Company, the Board takes into account a range of commercial and operational factors including:

(i) the construction and development of the cigar factory had already been completed, and it had been two years since the cigar factory started its trial operation, with an annual manufacturing capacity of 2 billion sticks of cigarette and 300,000 handmade cigars, before the COVID-19 pandemic hit at the end of 2019;

(ii) the Subsidiary has well-established distribution channels via retailers, business clients and sales agents. As advised by the Management, for the duty-paid market, the Subsidiary has covered more than 8,000 retailers through direct sales force and wholesales network in Cambodia, including, among others, 7-11 and Circle K. In addition, the Subsidiary has launched handmade cigar products in Spain through its sales agents, with over 200 cigar specialists making the products available. For the duty-free market, in Cambodia, the sales agents of the Subsidiary run duty-free stores in airport and casino;

(iii) the cigar factory is the only one in Cambodia licensed by the Cambodian government, and there is no peer company operating in the industry of tobacco manufacturing in Cambodia. The license granted by the Cambodian government will expire in October 2023 and is subject to renewal every three years. As advised by the management of the Company, the Subsidiary has fulfilled all the requirements for renewing the license;

(iv) the Target Group is already in possession of a range of recognizable brands including GRANDLEAD and PADRINO for cigars, and SKYLEAD/CAMBODIA and ASIA STAR for cigarettes;

(v) the Subsidiary recorded a loss for the two years ended 31 December 2021, mainly due to airport closure during the COVID-19 pandemic, as a result of which the cigar factory temporarily suspended its manufacturing activities to conserve cash and limit losses. However, given that the pandemic situation is alleviating, the business of the Subsidiary is recovering. For example, in December 2022, the Subsidiary successfully obtained an order of 300 cases of cigarettes (i.e. 3,000,000 sticks of cigarette), as the first batch for export, from a Myanmar client. In addition, Lotte DF in Vietnam and Dufry in Hong Kong have also contacted the Subsidiary for business. After China has relaxed its epidemic control measures recently, more business queries are pouring in and the market is heating up;

(vi) with a maximum manufacturing capacity of 2 billion sticks of cigarette and 300,000 handmade cigars, the Subsidiary is expected to achieve a revenue of approximately RMB15 million, RMB30 million, RMB75 million, RMB165 million and RMB355 million for the year ending 31 December 2023, 2024, 2025, 2026 and 2027, respectively, and turnaround to profit 2026;

(vii) the business of the Subsidiary is in a solid position to grow and expand due to a series of factors including, for example, the relatively high entry-barrier of the tobacco industry, the increasing market demands, solid R&D capability and advanced manufacturing equipment, diversified cigar and cigarette products tailored to the evolving taste of the customers, recognizable brands in the target market, and the established supply chain, marketing channel and client relationship in the Cambodian market;

(viii) it is expected that the Target Group will continuously increase its market shares of tobacco products in Cambodia and Southeast Asia based on the factors including, amongst other things, its strengths in relation to (a) the direct sales and distributor sales network in Cambodia; (b) the direct sales and distributor sales in the Southeast Asia region; (c) the development of original equipment manufacturer ("**OEM**") business; (d) the expanding pool of its own brands; (e) the ability to adapt to the developing taste of consumers; and (f) the competitive prices of the tobacco products;

(ix) in Cambodia, the Target Group will be focusing on strengthening its direct sales to retailers and business clients. Direct sales will allow the Target Company to leverage its brand influence in Cambodia and keep a long-term relationship with their loyal clients through conducting more front-line visits to monitor, evaluate and improve the quality of their products and services as well;

(x) in the Southeast Asia region, the Target Group will try to explore and develop their relationship with new clients in the Southeast Asia region through the dealer network in the initial stage of the forecast period. After that, the Target Company plans to replicate its business model in Cambodia, adopting the direct sales strategy to the Southeast Asia region as well. The direct sales strategy, maintaining a long-term relationship with their loyal clients, together with the well-established dealer network, will allow the Target Company to distribute their products widely in the Southeast Asia region; and

(xi) although as of the Latest Practicable Date, the Target Company is only expected to breakeven by end of the financial year of 2025 and make profit in the financial year of 2026, the Board is taking a medium to long term view of the business and its revenue-generating capacity, and is of the opinion that the Company may benefit from the future operation of the business of the Target Company in the medium and long term.

Although the Company had no relevant experience or expertise in the Target Group's business, the Company has confirmed that upon closing of the Acquisition, the core management team of the Target Group will continue to be retained so as to continue with its existing business operations. In addition, the Company plans to hire external personnel with relevant experience and expertise in tobacco industry, including (amongst others) R&D, manufacturing and sales specialists and experts, to assist the core management team of the Target Group with the daily business operations.

As advised by the management of the Company, it also plans to take a series of measures to monitor the business performance of the Target Group after completion of the Acquisition including, among others, (i) replacing the chairman of the Target Group with one of the senior management of the Company so that the Company will have direct and immediate visibility over the Target Group's business operations and performance; (ii) appointing the Company's financial personnel to the Target Group to monitor and supervise the financing activities and financial performance of the Target Group; (iii) hiring external personnel with relevant experience and expertise in the tobacco industry to assist the core management team of the Target Group with daily business operations, and the relevant personnel shall report to the senior management of the Company regularly; and (iv) utilizing the existing internal control and reporting system of the Company to ensure effective monitoring of the business performance of the Target Group including timely access to the latest management accounts.

Taking into account that (i) the Acquisition is in line with the development strategy of the Group; (ii) the Acquisition allows the Group to diversify its business activities, create different income streams and take advantage of the future development of the tobacco market, which could in turn generate return to its Shareholders; (iii) the Group's solid financial position and that the Acquisition represents a suitable investment opportunity of the Group's abundant cash on hand; (iv) the Company may benefit from the future operation and management of the Target Group Companies by the Acquisition, taking into account the prospects of the Target Company; (v) the core management team of the Target Group will continue to be retained and external personnel with relevant experience and expertise in tobacco industry are expected to be hired by the Company so as to continue with the existing business operations of the Target Group; (vi) the Company has planned to implement a series of measures to monitor the business performance of the Target Group after completion of the Acquisition, including senior management change, close and ongoing financial supervision, appointment of external experienced personnel in tobacco industry and utilization of the Company's well-established internal control and reporting system; and (vii) as discussed in the section headed "4. The Acquisition and Subscription Agreement (as varied by the Supplemental Agreement)" below, the Vendor provides performance undertaking in favor of the Company, pursuant to which the Vendor will compensate for the shortfall on dollars for dollars basis in proportion to the shareholding interest of the Group in the Target Company upon completion of the Acquisition, we concur with the Directors that although the Acquisition is not conducted in the ordinary and usual course of the Company's business of coal production and sales, the Acquisition is fair and reasonable and in the interest of the Company and Shareholders as a whole.

4. The Acquisition and Subscription Agreement (as varied by the Supplemental Agreement)

Set out below is a summary of the principal terms of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement). Independent Shareholders are advised to read further details of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) as disclosed in the Letter from the Board:

Dates:	30 December 2022 and 29 March 2023
Parties:	(i) The Company as the Purchaser; (ii) Mr. Zhang Li as the Vendor; and (iii) Star Idea Enterprises Limited as the Target Company
Asset to be acquired:	The Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Shares, being 36,500 existing shares, representing approximately 73% of the equity interest in the Target Company as at the date of the Supplemental Agreement, which holds 100% equity interest in the Subsidiary.
Consideration and payment:	The Consideration payable by the Purchaser under the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) amounts to US$62,757,010.02, which is determined by reference to the valuation of 100% equity interest of the Target Company of RMB610.0 million as at 30 November 2022 as appraised by the Independent Valuer by way of discounted cash flow method of the income approach, and the proportional interest of the Group in the Target Company upon completion of the Acquisition. The Consideration will be funded by internal resources of the Group.

The Consideration shall be paid in the following three instalments:

(i) as at the date of the Acquisition and Subscription Agreement, US$19,435,763.04 has been paid to the Vendor as deposit;

(ii) US$20,000,000 shall be paid within 30 Business Days from (and excluding) the Signing Date; and

(iii) the balance of the Consideration shall be paid on or before Closing.

Performance undertaking (the "Performance Undertaking"):

The Vendor warrants to the Purchaser that the estimated aggregate future EBITDA to be achieved by the Target Company for the period encompassing five financial years ending 31 December 2027 (the "**Total Estimated EBITDA**", and such period the "**Warranty Period**") is RMB145.5 million. The Vendor further agrees that if the total EBITDA actually achieved by the Target Company during the Warranty Period, to be calculated at the end of the Warranty Period, falls short of the Total Estimated EBITDA, it shall compensate the Purchaser in the amount equivalent to Compensation = (Total Estimated EBITDA — actual total EBITDA achieved by the Target Company during the Warranty Period)*73%.

The Company expects to obtain the audited financial statements of the Target Company for the five financial years ending 31 December 2027, for determining the actual EBITDA, by the end of March 2028.

The Target Company is expected to adopt the CIFRS (as defined below) in compiling its audited financial statements for the five financial years ending 31 December 2027.

If the actual total EBITDA achieved by the Target Company during the Warranty Period falls short of the Total Estimated EBITDA, such shortfall, multiplied by 73% as per the formula set out in the announcement dated 29 March 2023, is expected to be paid to the Company in the form of compensation within 3 months after the issuance of the audited report of the Target Company for the year ending 31 December 2027.

Conditions precedent: Completion of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) is conditional upon various conditions having been fulfilled, or waived by the Purchaser including, amongst others:

(i) each of the representations and warranties of the Warrantors contained in the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) is and remains true, accurate and complete;

(ii) the Purchaser shall have completed satisfactory financial, legal and business due diligence with respect to the Target Group to the satisfaction of the Purchaser;

(iii) each Warrantor shall have performed and complied with all obligations and conditions contained in the Transaction Documents that are required to be performed or complied with by them on or before the Closing;

(iv) no provision of any applicable laws shall prohibit the consummation of any transactions contemplated under the Transaction Documents and all consents required from any competent governmental authority or other third party have been obtained;

(v) the Purchaser has obtained all approvals (including but not limited to approval from the shareholders if applicable) required for the consummation of the transactions contemplated under the Transaction Documents and have completed all procedures required therefor under the Listing Rules;

(vi) all corporate and other proceedings in connection with the transactions to be completed at the Closing shall have been completed in form and substance satisfactory to the Purchaser; and

(vii) since the Statement Date, no material adverse effect shall have occurred, and no event shall have occurred or arisen that would reasonably be expected to result in a material adverse effect.

To the best knowledge of the Company, as at the date of the Circular, all conditions precedent have been fulfilled, except for the conditions that (i) the Purchaser shall have obtained all shareholder approvals required for the consummation of the transactions contemplated underthe Transaction Documents and have completed all procedures required therefor under the Listing Rules, which are being sought via the EGM; and (ii) the provision by the Target Company of the audited accounts, which the Company has engaged an external auditor to prepare for 4 years ended 31 December 2022 in accordance with the Cambodian International Financial Reporting Standards ("**CIFRS**"). There is no significant discrepancy between CIFRS and the International Financial Reporting Standards.

Termination: The Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) may be terminated prior to the Closing (i) by written consent of all parties; (ii) by the Purchaser, by written notice, if there has been a material misrepresentation (or any representation or warranty made becomes untrue, inaccurate or misleading) or material breach of a covenant or agreement contained in the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) on the part of the Vendor or any Warrantor, and such breach, if curable, has not been cured within 14 days of such notice; or (iii) by the Purchaser, if any condition precedent has neither been fulfilled nor waived by 30 June 2023, or if due to change of applicable laws, the consummation of the transactions contemplated thereunder would become prohibited under applicable laws.

Such termination shall not relieve the Vendor or the Target Company from any liability arising from any breach of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) on their part(s), and shall not relieve the Vendor from any of his obligation to refund the payment made by the Purchaser under the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) in accordance with the terms therein within the time period and in the manner requested by the Purchaser.

Closing: The consummation of the sale and purchase of the Sale Shares shall take place remotely via the signing of documents and/or exchange of documents and signatures on the date which is a Business Day by which all closing conditions specified in the section "Conditions Precedent" above have either been satisfied or waived before or upon Closing or at such other time and place as the Vendor and the Purchaser shall mutually agree in writing.

At the Closing, the Target Company shall deliver to the Purchaser all corporate documents, licenses, certificates, as reasonably requested by the Purchaser.

At the Closing, the Vendor shall (i) deliver to the Purchaser (a) the relevant share certificate evidencing ownership of the Sale Shares; (b) a duly signed instrument of transfer to effect the transfer of the Sale Shares to the Purchaser; and (c) resignation as director(s) signed by any existing director of the Target Company (if so requested by the Purchaser); and (ii) provide all assistance reasonably required by the Purchaser to complete the registration of the Purchaser as owner of the Sale Shares and of any person nominated by the Purchaser to as director(s) of the Target Company at the relevant authority as soon as possible after Closing.

At the Closing, the Purchaser shall deliver to the Target Company duly completed application for the Subscription Shares.

Waiver: The Vendor waives any right of pre-emption, right of first refusal or other right conferred on the Vendor in respect of any of the Sale Shares or Subscription Shares.

Negative covenants: Between the Signing Date and the Closing, except as the Purchaser otherwise agrees in writing, none of the Target Group Companies shall (and the Warrantors shall not permit any of the Target Group Companies to) (i) take any action that would make any representation and warranty of the Warrantors inaccurate at any Closing; (ii) waive, release or assign any material right or claim; (iii) take any action that would, in the opinion of the Purchaser, materially impair the value of the Target Group Companies; (iv) sell, purchase, assign, lease, transfer, pledge, encumber or otherwise dispose of any material asset; (v) issue, sell, or grant any equity security; (vi) declare, issue, make, or pay any dividend or other distribution with respect to any equity security; (vii) incur any indebtedness for borrowed money or capital lease commitments or assume or guarantee any indebtedness of any person; (viii) enter into any contract or other transaction with any related party; or (ix) authorize, approve or agree to any of the foregoing.

As discussed in the table above, the Vendor provides the Performance Undertaking in favor of the Company in respect of the total EBITDA of the Target Company for the Warranty Period and will compensate for the shortfall on dollars for dollars basis in proportion to the shareholding of the Group in the Target Company upon completion of the Acquisition. Taking into account that (i) the amount of the total EBITDA under the Performance Undertaking is determined with reference to the projected EBITDA for the five years ending 31 December 2027 adopted in the Valuation, being a period of five financial years; (ii) the Consideration is determined by reference to the valuation of 100% equity interest of the Target Company of RMB610.0 million as at 30 November 2022 as appraised by the Independent Valuer by way of discounted cash flow method of the income approach and represents a discount of approximately 1.64% to the Valuation; (iii) the compensation is calculated as the shortfall on dollars for dollars basis with reference to the Group's attributable interest in the Target Company upon completion of the Acquisition; and (iv) the performance of the Vendor's payment obligation under the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) is secured by a share pledge provided by Mr. Zhang Liang, Johnson and King Lok, comprising 5,307,450,000 shares in the Company held by the Mr. Zhang Liang, Johnson and the direct and indirect interests derived therefrom, we consider that the Performance Undertaking provided by the Vendor can sufficiently protect the interest of the Company and the Shareholders as a whole.

Taking into account (i) the reasons for and benefits of the Acquisition and the Subscription (as varied by the Supplemental Agreement) as stated above; (ii) the Consideration is determined by reference to the valuation of 100% equity interest of the Target Company of RMB610.0 million as at 30 November 2022 as appraised by the Independent Valuer by way of discounted cash flow method of the income approach; and (iii) the Performance Undertaking provided by the Vendor is in favor of the Company, we consider that the terms of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) are on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

5. Valuation of the Target Company

Basis of valuation

As stated in the Letter from the Board, the Consideration is determined by reference to the valuation of 100% equity interest of the Target Company of RMB610.0 million as at 30 November 2022 (the "**Valuation**") as appraised by the Independent Valuer by way of discounted cash flow method of the income approach, as set out below:

The Acquisition

The Valuation of 100% equity interest of the Target Company	RMB610.0 million
The basis for calculating the Consideration	RMB600.0 million *(A)*
36,500 Sale Shares in the Target Company (73% of the total number of issued shares of the Target Company as at the date of the Acquisition and Subscription Agreement)	73% *(B)*
The Consideration	RMB438.0 million (US$62.757 million) *(A*B)*

Note: based on the RMB:US$ currency exchange rate of 6.9793:1

As stated in the Letter from the Board and as illustrated in the table above, the Consideration amounts to approximately US$62.757 million and is determined by reference to the Valuation of 100% equity interest of the Target Company of RMB610.0 million as at 30 November 2022.

Assessment of the Consideration

We have reviewed the Valuation Report prepared by Vision Appraisal and Consulting Limited, an independent and qualified valuer and noted that the fair value of the Target Company was RMB610 million as at 30 November 2022 (the "**Valuation Date**").

In assessing the fairness and reasonableness of the Valuation Report, we have taken into the following factors:

(i) The qualification and scope of work of Vision Appraisal and Consulting Limited

We have reviewed and discussed with the Independent Valuer on their qualification and experience in conducting valuation. We noted that (1) the Independent Valuer is an independent, professional service firm providing comprehensive range of professional services including independent valuation, business consulting and mining advisory services; (2) Mr. Dave Yang, as the director of the Independent Valuer and being responsible for the overall project management of the Valuation Report, has more than eight years of extensive experience in business and financial valuation service, business consulting and M&A advisory service in Hong Kong and China; (3) the Independent Valuer's clients include other listed companies on the Stock Exchange, such as Wanguo International Mining Group Limited (3939.HK), Apollo Future Mobility Group Limited (860.HK) and Pacific Legend Group Limited (8547.HK); and (4) the Independent Valuer is an independent third party to the Company, the Vendor and their respective associates.

We have also reviewed the terms of the Independent Valuer's engagement, in particular, their scope of work, and noted that it is appropriate to the opinion required to be given and there is no limitation on the scope of work which might adversely impact on the degree of assurance given by them in the Valuation Report.

Based on the above, we are of the view that the scope of work of the Independent Valuer is appropriate and the Independent Valuer is qualified to perform the Valuation. We therefore consider it appropriate to rely on their work and opinion.

(ii) Valuation approach

We have discussed with the Independent Valuer and understand that the Independent Valuer has adopted the discounted cash flow ("**DCF**") methodology of the income approach due to the following consideration:

(a) the selection of the valuation approach in valuing the Target Group is based on, among other criteria, the quantity and quality of the information provided, accessibility to available data, availability of relevant market information, uniqueness of the Target Group's business operations and nature of the industry the Target Group is participating, professional judgment and technical expertise;

(b) income approach takes the future growth potential and firm-specific issues of the Target Group into consideration;

(c) the DCF method, which begins with an estimation of the annual cash flows that a market participant acquirer would expect the asset to generate over a discrete projection period, is appropriate because the purpose of purchasing and subscribing for shares in the Target Company is for the Company to benefit from the future income to be generated by the Target Company. Therefore, the prospect of future income-generating is the central factor to consider when it comes to gauging the value of the Target Company from the perspective of the Company; and

(d) market approach and cost approach are not considered because the Management believed that the market approach and cost approach may not be able to fully reflect the future factors incorporate in the Target Group.

Based on the factors above, we concur with the Independent Valuer that the income approach was the most appropriate valuation methodology to conduct a fair and reasonable valuation.

(iii) Application of the DCF methodology

Under the income approach, the appraisal value of the Target Company represents the present worth of future economic benefits expected to be generated from the Target Company. The Independent Valuer applied the DCF method to discount the free cash flow ("**FCF**") of the Target Company at a discount rate to calculate the fair market value of the Target Company.

In our assessment in the Valuation, we have reviewed the following key quantitative assumptions:

(a) Forecasted revenue

Based on the Valuation Report, the forecasted annual revenues for the Target Group are approximately RMB15 million, RMB30 million, RMB75 million, RMB165 million and RMB355 million for the year ending 31 December 2023, 2024, 2025, 2026 and 2027, respectively. We have discussed with the Independent Valuer and reviewed the detailed working documents, and understand the aforesaid revenues are based on the estimation from the management of the Company, the management of the Target Group and/or their representative (the "**Management**").

In assessing the reasonableness of the projected revenue for the five years ending 31 December 2027, we have discussed with the Management on the basis and assumption underlying the projections. As advised by the Management, the projected revenue for the five years ending 31 December 2027 is considered to be achievable after taking into account the following key factors:

(1) all of the Target Group's revenues in the forecast period are expected to derive from sales of tobacco products, mainly cigarettes and hand-made cigars primarily in Cambodia and Southeast Asia;

(2) the revenues in the forecast period are determined based on (i) the estimated selling prices, which are estimated based on, among others, material costs, the historical selling prices in the past few years, and the selling prices of similar products and the competition level in the target markets; and (ii) sales amounts which are estimated based on, among others, production capacities and the size of the markets;

(3) in relation to the cigarette production, its maximum production capacity is mainly dependent on the existing machineries and equipment. In the forecast period, it is expected to sell approximately 1.92 billion sticks of cigarette in 2027 which is lower than the annual manufacturing capacity of 2 billion sticks of cigarette. In relation to the hand-made cigar production capacity, the main concern is the recruitment and the training of workers who will be rolling the cigar products. The Target Group will flexibly recruit the necessary manpower when needed and no additional machineries or equipment is required. As advised by the Management, it only requires approximately 1 month from recruitment to training, to get a person ready for the cigar rolling work. As such, the Target Group will be able to produce the required quantity of cigarette products to achieve the sales in the forecast period as planned. Based on the development strategy for the Cambodian and Southeast Asian markets as mentioned below, it is expected that in 2027, approximately 350 million sticks of cigarette can be sold through direct sales and distributors in Cambodia, while approximately 850 million sticks of cigarette can be sold through direct sales channels in the Southeast Asian market and another 600 million sticks of cigarette to be sold through distributor channels in the Southeast Asian market. In addition, sales outside the Southeast Asian market, including Asia Pacific and other global markets is expected to generate the sales of approximately 100 million sticks of cigarette, marking up approximately 5.5% of the total sales volume of cigarette in 2027. The cigarette sales outside the Southeast Asian market are mainly through the duty-free channel. The Target Group has former senior employees from four major tobacco companies' duty-free channels in its workforce and has established good relationships with several large Chinese duty-free companies;

(4) the Management has developed business plan to achieve the relevant revenues in the forecast period including well-established distribution channels and in possession of a range of recognizable brands including GRANDLEAD and PADRINO for cigars, and SKYLEAD/CAMBODIA and ASIA STAR for cigarettes. For example, the Subsidiary has covered more than 8,000 retailers through direct sales force and wholesales network in Cambodia, including, among others, 7-11 and Circle K. In terms of the markets to be covered through the application of different sales models, direct sales is used for the markets in key provinces and cities in Cambodia, such as Phnom Penh, Siem Reap and Preah Sihanouk, and distributors are engaged for the markets in peripheral areas like Battambang, Takéo, Kampong Cham, and Kampong Speu. The Target Company has initiated a preliminary collaboration with distributors in Takéo, Kompong Thanh Yang and Komgpong Cham, which are understood to cover approximately 800 retailers. The Target Group expects to develop one to three distributors in each peripheral area, each of which is understood to have the capacity of covering 6,000 to 8,000 retailers, with the aim of reaching 30,000 retailers through distributors by the end of 2027. In addition, the Subsidiary has launched handmade cigar products in Spain through its sales agents;

(5) the cigar factory operated by the Target Group is the only one in Cambodia licensed by the Cambodian government and the maximum manufacturing capacity could reach 2 billion sticks of cigarette and 300,000 handmade cigars. Although cigar sales are expected to account for only a small portion of the Target Group's revenue (between approximately 3% to 12%), the Target Group's ownership of a cigar factory would ensure control on its own production capacity of cigars to meet market needs, and also to make it possible to meet the production requirements of third parties;

(6) according to the public information published on Statista, a leading provider of market and consumer data with more than 200 specialist editors collecting information from approximately 22,500 sources, delivering insights and facts across 170 industries and over 150 countries, the market size of the tobacco market in Cambodia is projected to grow progressively from approximately US$220 million (equivalent to approximately RMB1,500 million) in 2022 to approximately US$240 million (equivalent to approximately RMB1,600 million) by 2027. As such, the Management believed that the market depth in Cambodia will allow the Target Company to achieve what was proposed in the business plan and the financial projection;

(7) before the outbreak of the COVID-19, revenue of the Target Group increased from approximately US$0.7 million for the year ended 31 December 2018 to approximately US$3.3 million for the year ended 31 December 2019, representing an increase of over 370%, as the Target Group has achieved a steady operation in 2019 after running a trial production in 2018. The Management believed that the COVID-19 pandemic will gradually ease in the future;

(8) in Cambodia, the Target Group will be focusing on strengthening its direct sales to retailers and business clients. Direct sales will allow the Target Group to leverage its brand influence in Cambodia and keep a long-term relationship with their loyal clients through conducting more front-line visits to monitor, evaluate and improve the quality of their products and services as well;

(9) as compared with the 16 million population of Cambodia, the Southeast Asia countries have a population of more than 600 million and the multinational tobacco companies do not have absolute market dominance in this region. The Management believed that the large smoking population in this region provides a huge room for growth in cigarette consumption. Against this backdrop, according to the business plan and financial projection provided by the Management, the Target Group will first try to explore and develop their client relationships in the Southeast Asia region through the dealer network in 2023 and 2024. After that, the Target Group will be able to replicate its successful business model in Cambodia and strategically sell their products to those

Southeast Asian countries with their direct sales strategy. The direct sales strategy, together with the well-established dealer network, will allow the Target Group to have a wide coverage in the Southeast Asia region; and

(10) in terms of the selling price of each pack of cigarettes, depending on the geographical markets and the Target Group's expansion strategy in each of these markets (e.g. whether or not to rely on distributors in rolling out the products), the price may differ amongst different sales channels. Specifically, in markets other than Cambodia, the intended average selling price for each pack (i.e. 20 sticks of cigarette per pack) is US$0.574 through direct sales, US$0.254 through distribution channels and US$0.288 through duty-free channels. In Cambodia, on the other hand, the average selling price for each pack is the same across the direct sales and distribution channels, i.e. US$0.574. The determination of the selling prices is based on the past actual prices negotiated with counterparties in these channels after taking into account (i) production costs; (ii) the Target Group's costs in direct sales (applicable to direct sales); and (iii) the distributor's profit under the distributor model (applicable to sales through distributors).

We have discussed with the Management on the future plans and prospect of the business of the Target Group including but not limited to the product mix, pricing strategies, marketing channels, client relationship and market demand. We have obtained and reviewed the financial statements of the Subsidiary for the five years ended 31 December 2022. The Target Group's revenue amounted to approximately US$0.7 million (equivalent to approximately RMB4.7 million), US$3.3 million (equivalent to approximately RMB22.4 million), US$1.8 million (equivalent to approximately RMB12.2 million), US$1.7 million (equivalent to approximately RMB11.5 million) and US$0.8 million (equivalent to approximately RMB5.4 million) for the five years ended 31 December 2022, respectively, based on an exchange rate of US$1: RMB6.78 for illustrative purpose. After running a trial production in 2018, the Target Group achieved a steady operation in 2019, resulting in a significant increase in revenue in 2019. However, due to the prolonged effect of the COVID-19 pandemic, the Target Group recorded a decrease in revenue during the period from 2020 to 2022. The average annual revenue of the Group for the four years ended 31 December 2022 of approximately RMB12.9 million is close to the projected revenue of RMB15 million for the year ending 31 December 2023 even under the impact of the COVID-19 pandemic.

In assessing the reasonableness of the annual growth rate of the projected revenue for the five years ending 31 December 2027 of 100% to 150%, we have considered the four aspects of the Target Group including historical annual growth rate, production capacity, market share and sales and marketing network.

	For the year ended 31 December		
	2019	2020	2021
The actual quantity of cigarette sticks sold by the Subsidiary (sticks)	84,700,000	8,930,000	6,190,000
The actual quantity of cigarette sticks produced by the Subsidiary (sticks)	89,890,000	10,150,000	9,670,000
The actual quantity sold as a percentage of the actual production of cigarette sticks by the Subsidiary	94.2%	88.0%	64.0%
The actual quantity of handmade cigars sold by the Subsidiary (sticks)	37,770	36,600	50,500
The actual quantity of handmade cigars produced by the Subsidiary (sticks)	94,465	198,410	27,897
The actual quantity sold as a percentage of the actual production of handmade cigars by the Subsidiary	40.0%	18.4%	181.0%

Regarding the Target Group's historical annual growth rate, considering that (1) during the COVID-19 pandemic period, the operation of the Subsidiary had to be suspended from time to time in accordance with local government control requirements or due to employee infection. As a result, the production of cigarette sticks has decreased by approximately 88.7% and 4.7% for the two years ended 31 December 2021, respectively and the actual quantity sold as a percentage of the actual production of cigarette sticks has decreased from approximately 94.2% in 2019 to approximately 64.0% in 2021. The decrease in the actual quantity sold as a percentage of the actual production of cigarette sticks by the Subsidiary from approximately 88.0% in 2020 to approximately 64.0% in 2021 was primarily attributable to the prolonged effect of the COVID-19 pandemic which has negatively influenced consumers' demand on tobacco products. In respect of handmade cigars, the historical planned production was approximately 250,000 sticks per annum. The actual production was relatively low in 2019, primarily due to the recruitment and training of workers needed at the initial stage of production, which was expected to increase substantially in 2020 after the recruitment and training. However, as a result of the suspension from-time-to-time, the actual production of handmade cigars failed to meet the historical annual production target in 2020 and further decreased in 2021. Given that the sale of cigarette sticks represents the major income source of the Target Group, the significant decrease in the sales and production of cigarette sticks during the COVID-19 pandemic period has negatively affected the Target Group's performance for the two years ended 31 December 2021; and (2) as China has relaxed its epidemic control measures recently, more business queries are pouring in and the market is heating up and the Target Group will be able to recover so as to achieve a level of income that matches its own operating capabilities, we concur with the Directors and the Management that the historical figures for the two years ended 31 December 2019, as opposed to the time period affected by the outbreak of the COVID-19 pandemic, would be more meaningful for understanding the Target Group's actual business operation and financial performance and work as a reference in projection. As discussed above, the Target Group's revenue has increased by 380.2% from 2018 to 2019. As the COVID-19 pandemic faded, it is expected that the Target Group's production volume and sales will gradually resume to the growth momentum prior to the outbreak of the COVID-19 pandemic.

Regarding the Target Group's production capacity, on the one hand, the maximum annual cigarette production capacity of the existing machineries and equipment is higher than the annual required quantity for the five years ending 31 December 2027. On the other hand, the maximum annual hand-made cigar production capacity mainly depends on the recruitment and training of workers who will be rolling the cigar products. The existing training system and the competitive salary rate in Cambodia can support the Target Group's continuous expansion of hand-made cigar production capacity flexibly to meet the future needs. As advised by the Management, the Target Group had already acquired the capacity in machineries and equipment to produce the estimated quantity of cigarette and cigar products and no further substantial capital investment will be required in the forecast period.

Regarding the Target Group's market share, the table below set outs (1) the Target Group's revenue and projected revenue in different markets; (2) the market sizes of tobacco products in Cambodia and Southeast Asia in terms of revenue; and (3) the historical and projected market shares of the Target Group in the Cambodian and Southeast Asian tobacco markets based on the historical revenue generated by the Target Group for the two years ended 31 December 2019 and the projected revenue for the five years ending 31 December 2027, based on an exchange rate of US$1: RMB7.1629 for illustrative purpose:

Year	**Target Group's revenue/ projected revenue** *(US$ million)* **A = B + C + D**	**Cambodia market** *(US$ million)* **B**	**Southeast Asian market** *(US$ million)* **C**	**Other markets** *(US$ million)* **D**
2018	0.69	0.34	—	0.35
2019	3.30	3.30	—	—
2023 (projected)	2.09	1.25	0.32	0.52
2024 (projected)	4.19	2.44	0.59	1.16
2025 (projected)	10.47	2.75	6.23	1.49
2026 (projected)	23.04	4.72	15.18	3.14
2027 (projected)	49.56	10.04	32.59	6.93

Source: Information provided by the Target Group

Year	**Market size of tobacco products in Cambodia in terms of revenue** *(US$ million)* **E**	**Target Group's market share in Cambodia** *(%)* **B/E**	**Market size of tobacco products in Southeast Asia in term of revenue** *(US$ million)* **F**	**Target Group's market share in the Southeast Asia** *(%)* **C/F**
2018	216.19	0.16%	49,720.00	0.00%
2019	217.92	1.51%	52,430.00	0.00%
2023 (projected)	229.20	0.55%	58,450.00	0.00%
2024 (projected)	232.58	1.05%	59,770.00	0.00%
2025 (projected)	236.00	1.17%	61,050.00	0.01%
2026 (projected)	239.65	1.97%	62,200.00	0.02%
2027 (projected)	243.44	4.12%	63,350.00	0.05%

Source: Statista

As shown in the table above, in 2019, the Target Group's market share in the Cambodian tobacco market has reached approximately 1.51%, which is close to the market share it expected to achieve in Cambodia by 2026. It is expected to secure additional market share of approximately 2.61% and 0.05% in the Cambodian and the Southeast Asian tobacco markets, respectively. In this regard, we have obtained and reviewed the breakdowns of the Target Group's historical and projected direct sales, distributor sales and the original equipment manufacturing business in Cambodia and the Southeast Asia region. As understood from the Management, the Target Group has a wide range of product flavors/recipe to adapt to the evolving taste of consumers and competitive pricing of its tobacco products due to the relatively low labor costs and the exemption of import duties. Through (1) its direct sales and wholesales network in Cambodia, covering more than 8,000 retailers including 7-11 and Circle K; (2) its expansion into the Southeast Asian market via the dealer network starting in 2023 and 2024; and (3) subsequent replication of its direct sales strategy in the Southeast Asian market as mentioned above, the Target Group is in a position to continuously increase its market shares of tobacco markets in Cambodia and Southeast Asia as planned.

Statista, headquartered in Hamburg, is a provider of market and consumer data across 170 industries and over 150 countries with over 15 offices globally. According to the website of Statista, Statista adopts bottom-up modelling approaches by (1) collecting and obtaining market data from, among other things, national statistics, industry research, trade associations, independent databases and third-party sources; (2) analyzing various key market and macroeconomic indicators, historical developments, current trends and reported performance indicators from the key market players; (3) conducting primary interviews with market experts across the value chain to validate its findings and assumptions used to obtain them; and (4) deriving trend analytics and forecasts on the relevant markets using mathematical models. On the above basis, we consider that the market statistics compiled by Statista are based on authenticated sources and are validated through a vigorous process. As such, we are of the view that the market statistics provided by Statista are credible and reliable and can be made reference to in substantiating the market sizes of tobacco products in Cambodia and Southeast Asia.

For the Cambodian tobacco market, it is expected that the Target Group's market share in Cambodia will increase from approximately 1.97% in 2026 to approximately 4.12% in 2027, primarily attributable to the increase in the Target Group's revenue for the year ending 31 December 2027. Taking into account that (1) currently, there are approximately 90,000 cigarette retailers in Cambodia, and the Target Group has established collaborative relationships with more than 8,000 of these retailers as at the end of 2022, all through direct sales. The Target Group plans to gradually increase the number of retailers whom it collaborates with for direct sales of its tobacco products to approximately 50,000 by 2027, in order to increase the volume of direct sales of its tobacco products; (2) the tobacco products of the Target Group are generally more competitively priced than international brands who do not manufacture their tobacco products in

Cambodia. This is due to the facts that (i) the Target Group, with its local factory in Cambodia, is not subject to import duty for its locally sold and distributed tobacco products, which may amount to approximately 31% for cigarettes (35% for cigars) of the sale price; and (ii) the relatively lower labor cost for local production. For example, the Target Group's flagship product, Asia Star, is priced approximately 15% lower than similar competing products of international brands sold in the Cambodian market; (3) by producing and selling locally, the Target Group is expected to be able to respond to the market needs more promptly, and to timely identify market trends and react to the needs and tastes of consumers for different tobacco products; and (4) the Target Group also expects to benefit from the granular building of the brand awareness of its tobacco products in the market, and subsequently be able to charge a premium for their tobacco products, resulting in higher revenue, the Target Group is considered to be able to achieve the expected revenue in Cambodia for the five years ending 31 December 2027 as shown in the table above. As such, we consider the significant growth of the Target Group's market share in Cambodia in 2027 to be fair and reasonable.

	2023	**2024**	**2025**	**2026**	**2027**
Total target number of retailers	10,000	22,000	28,000	40,000	50,000
Target number of retailers through distributors	2,000	8,000	8,000	20,000	30,000
Target number of retailers for direct sales	8,000	14,000	20,000	20,000	20,000
Total target sales team size	70	130	180	220	260
Number of personnel responsible for developing and maintaining business with distributors	10	30	30	70	110
Number of personnel responsible for developing and maintaining direct sales business	60	100	150	150	150
Estimated number of new retailers to be secured each year *(Note 1)*	9,800	18,200	25,200	30,800	36,400
Estimated cumulative number of retailers secured *(Note 2)*	17,800	36,000	61,200	92,000	128,400

Notes:

1. The number of new retailers to be secured each year is estimated based on the historical annual capacity of securing 140 retailers per salesperson in Cambodia multiplied by the total target sales team size each year.

2. The cumulative number of retailers secured is estimated as the sum of total number of retailers secured in previous years and the estimated number of new retailers to be secured in a new year. For instance, the estimated cumulative number of retailers secured in 2023 is calculated as the sum of 8,000 (i.e. the total number of retailers which the Group has established collaborative relationships with in 2022) and 9,800 (i.e. the estimated number of new retailers to be secured in 2023). The estimated cumulative number of retailers secured in 2024 is calculated as the sum of 17,800 (i.e. the total number of retailers which the Group has established collaborative relationships with in 2023) and 18,200 (i.e. the estimated number of new retailers to be secured in 2024).

In respect of the expansion of the number of collaborated retailers in Cambodia, as shown in the table above, the Target Group plans to connect to more local retailers through both distributors and direct sales and enhance its sales efforts. Taking into account that (1) the Target Group has successfully built a team of approximately 60 persons comprising a sales team of 35 sales personnel and a promotional/supporting team of 25 people and developed a retail network comprising 5,000 retailers in 2019, before the COVID-19 pandemic hit, which means one salesperson could secure approximately 140 retailers within one year (i.e. calculated as 5,000 divided by 35); (2) the expansion in the Target Group's number of sales personnel from 2023 to 2027; (3) by using the Target Group's successful track-record of securing 140 retailers by one salesperson per year, the estimated cumulative number of retailers of 128,400 in 2027 exceeds the Target Group's target of 50,000 in 2027; and (4) after market cultivation and market reputation establishment of the Target Group's cigarettes, it would be easier to get connection and collaboration with local retailers, we consider the basis of the expansion of the number of collaborated retailers in Cambodia from 2023 to 2027 is fair and reasonable.

In determining the expected revenue of approximately US$10.04 million in the Cambodia market in 2027 (i.e. the market share of approximately 4.12% of the Cambodia market in 2027), it is projected with reference to the increase in sales volume from approximately 42 million sticks of cigarette in 2023 to approximately 350 million sticks of cigarette in 2027, with the number of retailers selling tobacco products, including both direct sales and distribution channels, increasing from 10,000 in 2023 to 50,000 in 2027. In other words, the annual sales volume of sticks of cigarette per retailer is expected to increase from approximately 4,200 in 2023 to approximately 7,000 in 2027 with a compound annual growth rate of approximately 13.6% during the period. Taking into account (1) that as a reference, even under the effect of the COVID-19 pandemic outbreak, the new product of the Target Group's flagship product, Mint Burst, was launched in July 2020 and achieved a sales volume of 0.3 million sticks of cigarette through 900 stores within one month, which is equivalent to an annual sales volume of sticks of cigarette per retailer of 4,000 for a single product (i.e. calculated as 300,000 multiplied by 12 and then divided by 900); (2) the accumulative effect of the market promotion activities, enhanced brand awareness, improved consumer acceptance, and the increasing activeness of the distribution network; (3) that after the market cultivation, the Target Group's brand awareness and reputation shall be increasingly recognized by customers in the Cambodia market which will lead to a further increase in its annual sales volume; and (4) the fact that the COVID-19 pandemic situation has been alleviating and will gradually ease in the future, we consider the basis which the Target Group is expected to capture approximately 4.12% of the Cambodian market by having collaboration with 50,000 retailers is fair and reasonable.

In respect of the Southeast Asian market, the Target Group has planned to adopt an incremental development strategy with the aim to successfully develop and promote the sales of the Target Group's cigarettes by the end of 2027, which includes: (1) from 2023 to 2024, the entry into the Southeast Asian market is expected to be through distributors rather than direct sales in order to build the market and brand reputation, with a focus on 2-3 countries in the Southeast Asian region, including Indonesia, Vietnam and Myanmar, developing sales on a country-to-country basis. The sales target for these two years represents a proportion between approximately 0.01% and 0.02% of the estimated total sales volume of the Southeast Asian region (500 billion sticks of cigarette); (2) by 2025, as the distributor network for the Target Group's tobacco products develops in a Southeast Asian country, building up brand awareness of these tobacco products in this process, the Target Group will then introduce the direct sales model to the such country to increase profit margin, with a total sales target representing a proportion of approximately 0.05% of the estimated total sales volume of the Southeast Asian region (500 billion sticks of cigarette). The process will then repeat for the next country in 2026 and 2027, developing sales first through domestic distributor network, followed by the introduction of the direct sales model into the relevant market; (3) by 2026 and 2027 respectively, with the direct sales model in the relevant markets consolidated and improved, and the distributor network reached a certain scale, the Target Group expects to achieve the sales target representing a proportion of approximately 0.14% and 0.29% respectively of the estimated total sales volume of the Southeast Asian region (500 billion sticks of cigarette); (4) as discussed below, the Target Group has signed three memorandums of understanding ("**MOUs**") with distributors in the Southeast Asian market including Myanmar, Singapore and Pakistan, indicating the Target Group's focus on exploring and developing their client relationships in the Southeast Asia region through the dealer network in 2023 and 2024; (5) the Target Group has also entered into a legally binding sales agreement with a duty-free store in Vietnam pursuant to which 500,000 sample sticks of cigarette have been delivered to the duty-free store by the end of April. It is expected that the revenue will be recognized by September 2023 and 1 million sticks will be ordered in the third quarter for US$15,000; and (6) that during the direct sales phase, the Company has planned to build a professional branding and marketing team by organizing the core management and marketing personnel from the Target Group's established markets to directly promote brand awareness in the Southeast Asian market. Taking into account (1) the aforementioned incremental development strategy; and (2) that after the market cultivation for the three years ending 31 December 2025, the Target Group's brand awareness and reputation shall be gradually recognized by customers in the Southeast Asian market which will lead to a further increase in revenue for the two years ending 31 December 2027, the Target Group is considered to be able to establish a competitive position in the Southeast Asian market and achieve the expected revenue in the Southeast Asian market for the five years ending 31 December 2027 as shown in the table above. As such, we consider the significant growth of the Target Group's market share in the Southeast Asian market in 2026 and 2027 to be fair and reasonable.

The detailed plan of the Target Group to achieve the projected revenue in the Southeast Asian market between 2023 and 2027, through its sales team consisting of team members responsible for developing business with distribution channels and for developing direct sales business, are set out in the table below:

Southeast Asian Country		2023	2024	2025	2026	2027
Indonesia	Sales volume *(0,000 sticks of cigarette)*	0	5,040	16,200	40,800	87,600
	Sales through distributors *(0,000 sticks of cigarette)*	0	5,040	6,500	17,058	36,625
	Sales through direct sales *(0,000 sticks of cigarette)*	0	0	9,700	23,742	50,975
	Number of retailers *(including through distributors and direct sales)*	0	11,000	30,000	67,200	120,800
	Sales team size for direct sales	0	0	135	211	379
	Sales team size for distribution channels	0	28	28	84	150
Vietnam	Sales volume *(0,000 sticks of cigarette)*	450	1,200	7,400	14,000	32,500
	Sales through distributors *(0,000 sticks of cigarette)*	450	1,200	3,132	5,740	13,325
	Sales through direct sales *(0,000 sticks of cigarette)*	0	0	4,268	8,260	19,175
	Number of retailers *(including through distributors and direct sales)*	982	2,619	16,000	30,000	70,000
	Sales team size for direct sales	0	0	69	92	215
	Sales team size for distribution channels	2	7	12	38	89
Myanmar	Sales volume *(0,000 sticks of cigarette)*	750	1,500	3,877	13,249	26,320
	Sales through distributors *(0,000 sticks of cigarette)*	750	1,500	1,590	5,432	10,791
	Sales through direct sales *(0,000 sticks of cigarette)*	0	0	2,287	7,817	15,529
	Number of retailers *(including through distributors and direct sales)*	344	687	2,094	8,044	19,086
	Sales team size for direct sales	0	0	9	25	59
	Sales team size for distribution channels	1	2	2	10	24

Southeast Asian Country		2023	2024	2025	2026	2027
In total	Sales volume *(0,000 sticks of cigarette)*	4,237*	8,474*	27,477	68,049	146,420
	Sales through distributors *(0,000 sticks of cigarette)*	4,237*	8,474*	11,222	28,230	60,741
	Sales through direct sales *(0,000 sticks of cigarette)*	0	0	16,255	39,819	85,679
	Number of retailers *(including through distributors and direct sales)*	1,326	14,306	48,094	105,244	209,886
	Sales team size for direct sales	0	0	213	328	653
	Sales team size for distribution channels	3	37	42	132	263

**Note:*

with respect to the total sales volume through distribution channels, this would include 30,370,000 sticks of cigarette in 2023 and 7,340,000 sticks of cigarette in 2024 expected to be sold in other countries in the Southeast Asian market, potentially from Malaysia, Thailand, Bangladesh, Pakistan, Laos, which countries the Target Group is negotiating with distributors over.

As disclosed in the Letter from the Board, the Target Group's plan to increase the number of retailers in Southeast Asia from 2023 to 2027 is based on (1) expand its sales team for direct sales who will reach out to and maintain relationship with the retailers directly. Each sales personnel will be responsible for developing and maintain relationship with approximately 160 retailers, based on the Target Group's successful track record in Cambodia; and (2) collaborate with distributors who will bring in retailers from their sales network. The Target Group will progressively establish collaborative relationships with distributors in Southeast Asia with the number eventually stablised within the range of 15 to 20 in 2027. Each distributor is expected to cover approximately at least 5,000 to 10,000 retailers in Southeast Asia, based on Target Group's understanding of the capacity of the distributors through its negotiation with them. The sales personnel for distribution channels shall be responsible for providing support to the distributors with an estimated ratio of approximately 400 retailers per sales personnel.

Taking into account (1) compared with the 16 million population of Cambodia, Southeast Asian countries have a population of more than 600 million so that it generally have a larger market size for tobacco products and larger number of retailers; (2) the Target Group's successful track-record of securing 140 retailers by one salesperson per year in Cambodia through direct sales and the larger tobacco market size in Southeast Asia would allow the Target Group's sales personnel to develop more retailers; (3) sales through distributors is built on the sales network already developed by distributors, who are responsible for the marketing and selling of the tobacco products and able to get connection and collaboration with more retailers than direct sales and thus fewer sales personnel are required by the Target Group; (4) the entry into the Southeast Asian market is expected to be through distributors first rather than direct sales in order to quickly build the market and brand reputation; (5) as advised by the Management, amongst the distributors with whom the Target Group has signed MOUs, the Target Group understands that WYZ Pte Ltd (Myanmar), Algold Wine & Spirals PTE Ltd (Pakistan) and Kaimay Pte Ltd (Singapore) could in their full capacity cover approximately 30,000 retailers in Myanmar, 20,000 retailers in Pakistan and 30,000 retailers across Bangladesh and Afghanistan, respectively; (6) after market cultivation and market reputation establishment of the Target Group's cigarettes, it would be easier to get connection and collaboration with local retailers; and (7) the expansion in the Target Group's number of sales personnel from 2023 to 2027, we consider the basis of the expansion of the number of collaborated retailers in the Southeast Asian market from 2023 to 2027 is fair and reasonable.

Taking into account (1) that the entry into the Southeast Asian market is expected to be through distributors first who have already established a local retailer network and are able to get connection and collaboration with more retailers than direct sales; (2) under distribution channels, the sales team is responsible for supporting distributors who will then cooperate with retailers and thus fewer salespersons are required; (3) the expansion in the Target Group's number of sales personnel from 2023 to 2027; (4) compared with the 16 million population of Cambodia, Southeast Asian countries have a population of more than 600 million and the multinational tobacco companies do not have any absolute market dominance in the region so that it generally have a larger market size for tobacco products; (5) the Target Group's experience and strategy that have been successful in developing the Cambodian market consist of initiating broad-based distributor engagement to achieve market penetration, expanding brand awareness and gaining insight into the needs of the customers, and gradually introducing a direct sales model to enhance sales performance. Such measures are transferrable when it comes to developing the Southeast Asian markets and can be directly implemented in this process; (6) the accumulative effect of the market promotion activities, enhanced brand awareness, improved consumer acceptance, and the increasing activeness of the distribution network; (7) that after the market cultivation, the Target Group's brand awareness and reputation shall be increasingly recognized by customers in the Cambodia market which will lead to a further increase in its annual sales volume; and (8) the fact that the COVID-19 pandemic situation has been alleviating and will gradually ease in the future, we consider the estimation of sales target at different points of time from 2023 to 2027 is fair and reasonable.

In respect of the other markets, the Target Group will progressively increase the sales of its products through the duty-free channels to the following 4 major areas, (1) Indo-China Peninsula (e.g. Laos); (2) Southeast Asia Island Region (e.g. Indonesia); (3) Great China (e.g. Hong Kong, Macao); and (4) Others (e.g. Japan, South Korea, Australia and the United Arab Emirates). The Target Group believes that the duty-free shops at the airports and the border gates of the above-mentioned areas will provide a good exposure and enhance its brand popularity with the tourists.

Regarding the Target Group's sales and marketing network, the Target Group has well-established distribution channels via retailers and business clients. As advised by the Management, for the duty-paid market, the Subsidiary has covered more than 8,000 retailers through direct sales force and wholesales network in Cambodia, including, among others, 7-11 and Circle K. For the duty-free market, the business clients of the Subsidiary run duty-free stores in airport and casino in Cambodia. We have obtained and reviewed the sales agreement and purchase orders entered into by the Subsidiary with China Duty Free Group, Kiwi mart, 7-11, Circle K in 2022, which govern the business relationship between the Target Group and these large retail/duty-free chains. In addition, we have reviewed and obtained the three MOUs and one sales agreement between the Subsidiary and a duty-free store in Vietnam, indicating the Target Group's focus on exploring and developing their client relationships in the Southeast Asia region through the dealer network in 2023 and 2024 (the "**Agreements**"). Based on the Agreements and our understanding from the Management, the total planned purchase amounted to approximately RMB5.4 million, which have covered approximately 36% of the total projected revenue of the Target Group in all markets for the year ending 31 December 2023. Although the three MOUs are non-legally binding, as advised by the Management, there are some updates on the business cooperation with these three distributors in the Southeast Asia region. For the distributor in Myanmar (WYZ Pte Ltd), the Subsidiary has delivered 300 sample sticks to the distributor who is in the process of building the market and distributing the product to retailers. The total revenue of the agreed-upon first batch of 5 million sticks of cigarette is US$75,000, which is expected to be recognized in the third quarter of 2023. For the distributors in Singapore (Kaimay Pte Ltd) and Pakistan (Algold Wine & Spirals PTE Ltd), the Subsidiary has signed supplemental MOUs with them, respectively, that upon delivery of the first order, the parties shall enter into a sales contract with each other reflecting the unit price and quantity recorded in the respective MOU. The MOU signed with Kaimay Pte Ltd designates it as an agent for the Bangladeshi market. The parties have reached an agreement on the pricing of the first batch of 4 million sticks of cigarette, and the distributor is currently in the process of applying for the relevant import quotas. The total revenue of the said 4 million sticks of cigarette is US$60,000, which is expected to be recognized in the third quarter of 2023. As for Algold Wine & Spirals PTE Ltd, the specific order quantity and amount under its MOU are still under active negotiation between parties. Taking into account the latest updates on the three MOUs which showed the likelihood of building a solid and strengthened business cooperation between the Subsidiary and distributors in the Southeast Asia region, we consider that it is reasonable to use the estimated revenue of the MOUs in assessing the fairness of the revenue projection for the year ending 31 December 2023. The Subsidiary has also entered into a legally binding agency agreement with an existing client to secure additional annual sales based on the mutual trust and goodwill established through previous cooperation and the positive outlook for the future development of the Cambodian tobacco market. The agency agreement is effective from 1 April 2023 to 31 December 2027 with the planned purchase amount of US$0.15 million (equivalent to approximately RMB1.0 million), US$0.3 million (equivalent to approximately RMB2.0 million), US$0.4 million (equivalent to approximately RMB2.7 million), US$0.5 million (equivalent to approximately RMB3.4 million) and US$0.75 million (equivalent to approximately RMB5.1 million) for the five years ending 31 December 2027, respectively, based on an exchange rate of US$1: RMB6.78 for illustrative purpose. So far, the agency agreement has generated revenue of approximately US$23,000. Taking into account the Agreements and the aforesaid agency agreement, the total planned purchase amount (i.e. approximately RMB6.4 million) will cover approximately 43% of the total projected revenue of the Target Group in all markets for the year ending 31 December 2023. On an annualized basis, total planned purchase is expected to amount to approximately RMB25.6 million for the year ending 31 December 2023. As such, we consider the revenue projection of RMB15 million for the year ending 31 December 2023 to be fair and reasonable.

Taking into account (1) the steady operation and growth momentum of the Target Group in 2019 prior to the outbreak of the COVID-19 pandemic after running a trial production in 2018; (2) the sufficient production capacity of the Target Group in the coming years; (3) the expansion plan of the Target Group in oversea markets given the market sizes and growth potential of tobacco products in Cambodia and Southeast Asia, especially the pricing and operational advantages of the Target Group in Cambodia as well as the incremental development strategy with the aim to successfully develop and promote the sales of the Target Group's cigarettes by the end of 2027 to be adopted in the Southeast Asian market; and (4) the distribution network of the Target Group in Cambodia and Southeast Asia we consider the projected revenue for the five years ending 31 December 2027 adopted in the Valuation are fair and reasonable.

(b) Forecasted cost of goods sold

Cost of goods sold represents the purchasing and production cost incurred for obtaining the Products. Based on the Valuation Report, the forecasted cost of goods sold for the Target Group are approximately RMB4.5 million, RMB9.0 million, RMB22.5 million, RMB50.0 million and RMB105.0 million for the year ending 31 December 2023, 2024, 2025, 2026 and 2027, respectively. As stated in the Valuation Report, the cost of goods sold in the forecast period is provided by the Management.

After discussing with the Management and reviewing the supporting documents provided by the Management including the revenue breakdown, we understood that the estimated cost of goods sold are determined based on approximately 30% of the revenue in the forecast period. As such, the gross profit margins during the forecast period are expected to be approximately 70%.

In assessing the reasonableness of the projected gross profit margin for the five years ending 31 December 2027, we have discussed with the Management on the basis and assumption underlying the projection. As advised by the Management, the projected gross profit margin of approximately 70% for the five years ending 31 December 2027 is considered to be achievable after taking into account the following key factors:

(1) in 2018, the Target Group was able to reach the gross profit level of 74.82% when the Target Group was mainly selling its own branded tobacco products at its initial stages which earned a higher profit margin;

(2) in 2019, the profit margin was pulled down to 43.18% due to higher proportion of revenue generated from the OEM business. The Target Group earned a lower profit margin from the OEM business than selling their own branded tobacco products and hence the overall profit margin was decreased;

(3) from 2023 to 2027, the main income streams of the Target Group will be contributed by the sales of its own branded tobacco products through its existing sales network in Cambodia and the Southeast Asia region. In addition, the Target Group will be focusing on more direct sales to retailers and business clients in Cambodia which will allow the Target Group to earn a higher margin, benefiting from better relationships and marketing strategies with their loyal clients. Currently, there are approximately 90,000 cigarette retailers in Cambodia, and the Target Group has established collaborative relationships with more than 8,000 of these retailers. The Target Group plans to gradually increase the number of retailers whom it collaborates with for direct sales of its tobacco products to approximately 20,000 by 2027, in order to increase the volume of direct sales of its tobacco products. In addition, the Target Group is prepared to implement a range of marketing and promotion strategies to increase the direct sales of its tobacco products, including but not limited to, (i) "empty pack for full pack" promotion, where consumers could return an empty pack of cigarettes of certain brands to the retailers, in exchange for a full pack of cigarettes of the same brand; (ii) gift promotion, where retailers who managed to achieve a certain sales volume of cigarettes are entitled to certain gifts to be provided by the Target Group; and (iii) rebate promotion, where the Target Group will provide certain rebates to retailers who managed to achieve a certain sales volume of cigarettes. Given the Target Group's strategy of focusing on sales of its own branded tobacco products and more direct sales to retailers and business clients, the gross profit margin should restore to the level of 70% in 2018; and

(4) after the past few years of experience, the Target Group had developed a good and stable relationship with the suppliers. Also, the increase in the purchase scale during the forecast period should allow the Target Group to have a relatively stronger bargaining power over the suppliers. The Target Group is confident that it will be able to maintain and control the direct costs as planned in the forecast period.

We have discussed with the Management on the future plans and prospect of the business of the Target Group including but not limited to the product mix, pricing strategies, marketing channels, client relationship and market demand. We have also obtained and reviewed the financial statements of the Subsidiary for the five years ended 31 December 2022 and noted that the gross profit margins of the Subsidiary amounted to approximately 74.8%, 43.2%, 38.8%, 45.9% and 17.2% for the five years ended 31 December 2022, respectively.

Taking into account that (1) the lower gross profit margin in 2019 was primarily attributable to the higher proportion of revenue generated from the OEM business which generally entailed a lower gross profit margin; (2) the Group's focus on strengthening its direct sales to retailers and business clients during the forecast period based on our review of the breakdowns of the Target Group's historical and projected direct sales, distributor sales and the original equipment manufacturing business in Cambodia and the Southeast Asia region; (3) during the COVID-19 pandemic period, the operation of the Subsidiary had to be suspended from time to time in accordance with local government control requirements or due to employee infection which has led to lower gross profit margins for the two years ended 31 December 2021; (4) as China has relaxed its epidemic control measures recently, more business queries are pouring in and the market is heating up and the Target Group will be able to recover so as to achieve its own operating capabilities; and (5) as discussed in the sub-section headed "(c) Forecasted operating expenses and depreciation" below, the gross profit margins of the Comparable Companies (as defined below) ranged from approximately 11.30% to approximately 91.39% with an average of approximately 52.75% and a median of approximately 54.75%. The projected gross profit margin of 70% is within the range of those of the Comparable Companies (as defined below), we concur with the Directors and the Management that the business model and nature of the revenue streams expected for the forecast period shall be different with that in 2019, 2020 and 2021 but more similar to that in 2018. Given the aforesaid, in particular the Group's strategy of focusing on sales of its own branded tobacco products which generally entail higher gross profit margins, we consider that the projected gross profit margin for the five years ending 31 December 2027 adopted in the Valuation is fair and reasonable.

As discussed in the sub-section headed "(c) Forecasted operating expenses and depreciation" below, excluding Ceylon Tobacco Company PLC and PT Gudang Garam Tbk which are considered to be outliers among the Comparable Companies (as defined below), the average gross profit of the five comparable companies amounted to approximately 53.31%, which is higher that the projected gross pross profit margin of approximately 70% for the five years ending 31 December 2027. As advised by the Independent Valuer, the higher of the projected gross profit margin than the average gross profit margin of the five comparable companies may be due to the classification of direct costs and indirect costs in different companies. In this regard, it is more meaningful to compare EBIT margin which has considered the direct costs and indirect costs that are related to the operation. For details, please refer to the sub-section headed "(c) Forecasted operating expenses and depreciation" below. Taking into account that (1) the differences in the classification of direct costs and indirect costs in different companies may lead to different gross profit margins while the EBIT margin has considered all the relevant operating expenses; (2) EBIT is widely used as an appropriate measure for a company's operational profitability; and (3) EBIT*(1− tax rate) is generally used as a major component in determining FCF, we consider it is fair and reasonable to use EBIT margin to assess the financial performance of a tobacco company.

(c) Forecasted operating expenses and depreciation

Operating expenses refer to the operation and salary expenses, sales and marketing expenses, and the operation expenses of running a sales center in Hong Kong. Based on the Valuation Report, the forecasted operating expenses for the Target Group are approximately RMB42.5 million, RMB42.0 million, RMB45.0 million, RMB51.0 million and RMB59.0 million for the year ending 31 December 2023, 2024, 2025, 2026 and 2027, respectively.

In reviewing the Valuation, we noted that the forecasted depreciation is approximately RMB17.1 million, RMB17.2 million, RMB17.3 million, RMB17.6 million and RMB18.3 million for the year ending 31 December 2023, 2024, 2025, 2026 and 2027, respectively.

After taking into account the operating expenses and depreciation above, the operating income/(loss) (the "**EBIT**") are expected to be approximately RMB(50.6) million, RMB(41.2) million, RMB(17.3) million, RMB29.9 million and RMB137.2 million for the year ending 31 December 2023, 2024, 2025, 2026 and 2027, respectively. The turnaround from operating loss to operating income is mainly due to the increase in revenue.

After the turnaround, the EBIT margins are expected to be approximately 18.1% and 38.6% for the year ending 31 December 2026 and 2027, respectively. As advised by the Independent Valuer, in order to justify the EBIT margins, the Independent Valuer has reviewed the EBIT margin of the Comparable Companies (defined as below).

As discussed with the Independent Valuer, the Independent Valuer has identified a list of seven companies (the "**Comparable Companies**") which (1) are principally engaged in manufacture and sales of tobacco products in the Asia Pacific Region; and (2) are listed companies with sufficient financial information available to the public.

Given (1) the Comparable Companies are engaged in the same sector as the Target Company does with operations located in the Asia Pacific Region (including Cambodia); and (2) a sufficient sample size has been identified, we consider the Comparable Companies are fair and representative. Although the Comparable Companies may have different scale of operation, product mix, business model, profitability and financial conditions as compared to those of the Target Group, we consider that the Comparable Companies can provide a general reference to the profitability and operational efficiency of the tobacco product sector as a whole.

The following table sets out the details of the Comparable Companies from the working documents provided by the Independent Valuer which are extracted from the Capital IQ.

		For the year ended 31 December 2021				
Company Name	**Business Description**	**Gross profit margin**	**EBIT margin**	**Account receivable turnover days**	**Account payable turnover days**	**Inventory turnover days**
British American Tobacco (Malaysia) Berhad	The company manufactures, imports, and sells cigarettes, pipe tobaccos, cigars, and luxury consumer products	59.00%	35.89%	110.87	53.87	158.61
British American Tobacco Bangladesh Company Limited	The company manufactures a wide range of tobacco products	53.20%	40.48%	6.09	33.19	303.30
Ceylon Tobacco Company PLC	The company manufactures and markets cigarettes and smoking tobacco products	91.39%	78.04%	51.00	124.84	525.97
Japan Tobacco Inc.	The company manufactures, markets, and sells cigarettes and other tobacco products internationally	58.84%	20.94%	67.46	146.98	210.36
KT&G Corporation	The company processes, produces, and sells cigarettes and other tobacco products	54.75%	25.60%	70.52	9.78	378.82
PT Gudang Garam Tbk	The company manufactures and distributes cigarettes and operates activities related to the cigarette industry	11.30%	5.88%	7.79	3.28	144.36

		For the year ended 31 December 2021				
Company Name	Business Description	Gross profit margin	EBIT margin	Account receivable turnover days	Account payable turnover days	Inventory turnover days
PT Hanjaya Mandala Sampoerna Tbk	The company manufactures hand rolled and machine-rolled clove-blended cigarettes	40.76%	20.68%	26.51	55.71	275.53
	Minimum	11.30%	5.88%	6.09	3.28	144.36
	Maximum	91.39%	78.04%	110.87	146.98	525.97
	Average	52.75%	32.50%	48.61	61.09	285.28
	Median	54.75%	25.60%	51.00	53.87	275.53

As disclosed in the table above, the EBIT margin of the Comparable Companies ranged from approximately 5.88% to approximately 78.04% with an average of approximately 32.50% and a median of approximately 25.60%. As such, after the turnaround, the EBIT margins of the Target Company of approximately 18.1% and 38.6% for the year ending 31 December 2026 and 2027 are within the range of those of the Comparable Companies.

(d) Forecasted capital expenditure and working capital requirement

Capital expenditures generally comprises of development and expansion capital expenditure, sustaining capital expenditure, rehabilitation capital expenditure. As stated in the Valuation Report, as the Target Company is operating and all necessary infrastructure are in place, it is expected that the amount of capital expenditure for the expansion in business will be immaterial in the forecast period. As such, the amount equivalent to 1% of forecasted revenue is considered as the capital expenditure for maintenance of existing fixed assets and equipment.

The net working capital is determined with reference to the payment terms, the historical turnover days of the Comparable Companies and the experience of the Management. After discussion with the Management, the account receivable turnover days is assumed to be in average 30 days, which is within the range of those of the Comparable Companies from 6.09 days to 110.87 days. The account payable turnover days in average is 120 days, which is within the range of those of the Comparable Companies from 3.28 days to 146.98 days. The inventory turnover days is 1,000 days in 2023, 540 days in 2024 and in average 240 days in 2025 afterward as well.

The decrease in inventory turnover days is mainly due to the improvement in sales efficiency and the 240 days in 2025 afterward is within the range of those of the Comparable Companies from 144.36 days to 525.97 days

(e) Discount rate

The Independent Valuer has considered the followings in determining the discount rate:

(1) the risk-free rate of 2% is based on the first government bond issued by the National Bank of Cambodia in September 2022;

(2) the risk premium of Cambodia of 9.68% is determined with reference to "Country Default Spreads and Risk Premiums", published by Professor Aswath Damodaran, who is a well-known author of several widely used academic textbooks on valuation and related subjects, a professor at the Stern School of Business at New York University and a reputable and an often cited source on equity valuations, in January 2022;

(3) the beta coefficient of the Target Company of 0.46 is determined with reference to the median of the beta coefficient of seven Comparable Companies which are also engaged in the business of tobacco products in the Asia Pacific Regions, with adjustment for differences in corporate tax rates and leverage compositions;

(4) size premium of 3.16% is determined with reference to "2020 Valuation Handbook — Guide to Cost of Capital", published by Duff & Phelps, which is a multinational financial consultancy firm and a reputable and an often cited source on equity valuations;

(5) company-specific risk premium of 5% which is based on the professional judgement of the Independent Valuer to reflect the specific risk of the Target Company;

(6) the cost of equity of 14.64% based on (1), (2), (3), (4) and (5) above;

(7) the cost of debt after tax of 7.80% is determined with reference to (i) the existing US$4 million bank loan of the Subsidiary with Bank of China with a floating rate of 6-month London Inter-Bank Offered Rate (the "**LIBOR**") plus 4.544%; (ii) the 6-month LIBOR rate of 5.20% as at the Valuation Date; and (iii) the Cambodia corporate tax rate of 20%;

(8) the weight of equity (equity/(debt+equity)) of approximately 98% is determined with reference to median of those of Comparable Companies; and

(9) the nominal weighted average cost of capital ("**WACC**") of approximately 14.51% based on the (6), (7) and (8) above.

As such, the rounded 15.00% was adopted as the discount rate.

(f) Forecast period and terminal value

The Independent Valuer adopted a forecast period of approximately 5 years from 1 December 2022 to 31 December 2027. The Independent Valuer calculated (1) the FCF during such forecast period with the assumptions stated above and (2) the present value of the FCF during such forecast period with the discount rate of 15.00%.

The terminal value for the Target Company is estimated with a constant growth rate of approximately 6.5% which is determined with reference to median of forecasted GDP growth rate in Cambodia during the period from 2023 to 2027 published by the IMF. By assuming the FCF will remain a constant growth rate of 6.5% after the forecast period and a discount rate of 15.00%, a terminal value for the Target Company is estimated.

(g) Discount for lack of marketability

Given the Target Company is not a privately held company and the value of a share in a privately held company is usually less than that in a publicly held company, the Independent Valuer adopted a discount for lack of marketability which is a downward adjustment to the value of an investment to reflect its reduced level of marketability.

As stated in the Valuation Report, in determining the discount for lack of marketability of 15.8%, the Independent Valuer has made reference to the "Stout Restricted Stock Study Companion Guide (2020 Edition)" published by the Stout Risius Ross, LLC, a reputable research company, which is designed to assist the valuation professional in determining discounts for lack of marketability.

(iv) Conclusion

After taking into account factors above, in particular, (a) the revenues during the forecast period are estimated based on estimated selling prices and sales amounts; (b) the Management has developed business plan to achieve the relevant revenues; (c) after turnaround from operating loss, the EBIT margins are expected to be approximately 18.1% and 38.6% for the year ending 31 December 2026 and 2027, which are within the range of the Comparable Companies; (d) the forecasted capital expenditure is immaterial as all necessary infrastructure are in place; (e) the working capital requirement are based on the payment terms, the historical turnover days of the

Comparable Companies and the experience of the Management; and (f) a discount rate of 15.00% and a discount for lack of marketability of 15.8%, we are of the view that (a) the key quantitative assumptions adopted by the Independent Valuer in the Valuation were fair and reasonable; and (b) the calculation of FCF applied by the Independent Valuer is appropriate and the DCF methodology has been reasonably applied in the Valuation.

In addition, having considered that (a) the independence, qualification and experience of the Independent Valuer; and (b) the selection and application of the valuation methodology are reasonably prepared, we are of the view that the Valuation was carried out on a fair and reasonable basis by the Independent Valuer.

In assessing the fairness of the Consideration, we have discussed with the Directors and understood that as illustrated in the table below, the Consideration of US$62.757 million is determined by reference to the Valuation of 100% equity interest of the Target Company of RMB610 million. The basis for calculating the Consideration is RMB600 million, which represents a discount of approximately 1.64% to the Valuation. As such, the Consideration of US$62.757 million represents a discount of approximately 1.64% to the Valuation.

The Consideration

The Valuation of 100% equity interest of the Target Company	RMB610.0 million *(A)*
The basis for calculating the Consideration	RMB600.0 million *(B)*
36,500 Sale Shares in the Target Company (73% of the total number of issued shares of the Target Company as at the date of the Supplemental Agreement)	73% *(C)*
The Consideration	RMB438.0 million (US$62.757 million) *(B*C)*
Discount to the Valuation	1.64% *(B/A-1)*

Note: based on the RMB:US$ currency exchange rate of 6.9793:1

As such, having considered that (a) the Valuation Report has been reasonably prepared; (b) the Consideration is determined by reference to the Valuation and represents a discount of approximately 1.64% to the Valuation; and (c) the reasons for and benefits of the Acquisition, we are of the view that the Consideration is fair and reasonable.

6. Financial effect on the Group

As stated in the Letter from the Board, upon completion of the Acquisition, the Target Company will be held as to 73% by the Company and 27% by the Vendor, and will be a direct non-wholly-owned subsidiary of the Company and its financial results will be consolidated into that of the Group.

As at 31 December 2022, the Group had cash at bank of approximately RMB551.9 million. As the Company will fund the Consideration with cash, the cash balance of the Group will decrease which will in turn increase the net current liabilities of the Group. As discussed in the section headed "1. Information on the Group" above, the Directors are of the opinion that as the Group will carefully monitor its liquidity position and assuming that the Group is able to generate sufficient cash inflows from future operations and obtain borrowings from bank or other financial institutions when needed, the Group will be able to meet its liabilities as and when they fall due for the 12 months ending 31 December 2023.

As stated in the Letter from the Board, it is expected that the Acquisition will not have any material impact on the financial performance of the Group immediately following completion of the Acquisition.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the terms of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We further consider that the entering into of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement), while not in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Rainbow Capital (HK) Limited
Larry Choi
Managing Director

Mr. Larry Choi is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. He has over ten years of experience in the corporate finance industry.

BUSINESS VALUATION REPORT

Valuation of the 100% Equity Interest of Star Idea Enterprises Limited

As of 30 November 2022

Prepared by
Vision Appraisal and Consulting Limited

Prepared for
Kinetic Development Group Limited
Report Date: 30 June 2023

Project Ref.: KL22090BV

TABLE OF CONTENTS

SECTIONS	PAGE
1. PURPOSE OF VALUATION	I-3
2. BASIS OF VALUATION	I-4
3. SCOPE OF WORK	I-4
4. LIMITATIONS IN SCOPE OF WORK	I-5
5. SOURCES OF INFORMATION	I-6
6. OVERVIEW OF THE TARGET GROUP	I-6
7. MAJOR ASSUMPTIONS	I-7
8. VALUATION METHODOLOGY	I-9
9. LIMITING CONDITIONS	I-29
10. REMARKS	I-30
11. OPINION OF VALUE	I-31

30 June 2023

The Board of Directors
Kinetic Development Group Limited
18th Floor
80 Gloucester Road
Wanchai
Hong Kong

Project Ref.: KL22090BV

Dear Sirs/Madams,

INSTRUCTIONS

This report has been prepared solely for Kinetic Development Group Limited (the "**Company**" or "**you**"), which has engaged Vision Appraisal and Consulting Limited ("**Vision**" or "**we**") to perform a valuation in relation to the 100% equity interest of Star Idea Enterprises Limited (the "**Target Company**") and its subsidiaries (collectively, the "**Target Group**") as of 30 November 2022 (the "**Date of Valuation**").

This report states the purpose of valuation, basis of valuation, scope of work, limitations in scope of work, source of information, overview of the Target Group, valuation methodology, major assumptions, limiting conditions, remarks and opinion of value.

1. PURPOSE OF VALUATION

This report is prepared solely for the use of the directors and management of the Company. In addition, Vision acknowledges that this report may be made available to the Company for public documentation purpose and used as reference on the Company's circular dated 30 June 2023.

We will not accept any responsibility or liability to any third party to whom in respect of, or arising out of, the contents of this report may be shown. If others choose to rely in any way on the contents of this report they do so entirely at their own risk.

2. BASIS OF VALUATION

Our valuation is based on fair value. According to International Financial Reporting Standard 13 — Fair Value Measurement, fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

3. SCOPE OF WORK

Our valuation conclusion is based on the assumptions stated herein and the information provided by the management of the Company, the management of the Target Group and/or their representative(s) (collectively the "**Management**").

In the course of our valuation work, we have conducted the following processes to evaluate the reasonableness of the adopted basis and assumptions provided:

- Discussed with the Management in relation to the development, operations, financial performance, financial projection and other relevant information of the Target Group;

- Reviewed relevant financial information and other relevant data concerning the Target Group provided to us by the Management;

- Reviewed and discussed with the Management on the financial projection concerning the Target Group provided to us by the Management;

- Performed market research in relation to the economic outlook in general and the specific economic environment and market elements affecting the business, industry and market and obtained relevant statistical figures from public sources;

- Prepared a valuation model to derive the fair value of the Target Group; and

- Presented all relevant information on the scope of works, limitations in scope of work, sources of information, an overview of the Target Group, an overview of the industry, valuation methodology, major assumptions, limiting conditions, remarks and opinion of value in this report.

We reviewed and examined the relevant information and financial projection of the Target Group provided to us by the Management without further verification. We assumed that the information and financial projection have been prepared on a reasonable basis that have been arrived at after due and careful consideration by the Management; and we have no reason to believe that any material fact has been withheld from us. Moreover, we do not warrant that our investigations have revealed all of the matters which an audit or more extensive examination might disclose.

4. LIMITATIONS IN SCOPE OF WORK

In the course of our valuation work, our scope of work for the purpose of the valuation are subject to the following limitations:

- In performing our services, we have relied on the accuracy of the information provided by the Management with regards to the Target Group's business plan, financial projection, and business affairs as well as the outlook for the business. The procedures and enquiries undertaken by us in preparing this report do not include any verification work, nor do they constitute an examination made in accordance with generally accepted auditing standards. As such, we do not express an opinion or offer any forms of assurance regarding the accuracy, reasonableness, completeness or reliability of these information we are based;

- Information furnished by others, upon which all or portions of this report are based, is believed to be reliable. However, we did not independently verify this information and no warranty is given as to the accuracy of such information;

- The results of our work are dependent on the information of the Target Group. However, because events and circumstances frequently do not occur as expected, there will usually be differences between predicted and actual results, and those differences may be material. We take no responsibility for the achievement of predicted results;

- Our analysis is limited to a desktop assessment on the Target Group, which relied on information provided by Management. We are not required to perform physical inspection, site visits and verify the legal titles of the assets held by the Target Group; and

- We have considered published market data and other public information, where appropriate, for which we are not responsible for their content and accuracy. Such information was obtained from sources such as S&P Capital IQ and publicly available industry reports.

5. SOURCES OF INFORMATION

For the purpose of our valuation, we have been provided with the information in respect of the Target Group prepared by the Management. The valuation required the consideration of all relevant factors including, but not limited to, the following:

- Overall business descriptions, operations and development of the Target Group;
- Financial projection and business plan of the Target Group prepared by the Management;
- Historical financial information of the Target Group provided by the Management;
- The experience of the Target Group's management team;
- The economic outlook in general and the specific economic environment and market elements affecting the Target Group, industry, and market; and
- S&P Capital IQ Database and other reliable sources of market data.

We have assumed the accuracy of information provided and relied to a considerable extent on such information in arriving at our opinion.

6. OVERVIEW OF THE TARGET GROUP

Star Idea Enterprises Limited (i.e. the Target Company) is a company registered in British Virgin Islands. The only 100% wholly-owned subsidiary, Power Cigar Tobacco Co Ltd ("**Power Cigar**" or the "**Subsidiary**"), is incorporated in Cambodia with limited liability. Power Cigar is principally engaged in manufacturing and wholesale of tobacco products, mainly hand-made cigarettes and cigars in Cambodia and Southeast Asia regions. According to the Management, Power Cigar represents the major assets held by the Target Group.

Power Cigar laid its production factory in Sihanoukville, Cambodia in 2015, and completed in 2018. Power Cigar cooperates with companies such as Hauni Maschinenbau AG from Germany and IMA Group from Italy to equip the world's leading tobacco manufacturing, rolling, and packaging equipment with automatic control, which can produce tobacco products with various specifications. Besides satisfying the production of own branded tobacco products, Power Cigar can also undertake the OEM production and processing of various semi-finished and finished tobacco products.

Power Cigar has its own research, development and manufacturing center, and proactively forging ahead with development and collaboration with China tobacco market participants, well-known cigar manufacturers and research institutions in Cuba, Dominica and Nicaragua. The technical management team has professionals from all over the world, dedicated to the research of product formula and tobacco planting technology. Power Cigar also has experience in tobacco planting in Cambodia and has its own professional team in tobacco agriculture. The procurement team is responsible for selecting the high-quality tobacco for their cigar products across China and foreign countries.

In the future, Power Cigar is planning to strengthen its market in Cambodian market, and further extend their coverage to the Southeast Asian region, the European and Middle East markets.

7. MAJOR ASSUMPTIONS

In conducting our valuation work, the following assumptions have been adopted in order to sufficiently support our conclusion of value, including, but not limited to:

- The information provided and the representations made by the Management with regard to the Target Group's financial, business affairs, business plan and financial projection are accurate and reliable;

- Power Cigar represents the major assets held by the Target Group and the financial statements of Power Cigar provided by the Management have been adopted;

- The Target Group will continue to operate as a going concern and has sufficient liquidity and capability to achieve the business operations;

- The Target Group has obtained or will obtain all necessary permits, business certificates, licenses and legal approvals to operate the business and all relevant permits, business certificates, licenses and legal approvals to operate the business in the localities in which the Target Group operates or intends to operate would be officially obtained and renewable upon expiry with de minimis expenses;

- The financial projection in respect of the Target Group has been prepared on a reasonable basis after due and careful consideration by the Management and will be materialized as schedule;

- The Target Group has acquired, or will acquire, adequate financial capital for the investments in projected capital expenditure and working capital from time to time, and any scheduled interest or repayment of loan and payable will be paid on time;

- There will be sufficient supply of technical staff in the industry in which the Target Group operates or intends to operate, and the Target Group will retain competent management, key personnel and technical staff to support their ongoing operations and developments;

- The senior management of the Target Group will implement only those prospective financial and operational strategies that will maximize the efficiency of the operation of the Target Group;

- The senior management of the Target Group has sufficient knowledge and experience in respect of the operation of the Target Group, and the turnover of any director, management or key person will not affect the operation of the Target Group;

- There will be no major changes in the current taxation laws in the localities in which the Target Group operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;

- There will be no major changes in the political, legal, economic or market conditions in the localities in which the Target Group operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Target Group;

- There will be no material changes in the relevant interest rates and exchange rates that would impact the Target Group's business;

- The occurrence of any natural disaster such as fire, flood and hurricane will not affect the operation of the Target Group;

- there are no undisclosed actual or contingent assets or liabilities, no unusual obligations or substantial commitments, other than in the ordinary course of business and as reflected in the financials, nor any litigation pending or threatened, which would have a material impact on the value of the Target Group as of the Date of Valuation; and

- Apart from the figures shown in the financial statements available to us, the Target Group has no material asset and liability as of the Date of Valuation.

In the event actual events do not accord with one or more of the above assumptions, the resulting value of the Target Group may vary substantially from the figure as set out in this report.

8. VALUATION METHODOLOGY

In conducting the valuation, we have considered three generally accepted approaches, including income approach, market approach and cost approach.

8.1 General Valuation Approach

8.1.1 Income Approach

Income Approach measures the value of an asset by the present value of its future economic benefits. These benefits can include earnings, cost savings, tax deductions and proceeds from its disposition.

8.1.2 Market Approach

Market Approach measures the value of an asset through an analysis of recent sales or offerings of comparable property. Sales and offering prices are adjusted for differences in location, time of sale, utility, and the terms and conditions of sale between the asset being appraised and the comparable properties.

8.1.3 Cost Approach

Cost Approach measures the value of an asset by the cost to reproduce or replace it with another of like utility. To the extent that the asset being valued provides less utility than a new asset, the reproduction or replacement cost would be adjusted to reflect appropriate physical deterioration, functional and economic obsolescence.

8.2 Adopted Approach for the Valuation of the Target Group

Among the abovementioned valuation approaches, the selection of the valuation approach in valuing the Target Group is based on, among other criteria, the quantity and quality of the information provided, accessibility to available data, availability of relevant market information, uniqueness of the Target Group's business operations and nature of the industry the Target Group is participating, professional judgment and technical expertise.

The market approach and cost approach are not considered because the Management believed that the market approach and cost approach may not be able to fully reflect the future factors incorporate in the Target Group.

The income approach was considered to be the most appropriate valuation approach in this valuation, as it takes the future growth potential and firm-specific issues of the Target Group into consideration. Under the income approach, the Discounted Cash Flow ("**DCF**") method is adopted.

8.2.1 The DCF Method

The DCF method begins with an estimation of the annual cash flows, which a market participant acquirer would expect the asset to generate over a discrete projection period. The expected debt-free cash flow for each year was determined as follows:

$$FCF = EBIT\ (1 - T) + NCI - InvCapex - InvNWC$$

Where:

FCF	=	*free cash flow*
EBIT	=	*earnings before interest and tax*
T	=	*tax rate*
NCI	=	*non-cash incomes*
InvCapex	=	*investment in capital expenditure*
InvNWC	=	*investment in net working capital*

The estimated cash flow for each of the years in the discrete projection period is then converted to the present value equivalent using a rate of return appropriate for the risk of achieving the asset's projected cash flows. The present value of the estimated cash flows are then added to the present value equivalent of the residual value of the asset (if any) at the end of the discrete projection period to arrive at an estimate of the value of the specific asset. The present value of the expected free cash flow is calculated as follows:

$$PVFCF = FCF_1/(1 + r)^1 + FCF_2/(1 + r)^2 + \cdots + FCF_n/(1 + r)^n$$

Where:

PVFCF	=	*Present value of the expected free cash flow;*
FCF	=	*Expected free cash flow;*
r	=	*Discount rate; and*
n	=	*Number of years.*

8.2.2 Revenue

All of the Target Group's revenue in the forecast period are expected to derive from sales of cigarette and cigar products (collectively the "**Products**") mainly in Cambodia and Southeast Asia regions. The sources of revenue were based on the business plan and financial projection provided by the Management. According to the Management, their top priority will be strengthening the Cambodia market, further develop the market in Southeast Asia regions and further expand to the Europe and the Middle East in the future. The table below presents the revenue in the forecast period:

	End of December*				
	2023	**2024**	**2025**	**2026**	**2027**
Cigarettes					
Cambodia					
Price *(RMB)***	2,010	2,010	2,010	2,010	2,010
Sales Volume					
(0,000' sticks of cigarette)	4,205	8,409	9,453	16,464	35,425
Revenue *(RMB'000)*	8,450	16,900	19,000	33,090	71,200
Southeast Asia — Direct Sale					
Price *(RMB)***	—	—	2,010	2,010	2,010
Sales Volume					
(0,000' sticks of cigarette)	—	—	16,255	39,819	85,679
Revenue *(RMB'000)*	—	—	32,670	80,040	172,210
Southeast Asia — Distributor					
Price *(RMB)***	288	288	891	891	891
Sales Volume					
(0,000' sticks of cigarette)	4,237	8,474	11,222	28,230	60,741
Revenue *(RMB'000)*	1,220	2,440	10,000	25,160	54,130
Asia Pacific and Other Global Markets					
Price *(RMB)***	—	—	1,005	1,005	1,005
Sales Volume					
(0,000' sticks of cigarette)	—	—	2,222	4,888	10,518
Revenue *(RMB'000)*	—	—	2,230	4,910	10,570
Cigars *(RMB'000)*	1,800	2,790	3,100	5,190	11,160
OEM Business *(RMB'000)*	3,530	7,870	8,000	16,610	35,730
Total Revenue *(RMB'000)*	15,000	30,000	75,000	165,000	355,000

* *Figures are rounded to million*

** *Price per 0,000' stick of cigarette*

As advised by the Management, the projected revenue for the five years ending 31 December 2027 is considered to be achievable after taking into account the following key factors:

(1) all of the Target Group's revenues in the forecast period are expected to derive from sales of tobacco products, mainly cigarettes and hand-made cigars primarily in Cambodia and Southeast Asia;

(2) the revenues in the forecast period are determined based on (i) the estimated selling prices, which are estimated based on, among others, material costs, the historical selling prices in the past few years, and the selling prices of similar products and the competition level in the target markets; and (ii) sales amounts which are estimated based on, among others, production capacities and the size of the markets;

(3) in relation to the cigarette production, its maximum production capacity is mainly dependent on the existing machineries and equipment. In the forecast period, it is expected to sell approximately 1.92 billion sticks of cigarette in 2027 which is lower than the annual manufacturing capacity of 2 billion sticks of cigarette. In relation to the hand-made cigar production capacity, the main concern is the recruitment and the training of workers who will be rolling the cigar products. The Target Group will flexibly recruit the necessary manpower when needed and no additional machineries or equipment is required. As advised by the Management, it only requires approximately 1 month from recruitment to training, to get a person ready for the cigar rolling work. As such, the Target Group will be able to produce the required quantity of cigarette products to achieve the sales in the forecast period as planned;

(4) the Management has developed business plan to achieve the relevant revenues in the forecast period including well-established distribution channels and in possession of a range of recognizable brands including GRANDLEAD and PADRINO for cigars, and SKYLEAD/CAMBODIA and ASIA STAR for cigarettes. For example, the Subsidiary has covered more than 8,000 retailers through direct sales force and wholesales network in Cambodia, including, among others, 7-11 and Circle K. In addition, the Subsidiary has launched handmade cigar products in Spain through its sales agents;

(5) the cigar factory operated by the Target Group is the only one in Cambodia licensed by the Cambodian government, as advised by the Management, and there is no peer company operating in the industry of tobacco manufacturing in Cambodia;

(6) according to the public information published on Statista, a leading provider of market and consumer data with more than 200 specialist editors collecting information from approximately 22,500 sources, delivering insights and facts across 170 industries and

over 150 countries, the market size of the tobacco market in Cambodia is projected to grow progressively from approximately US$220 million (equivalent to approximately RMB1,500 million) in 2022 to approximately US$240 million (equivalent to approximately RMB1,600 million) by 2027. As such, the Management believed that the market depth in Cambodia will allow the Target Group to achieve what was proposed in the business plan and the financial projection;

(7) before the outbreak of the COVID-19, revenue of the Target Group increased from approximately US$0.7 million for the year ended 31 December 2018 to approximately US$3.3 million for the year ended 31 December 2019, representing an increase of over 370%, as the Target Group has achieved a steady operation in 2019 after running a trial production in 2018. The Management believed that the COVID-19 pandemic will gradually ease in the future;

(8) in Cambodia, the Target Group will be focusing on strengthening its direct sales to retailers and business clients. Direct sales will allow the Target Group to leverage its brand influence in Cambodia and keep a long-term relationship with their loyal clients through conducting more front-line visits to monitor, evaluate and improve the quality of their products and services as well; and

(9) as compared with the 16 million population of Cambodia, the Southeast Asia countries have a population of more than 600 million and the multinational tobacco companies do not have absolute market dominance in this region. The Management believed that the large smoking population in this region provides a huge room for growth in cigarette consumption. Against this backdrop, according to the business plan and financial projection provided by the Management, the Target Group will first try to explore and develop their client relationships in the Southeast Asia region through the dealer network in 2023 and 2024. After that, the Target Group will be able to replicate its successful business model in Cambodia and strategically sell their products to those Southeast Asian countries with their direct sales strategy. The direct sales strategy, together with the well-established dealer network, will allow the Target Group to have a wide coverage in the Southeast Asia region.

We have discussed with the Management on the future plans and prospect of the business of the Target Group including but not limited to the product mix, pricing strategies, marketing channels, client relationship and market demand. We have obtained and reviewed the financial statements of the Subsidiary for the five years ended 31 December 2022. The Target Group's revenue amounted to approximately US$0.7 million (equivalent to approximately RMB4.7 million), US$3.3 million (equivalent to approximately RMB22.4 million), US$1.8 million (equivalent to approximately RMB12.2 million), US$1.7 million (equivalent to approximately

RMB11.5 million) and US$0.8 million (equivalent to approximately RMB5.4 million) for the five years ended 31 December 2022, respectively, based on an exchange rate of US$1: RMB6.78 for illustrative purpose. After running a trial production in 2018, the Target Group achieved a steady operation in 2019, resulting in a significant increase in revenue in 2019. However, due to the prolonged effect of the COVID-19 pandemic, the Target Group recorded a decrease in revenue during the period from 2020 to 2022. The average annual revenue of the Group for the four years ended 31 December 2022 of approximately RMB12.9 million is close to the projected revenue of RMB15 million for the year ending 31 December 2023 even under the impact of the COVID-19 pandemic.

In assessing the reasonableness of the annual growth rate of the projected revenue for the five years ending 31 December 2027 of 100% to 150%, the four aspects of the Target Group including historical annual growth rate, production capacity, market share and sales and marketing network have been considered.

Regarding the Target Group's historical annual growth rate, considering that (1) during the COVID-19 pandemic period, the operation of the Subsidiary had to be suspended from time to time in accordance with local government control requirements or due to employee infection; and (2) as China has relaxed its epidemic control measures recently, more business queries are pouring in and the market is heating up and the Target Group will be able to recover so as to achieve a level of income that matches its own operating capabilities, we concur with the Directors and the Management that the historical figures for the two years ended 31 December 2019, as opposed to the time period affected by the outbreak of the COVID-19 pandemic, would be more meaningful for understanding the Target Group's actual business operation and financial performance and work as a reference in projection. As discussed above, the Target Group's revenue has increased by 380.2% from 2018 to 2019. As the COVID-19 pandemic faded, it is expected that the Target Group's production volume and sales will gradually resume to the growth momentum prior to the outbreak of the COVID-19 pandemic.

Regarding the Target Group's production capacity, on the one hand, the maximum annual cigarette production capacity of the existing machineries and equipment is higher than the annual required quantity for the five years ending 31 December 2027. On the other hand, the maximum annual hand-made cigar production capacity mainly depends on the recruitment and training of workers who will be rolling the cigar products. The existing training system and the competitive salary rate in Cambodia can support the Target Group's continuous expansion of hand-made cigar production capacity flexibly to meet the future needs. As advised by the Management, the Target Group had already acquired the capacity in machineries and equipment to produce the estimated quantity of cigarette and cigar products and no further substantial capital investment will be required in the forecast period.

Regarding the Target Group's market share, the table below set outs (1) the Target Group's revenue and projected revenue in different markets; (2) the market sizes of tobacco products in Cambodia and Southeast Asia in terms of revenue; and (3) the historical and projected market shares of the Target Group in the Cambodian and Southeast Asian tobacco markets based on the historical revenue generated by the Target Group for the two years ended 31 December 2019 and the projected revenue for the five years ending 31 December 2027, based on an exchange rate of US$1: RMB7.1629 for illustrative purpose:

Year	**Target Group's revenue/projected revenue** *(US$ million)*	**Cambodia market** *(US$ million)*	**Southeast Asian market** *(US$ million)*	**Other markets** *(US$ million)*
2018	0.69	0.34	—	0.35
2019	3.30	3.30	—	—
2023 (projected)	2.09	1.25	0.32	0.52
2024 (projected)	4.19	2.44	0.59	1.16
2025 (projected)	10.47	2.75	6.23	1.49
2026 (projected)	23.04	4.72	15.18	3.14
2027 (projected)	49.56	10.04	32.59	6.93

Source: Information provided by the Target Group

Year	**Market size of tobacco products in Cambodia in terms of revenue** *(US$ million)*	**Target Group's market share in Cambodia** *(%)*	**Market size of tobacco products in Southeast Asia in term of revenue** *(US$ million)*	**Target Group's market share in the Southeast Asia** *(%)*
2018	216.19	0.16%	49,720.00	0.00%
2019	217.92	1.51%	52,430.00	0.00%
2023 (projected)	229.20	0.55%	58,450.00	0.00%
2024 (projected)	232.58	1.05%	59,770.00	0.00%
2025 (projected)	236.00	1.17%	61,050.00	0.01%
2026 (projected)	239.65	1.97%	62,200.00	0.02%
2027 (projected)	243.44	4.12%	63,350.00	0.05%

Source: Statista

As shown in the table above, in 2019, the Target Group's market share in the Cambodian tobacco market has reached approximately 1.51%, which is close to the market share it expected to achieve in Cambodia by 2026. It is expected to secure additional approximately 2.61% and 0.05% in the Cambodian and the Southeast Asian tobacco markets, respectively. In this regard, we have obtained and reviewed the breakdowns of the Target Group's historical and projected direct sales, distributor sales and the original equipment manufacturing business in Cambodia and the Southeast Asia region.

As understood from the Management, the Target Group has a wide range of product flavors/recipe to adapt to the evolving taste of consumers and competitive pricing of its tobacco products due to the relatively low labor costs and the exemption of import duties. Through (1) its direct sales and wholesales network in Cambodia, covering more than 8,000 retailers including 7-11 and Circle K; (2) its expansion into the Southeast Asian market via the dealer network starting in 2023 and 2024; and (3) subsequent replication of its direct sales strategy in the Southeast Asian market as mentioned above, the Target Group is in a position to continuously increase its market shares of tobacco markets in Cambodia and Southeast Asia as planned.

Regarding the Target Group's sales and marketing network, the Target Group has well-established distribution channels via retailers and business clients. As advised by the Management, for the duty-paid market, the Subsidiary has covered more than 8,000 retailers through direct sales force and wholesales network in Cambodia, including, among others, 7-11 and Circle K. For the duty-free market, the business clients of the Subsidiary run duty-free stores in airport and casino in Cambodia. We have obtained and reviewed the sales agreement and purchase orders entered into by the Subsidiary with China Duty Free Group, Kiwi mart, 7-11, Circle K in 2022, which govern the business relationship between the Target Group and these large retail/duty-free chains.

In addition, we have reviewed and obtained three memorandums of understanding between the Subsidiary and distributors in the Southeast Asia region including Myanmar, Singapore and Pakistan and one sales agreement between the Subsidiary and a duty-free store in Vietnam, indicating the Target Group's focus on exploring and developing their client relationships in the Southeast Asia region through the dealer network in 2023 and 2024 (the "**Agreements**"). Based on the Agreements and our understanding from the Management, the total planned purchase amounted to approximately RMB5.4 million, which have covered approximately 36% of the projected revenue for the year ending 31 December 2023.

As advised by the Management, there are some updates on the business cooperation with these three distributors in the Southeast Asia region. For the distributor in Myanmar, the Subsidiary has delivered 300 samples to the distributor who is in the process of building the market. For the distributors in Singapore and Pakistan, the Subsidiary has signed supplemental memorandums of understandings with them, respectively, that upon delivery of the first order, the parties shall enter into a sales contract with each other reflecting the unit price and quantity recorded in the respective memorandums of understanding. Taking into account the latest updates on the three memorandums of understandings which showed the likelihood of building a solid and strengthened business cooperation between the Subsidiary and distributors in the Southeast Asia region, we consider that it is reasonable to use the estimated revenue of the memorandums of understandings in assessing the fairness of the revenue projection for the year ending 31 December 2023.

The Subsidiary has also entered into an agency agreement with an existing client to secure additional annual sales based on the mutual trust and goodwill established through previous cooperation and the positive outlook for the future development of the Cambodian tobacco market. The agency agreement is effective from 1 April 2023 to 31 December 2027 with the planned purchase amount of US$0.15 million (equivalent to approximately RMB1.0 million), US$0.3 million (equivalent to approximately RMB2.0 million), US$0.4 million (equivalent to approximately RMB2.7 million), US$0.5 million (equivalent to approximately RMB3.4 million) and US$0.75 million (equivalent to approximately RMB5.1 million) for the five years ending 31 December 2027, respectively, based on an exchange rate of US$1: RMB6.78 for illustrative purpose.

Taking into account the Agreements and the aforesaid agency agreement, the total planned purchase amount (i.e. approximately RMB6.4 million) will cover approximately 43% of the projected revenue for the year ending 31 December 2023. On an annualized basis, total planned purchase is expected to amount to approximately RMB25.6 million for the year ending 31 December 2023. As such, we consider the revenue projection of RMB15 million for the year ending 31 December 2023 to be fair and reasonable.

Taking into account (1) the steady operation and growth momentum of the Target Group in 2019 prior to the outbreak of the COVID-19 pandemic after running a trial production in 2018; (2) the sufficient production capacity of the Target Group in the coming years; (3) the expansion plan of the Target Group in oversea markets given the market sizes and growth potential of tobacco products in Cambodia and Southeast Asia, especially the pricing and operational advantages of the Target Group in Cambodia as well as the incremental development strategy with the aim to successfully develop and promote the sales of the Target Group's cigarettes by the end of 2027 to be adopted in the Southeast Asian market; and (4) the distribution network of the Target Group in Cambodia and Southeast Asia, we consider the projected revenue for the five years ending 31 December 2027 adopted in the valuation are fair and reasonable.

Regarding the other markets, the Target Group will progressively increase the sales of its products through the duty-free channels to the following 4 major areas, (1) Indo-China Peninsula (E.g. Laos); (2) Southeast Asia Island Region (E.g. Indonesia); (3) Great China (E.g. Hong Kong, Macao); and (4) Others (E.g. Japan, South Korea, Australia and the United Arab Emirates). The Target Group believed that the duty-free shops at the airports and the border gates of the above-mentioned areas will provide a good exposure and enhance its brand popularity with the tourists.

8.2.3 Cost of Goods Sold

After discussion with the Management, the cost of goods sold represents the purchasing and production cost incurred for obtaining the Products. In the valuation, the cost of goods sold in the forecast period was provided by the Management. The table below presents the cost of goods sold in the forecast period:

	End of December*				
	2023	**2024**	**2025**	**2026**	**2027**
Cost of Goods Sold *(RMB'000)*	4,500	9,000	22,500	50,000	105,000

* *Figures are rounded to million*

As advised by the Management, the projected gross profit margin of approximately 70% for the five years ending 31 December 2027 is considered to be achievable after taking into account the following key factors:

(1) in 2018, the Target Group was able to reach the gross profit level of 74.82% when the Target Group was mainly selling its own branded tobacco products at its initial stages which earned a higher profit margin;

(2) in 2019, the profit margin was pulled down to 43.18% due to higher proportion of revenue generated from the original equipment manufacturing business (OEM business). The Target Group earned a lower profit margin from the OEM business than selling their own branded tobacco products and hence the overall profit margin was decreased;

(3) from 2023 to 2027, the main income streams of the Target Group will be contributed by the sales of its own branded tobacco products through its existing sales network in Cambodia and the Southeast Asia region. In addition, the Target Group will be focusing on more direct sales to retailers and business clients in Cambodia which will allow the

Target Group to earn a higher margin, benefiting from better relationships and marketing strategies with their loyal clients. Hence the gross profit margin should restore to the level of 70% in 2018; and

(4) after the past few years of experience, the Target Group had developed a good and stable relationship with the suppliers. Also, the increase in the purchase scale during the forecast period should allow the Target Group to have a relatively stronger bargaining power over the suppliers. The Target Group is confident that it will be able to maintain and control the direct costs as planned in the forecast period.

In terms of the plan of the Target Group to increase the number of direct sales of its tobacco products mentioned above, there are approximately 90,000 cigarette retailers currently in Cambodia, and the Target Group has established collaborative relationships with more than 8,000 of these retailers. The Target Group plans to gradually increase the number of retailers whom it collaborates with for direct sales of its tobacco products to approximately 20,000 by 2027, in order to increase the volume of direct sales of its tobacco products.

The Target Group is prepared to implement a range of marketing and promotion strategies to increase the direct sales of its tobacco products, including but not limited to:

(1) "Empty pack for full pack" promotion, where consumers could return an empty pack of cigarettes of certain brands to the retailers, in exchange for a full pack of cigarettes of the same brand;

(2) Gift promotion, where retailers who managed to achieve a certain sales volume of cigarettes are entitled to certain gifts to be provided by the Target Group; and

(3) Rebate promotion, where the Target Group will provide certain rebates to retailers who managed to achieve a certain sales volume of cigarettes.

We have discussed with the Management on the future plans and prospect of the business of the Target Group including but not limited to the product mix, pricing strategies, marketing channels, client relationship and market demand. We have also obtained and reviewed the financial statements of the Subsidiary for the five years ended 31 December 2022 and noted that the gross profit margins of the Subsidiary amounted to approximately 74.8%, 43.2%, 38.8%, 45.9% and 17.2% for the five years ended 31 December 2022, respectively.

Taking into account that (1) the lower gross profit margin in 2019 was primarily attributable to the higher proportion of revenue generated from the OEM business which generally entailed a lower gross profit margin; (2) the Group's focus on strengthening its direct sales to retailers and business clients during the forecast period based on our review of the breakdowns of the Target Group's historical and projected direct sales, distributor sales and the original equipment manufacturing business in Cambodia and the Southeast Asia region; (3) during the COVID-19 pandemic period, the operation of the Subsidiary had to be suspended from time to time in accordance with local government control requirements or due to employee infection which has led to lower gross profit margins for the two years ended 31 December 2021; (4) as China has relaxed its epidemic control measures recently, more business queries are pouring in and the market is heating up and the Target Group will be able to recover so as to achieve its own operating capabilities; and (5) the gross profit margins of the Comparable Companies (Please refer to Section 8.2.7 — Earnings before interest and taxes and net profit margin) ranged from approximately 11.30% to approximately 91.39% with an average of approximately 52.75% and a median of approximately 54.75%.

The projected gross profit margin of 70% is within the range of those of the Comparable Companies, we concur with the Directors and the Management that the business model and nature of the revenue streams expected for the forecast period shall be different with that in 2019, 2020 and 2021 but more similar to that in 2018. Given the aforesaid, the Target Group's strategy of focusing on sales of its own branded tobacco products which generally entail higher gross profit margins, we consider that the projected gross profit margin for the five years ending 31 December 2027 adopted in the valuation is fair and reasonable.

8.2.4 Value Added Tax

After discussion with the Management, the value added tax represents a consumption tax assessed on the value added in each production stage of the Products. In the valuation, the value added tax in the forecast period was estimated by the Management. The table below presents the value added tax in the forecast period:

	End of December*				
	2023	**2024**	**2025**	**2026**	**2027**
Value Added Tax *(RMB'000)*	1,500	3,000	7,500	16,500	35,500

* *Figures are rounded to million*

8.2.5 Operating Expenses

After discussion with the Management, the operating expenses refers to the operation and salary expenses, sales and marketing expenses, and the operation expenses of running a sales center in Hong Kong. To achieve the future performance provided in the financial projection, the Management has to increase its Products exposure to their customer in Cambodia and Southeast Asia regions. The Management is going to set up a sales center in Hong Kong to coordinate its business in the above-mentioned regions. In the valuation, the cost of goods sold in the forecast period was provided by the Management. The table below presents the operating expenses in the forecast period:

	End of December*				
	2023	**2024**	**2025**	**2026**	**2027**
Operating Expenses *(RMB'000)*	42,500	42,000	45,000	51,000	59,000

* *Figures are rounded to million*

8.2.6 Earnings before interest, taxes, depreciation, and amortization

With reference to the financial information provided from Section 8.2.2 to 8.2.5, the table below presents the earnings before interest, taxes, depreciation, and amortization (EBITDA) in the forecast period:

	End of December*				
	2023	**2024**	**2025**	**2026**	**2027**
Earnings before interest, taxes, depreciation, and amortization (EBITDA) *(RMB'000)*	-33,500	-24,000	0	47,500	155,500

* *Figures are rounded to million*

8.2.7 Earnings before interest and taxes and net profit margin

With reference to the depreciation and amortization information provided by the Management and the financial information provided from Section 8.2.6, the table below presents the earnings before interest and taxes (EBIT) and net profit margin in the forecast period:

	End of December*				
	2023	**2024**	**2025**	**2026**	**2027**
Earnings before interest and taxes (EBIT) *(RMB'000)*	-50,600	-41,200	-17,300	29,900	137,200
EBIT *(% of Revenue)*	-337.3%	-137.2%	-23.1%	18.1%	38.6%
Net profit margin *(RMB'000)*	-50,600	-41,200	-17,300	23,900	109,700
Net profit *(% of Revenue)*	-337.3%	-137.2%	-23.1%	14.5%	30.9%

* *Figures are rounded to million*

In the valuation, we have extracted the following financial information of the Comparable Companies (Please refer to Section 8.2.9 — Comparable Companies) from the Capital IQ:

Company Name	S&P Capital IQ Ticker	For the year ended 31 December 2021 Gross profit margin	EBIT margin
British American Tobacco (Malaysia) Berhad	KLSE:BAT	59.00%	35.89%
British American Tobacco Bangladesh Company Limited	DSE:BATBC	53.20%	40.48%
Ceylon Tobacco Company PLC	COSE:CTC.N0000	91.39%	78.04%
Japan Tobacco Inc.	TSE:2914	58.84%	20.94%
KT&G Corporation	KOSE:A033780	54.75%	25.60%
PT Gudang Garam Tbk	IDX:GGRM	11.30%	5.88%
PT Hanjaya Mandala Sampoerna Tbk	IDX:HMSP	40.76%	20.68%
	Minimum	11.30%	5.88%
	Maximum	91.39%	78.04%
	Average	52.75%	32.50%
	Median	54.75%	25.60%

With reference to the financial information of the Comparable Companies, the EBIT margin of the Comparable Companies ranged from approximately 5.88% to approximately 78.04% with an average of approximately 32.50% and a median of approximately 25.60%. As such, after the turnaround, the EBIT margins of the Target Group of approximately 18.1% and 38.6% for the year ending 31 December 2026 and 2027 are within the range of those of the Comparable Companies and are considered as fair and reasonable.

The net profit margins are derived from the EBIT margins after deducting the estimated corporate tax amount, with reference to the corporate tax rate of Cambodia 20%. As such, the EBIT margins of the Target Group of approximately 14.5% and 30.9% for the year ending 31 December 2026 and 2027 are considered as fair and reasonable.

8.2.8 Capital Expenditure and Net Working Capital

As discussed with the Management, since the Target is operating and all necessary infrastructure are in place, it is expected that the amount of capital expenditure for the expansion in business will be immaterial in the forecast period, the amount equivalent to 1% of each forecast year revenue is considered as the capital expenditure for maintenance of existing fixed assets and equipment.

The net working capital is determined with reference to the payment terms, the historical turnover days from Comparable Companies (Please refer to Section 8.2.9 — Comparable Companies) and the experience of the Management. We have extracted the following financial information of the Comparable Companies from the Capital IQ:

		For the year ended 31 December 2021		
Company Name	**S&P Capital IQ Ticker**	**Account receivable turnover days**	**Account payable turnover days**	**Inventory turnover days**
British American Tobacco (Malaysia) Berhad	KLSE:BAT	110.87	53.87	158.61
British American Tobacco Bangladesh Company Limited	DSE:BATBC	6.09	33.19	303.30
Ceylon Tobacco Company PLC	COSE:CTC.N0000	51.00	124.84	525.97
Japan Tobacco Inc.	TSE:2914	67.46	146.98	210.36
KT&G Corporation	KOSE:A033780	70.52	9.78	378.82
PT Gudang Garam Tbk	IDX:GGRM	7.79	3.28	144.36
PT Hanjaya Mandala Sampoerna Tbk	IDX:HMSP	26.51	55.71	275.53
	Minimum	6.09	3.28	144.36
	Maximum	110.87	146.98	525.97
	Average	48.61	61.09	285.28
	Median	51.00	53.87	275.53

After discussion with the Management, the account receivable turnover days is assumed to be in average 30 days, which is within the range of those of the Comparable Companies from 6.09 days to 110.87 days. The account payable turnover days in average is 120 days, which is within the range of those of the Comparable Companies from 3.28 days to 146.98 days. The inventory turnover days is 1,000 days in 2023, 540 days in 2024 and in average 240 days in 2025 afterward as well. The decrease in inventory turnover days is mainly due to the improvement in sales efficiency and the 240 days in 2025 afterward is within the range of those of the Comparable Companies from 144.36 days to 525.97 days.

8.2.9 Comparable Companies

In applying the DCF method, the estimated cash flows for each of the years in the discrete projection period are then converted to their present value equivalent using a rate of return appropriate for the risk of achieving the asset's projected cash flows, or the discount rate. The appropriate discount rate for the Target Group was determined with reference to the business nature and financial information of publicly listed companies that are considered to be comparable to the Target (the "**Comparable Companies**").

Due to the fact that there is no company is exactly the same as the Target Group, a set of the Comparable Companies must be selected in valuing the Target Group. To determine the set of the Comparable Companies, we mainly focused on the following perspectives during the selection process from the public resources (e.g. S&P Capital IQ), including:

(i) The companies are principally engaged in the business of tobacco products in the Asia Pacific Regions; and

(ii) Sufficiency of information (such as listing and operating histories, and availability of the financial information to the public).

Based on the abovementioned selection criteria, we consider the set of the Comparable Companies adopted in the valuation is comprehensive. Details of the Comparable Companies are listed as follows:

Company Name	S&P Capital IQ Ticker	Business Description
British American Tobacco (Malaysia) Berhad	KLSE:BAT	British American Tobacco (Malaysia) Berhad manufactures, imports, and sells cigarettes, pipe tobaccos, cigars, and other tobacco products primarily in Malaysia. It markets its products under the Dunhill, Peter Stuyvesant, Rothmans, KYO, Pall Mall, Kent, and Benson & Hedges brand names. It was founded in 1912 and is headquartered in Kuala Lumpur, Malaysia.

Company Name	S&P Capital IQ Ticker	Business Description
British American Tobacco Bangladesh Company Limited	DSE:BATBC	British American Tobacco Bangladesh Company Limited manufactures and sells cigarettes in Bangladesh. It markets its products under the Benson & Hedges, John Player Gold Leaf, Capstan, Star, Lucky Strike, Royals of London, Derby, Pilot, and Hollywood Brands. It was founded in 1910 and is headquartered in Dhaka, Bangladesh.
Ceylon Tobacco Company PLC	COSE:CTC.N0000	Ceylon Tobacco Company PLC manufactures and sells cigarettes in Sri Lanka. It offers its products under the Dunhill, John Player Gold Leaf, John Player Navy Cut, John Player Gold, State Express 555, Shuangxi International, Benson & Hedges, Bristol, and Capstan brand names. It also exports its products. Ceylon Tobacco Company PLC sells its products through the network of distributors and traders. It was founded in 1906 and is headquartered in Colombo, Sri Lanka.
Japan Tobacco Inc.	TSE:2914	Japan Tobacco Inc., a tobacco company, manufactures and sells tobacco products, prescription drugs, and processed foods in Japan and internationally. It operates through four segments: Domestic Tobacco, International Tobacco, Pharmaceutical, and Processed Food. It offers tobacco products, such as cigarettes, cigars, pipe tobacco, oral tobacco, waterpipe tobacco, kretek, and fine cut products under the Winston, Camel, MEVIUS, and LD brands. Japan Tobacco Inc. was founded in 1898 and is headquartered in Tokyo, Japan.
KT&G Corporation	KOSE:A033 780	KT&G Corporation, together with its subsidiaries, engages in the production and sale of tobacco and other products in South Korea. It provides tobacco and related materials, red ginseng, red ginseng products, other health foods, food and beverage products, and cosmetic and related products. It also offers leaf tobacco cultivation support services; and develops, manufactures, and distributes drugs, bio-pharmaceuticals, over-the-counter medicines, and medical supplies and equipment. It was founded in 1987 and is headquartered in Daejeon, South Korea.

Company Name	S&P Capital IQ Ticker	Business Description
PT Gudang Garam Tbk	IDX:GGRM	PT Gudang Garam Tbk produces and sells cigarettes in Indonesia and internationally. It operates through cigarettes, paperboards, and others segments. It offers hand-rolled, machine-made, and klobot clove cigarettes. It markets its products under the Gudang Garam Family, Surya Family, GG Family, and other brand names. It was founded in 1958 and is headquartered in Kediri, Indonesia.
PT Hanjaya Mandala Sampoerna Tbk	IDX:HMSP	PT Hanjaya Mandala Sampoerna Tbk, together with its subsidiaries, engages in manufacture, distribution, and trading of cigarettes in Indonesia. It engages in the general trading, property development, and expedition and warehousing businesses; and e-commerce and agency activities. It sells its products under the Dji Sam Soe Magnum, Sampoerna Kretek, Sampoerna A, Philip Morris, and Marlboro Filter Black brand names. It was founded in 1913 and is headquartered in Surabaya, Indonesia.

Source: *S&P Capital IQ*

8.2.10 *Discount Rate*

In order to estimate the value of the Target Group and perform an overall reasonability assessment, it is required to determine the appropriate discount rate for the Target Group. As such, we have adopted the weighted average cost of capital ("**WACC**") as a basic discount rate for the Target Group. WACC represents the weighted average return attributable to all of the operating assets of the Target Group. WACC was computed using the formula below:

$$WACC = R_e\ (E/V) + R_d\ (D/V)\ (1 - T_c)$$

Where:

WACC	=	*weighted average cost of capital*
R_e	=	*cost of equity*
R_d	=	*cost of debt*
E	=	*value of the firm's equity*
D	=	*value of the firm's debt*
V	=	*sum of the values of the firm's equity and debt*
T_c	=	*corporate tax rate*

As a component of WACC, the cost of equity was determined using the Capital Asset Pricing Model ("**CAPM**"). CAPM calculates a required return based on a risk measurement. It describes the relationship between the risk of a particular asset, its market price and the expected return to the investor, that investors required additional return to compensate additional risk associated.

In the valuation, CAPM was modified to reflect the size premium and company-specific risk premium associated with the Target. The cost of equity under the modified CAPM was computed using the formula below:

$$R_e = R_f + \beta * MRP + RP_S + RP_U$$

Where:

R_e	=	*cost of equity*
R_f	=	*risk-free rate*
β	=	*beta coefficient*
MRP	=	*market risk premium*
RP_S	=	*size premium*
RP_U	=	*company-specific risk premium*

In the valuation, the yield rate of the Cambodia of 2%, with referenced to the first government bond issued by the National Bank of Cambodia in September 2022, was adopted as the risk-free rate.

Since the Target Group is not a publicly listed company, it is not possible to determine its beta coefficient directly. Instead, the beta coefficient for the Target Group was determined by the median of the betas of the Comparable Companies, with adjustment for differences in corporate tax rates and leverage compositions. As a result, the beta coefficient of the Target was calculated as 0.46.

In the valuation, the market risk premium of Cambodia as of the Date of Valuation of 9.68% was determined with reference to "Country Default Spreads and Risk Premiums", published by Professor Aswath Damodaran, who is a well-known author of several widely used academic textbooks on valuation and related subjects, in January 2022.

By adding a size premium of 3.16%, which was determined with reference to "2020 Valuation Handbook — Guide to Cost of Capital", published by Duff & Phelps, which is a global valuation and corporate finance advisor with over 3,500 employees and 28 countries around the world, and a company-specific risk premium of 5%, we arrived at a cost of equity of 14.64%.

The weight of debt and weight of equity were determined by making reference to the median of the weight of debt and weight of equity of the Comparable Companies respectively. The weight of equity was adopted as 98%.

The cost of debt is determined by making reference to the existing US$4 million bank loan with Bank of China with a floating rate of 6-month London Inter-Bank Offered Rate ("**LIBOR**") plus 4.544%. The 6-month LIBOR rate of 5.20% as of the Date of Valuation, as extracted from S&P Capital IQ, was adopted. The after tax cost of debt adopted was 7.80%.

Accounting for the above items, the rounded 15% was adopted as the WACC as of the Date of Valuation.

8.2.11 Terminal Value

In the valuation, the terminal value for the Target Group is estimated with a constant growth rate of approximately 6.5%, with reference to median of forecasted GDP growth rate in Cambodia during the period from 2023 to 2027 published by the IMF.

8.2.12 Discount for Lack of Marketability

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted into cash if the owner chooses to sell. Compared to similar interest in public companies, ownership interest in privately held company is not readily marketable. Therefore, the value of a share in a privately held company is usually less than that in a publicly held company. The lack of marketability is a downward adjustment to the value of an investment to reflect its reduced level of marketability.

In determining a reasonable lack of marketability, we have made reference to the "Stout Restricted Stock Study Companion Guide (2020 Edition)" published by the Stout Risius Ross, LLC, which indicated the median of discount for lack of marketability of the overall market is 15.8%. After considering the study, as there is no evidence that the discount for lack of marketability of the Target Group varies from the overall market, we considered that it is fair and appropriate to adopt such marketability discount in our valuation.

9. LIMITING CONDITIONS

The valuation reflects facts and conditions existing at the Date of Valuation. Subsequent events have not been considered and we are not required to update our report for such events and conditions.

To the best of our knowledge, all data set forth in this report are reasonable and accurately determined. The data, opinions, or estimates identified as being furnished by others that have been used in formulating this analysis are gathered from reliable sources; yet, no guarantee is made nor liability assumed for their accuracy.

We have relied on information provided by the Management to a considerable extent in arriving at our opinion of value. We have not verified the accuracy of the information provided and have assumed that the aforesaid information is accurate. We have not conducted any further investigations concerning whether all data have been provided to us for our assessment and we have no reason to believe that any material data have been withheld from us. We would particularly point out that our valuation was based on the information of the Target Group provided to us.

Our conclusion of the value was derived from generally accepted valuation procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. **Section 4 — Limitation in Scope of Work** lists the major limitations for reference.

By its very nature, valuation work cannot be regarded as an exact science and the conclusions arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgment. Hence, there is no single indisputable range and generally we cannot provide absolute assurance on a valuation.

This report is for the exclusive use of the party to whom it is addressed and for the specific purpose stated in **Section 1 — Purpose of Valuation**, neither the whole nor any part of this report nor any reference thereto may be included in any document, circular or statement without our written approval of the form and context in which it will appear. We will not accept any responsibility or liability to any third party to whom in respect of, or arising out of, the contents of this report may be shown.

The title of this report shall not pass to the Company until all professional fees have been paid in full.

10. REMARKS

Unless otherwise stated, all monetary amounts stated in this valuation report are in Renminbi (RMB).

11. OPINION OF VALUE

Based on the investigation and analysis stated above, our scope of work and limitations in scope of work, the assumptions adopted and the valuation method employed, the 100% equity interest of the Target Group as of 30 November 2022 (i.e. the Date of Valuation), in our opinion, was reasonably stated as **RMB610,000,000 (RENMINBI SIX HUNDRED AND TEN MILLION ONLY)**.

We hereby confirm that we have neither present nor prospective interests in the Company, the Target Group, or the value reported herein.

Yours faithfully,
For and on behalf of
Vision Appraisal and Consulting Limited
Dave Yang
CFA
Director

Note: Mr. Dave Yang is a holder of Chartered Financial Analyst. He has over eight years' experience in business valuation, transaction advisory and corporate consultancy in the Asia Pacific Region including Hong Kong and China, as well as in Japan, Korea and Australia.

30 June 2023

Listing Division
The Stock Exchange of Hong Kong Limited
12th Floor, Two Exchange Square,
8 Connaught Place, Central, Hong Kong

Dear Sirs,

Discloseable and Connected Transaction — Proposed Acquisition of shares in Star Idea

We refer to the announcements of Kinetic Development Group Limited (the "**Company**") dated 30 December 2022 and 29 March 2023 (the "**Announcements**") relating to the captioned transaction. Capitalized terms used in this letter shall have the same meanings as those defined in the Announcements unless stated otherwise.

We refer to the Valuation Report dated 30 June 2023 issued by Vision Appraisal and Consulting Limited (the "**Independent Valuer**") regarding the valuation of 100% equity interest of the Target Company of RMB610.0 million as at 30 November 2022 (the "**Valuation**") based on the discounted cash flows, which constitutes a profit forecast under Rule 14.61 of the Listing Rules.

We have discussed with the Independent Valuer about different aspects including the bases and assumptions based upon which the Valuation has been prepared, and reviewed the Valuation for which the Independent Valuer is responsible. We have also considered the report from Yongtuo Fuson dated 30 June 2023 regarding whether the discounted future cash flows used in the Valuation, so far as the calculations are concerned, have been properly compiled in all material respects in accordance with the bases and assumptions set out in the Valuation Report, which the Board has relied on, in all material respects. We have noted that the profit forecasts in the Valuation are mathematically accurate and the discounted cash flows will not be affected by accounting policies.

Pursuant to the requirements of Rule 14.62(3) of the Listing Rules, the Board confirmed that the Valuation prepared by the Independent Valuer has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of the Board
Kinetic Development Group Limited
Ju Wenzhong
Chairman and Executive Director

The following is the text of a report received from the Company's reporting accountants, Yongtuo Fuson, Certified Public Accountants, Hong Kong, for inclusion in this circular.

永拓富信會計師事務所有限公司
YONGTUO FUSON CPA LIMITED

INDEPENDENT ASSURANCE REPORT ON THE CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF EQUITY INTEREST IN STAR IDEA ENTERPRISES LIMITED

TO THE BOARD OF DIRECTORS OF KINETIC DEVELOPMENT GROUP LIMITED

We have examined the calculations of the discounted future estimated cash flows on which the valuation prepared by Vision Appraisal and Consulting Limited, of entire equity interest in Star Idea Enterprises Limited ("**Target Company**") as at 30 November 2022 (the "**Valuation**") is based. The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and will be included in a circular dated 30 June 2023 to be issued by Kinetic Development Group Limited (the "**Company**") in connection with the discloseable and connected transaction in relation to the proposed acquisition of 73% equity interest in Target Company (the "**Circular**").

Directors' Responsibility for the Discounted Future Estimated Cash Flows

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the directors and set out in the Circular (the "**Assumptions**"). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Management 1 "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion on whether the calculations of the discounted future estimated cash flows have been properly compiled, in all material respects, in accordance with the Assumptions on which the Valuation is based and to report solely to you, as a body, as required by Rules 14.62(2) of the Listing Rules, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Our engagement was conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the Assumptions. Our work was limited primarily to making inquiries of the Company's management, considering the analyses and assumptions on which the discounted future estimated cash flows are based and checking the arithmetic accuracy of the compilation of the discounted future estimated cash flows. Our work does not constitute any valuation of Target Company.

Because the Valuation relates to discounted future estimated cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express any opinion whatsoever thereon.

Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the Assumptions.

Yongtuo Fuson CPA Limited
Certified Public Accountants

Fok Tat Choi
Practicing Certificate Number: P06895
Hong Kong, 30 June 2023

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

Long positions in shares and underlying shares of the Company and its associated corporation

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO); (ii) pursuant to Section 352 of the SFO, to be entered in the register of members of the Company; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long Positions in the shares of the Company

Name of Directors	Capacity/Type of interest	Number of ordinary shares	Approximate percentage of shareholding *(Note 1)*
Mr. Ju Wenzhong	Beneficial Interests	5,497,659	0.07%
Mr. Li Bo	Beneficial Interests	1,529,886	0.02%
Ms. Xue Hui	Beneficial Interests	3,860,055	0.05%

Note:

1. The calculation is based on the total number of issued ordinary shares of 8,430,000,000 shares as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, there were no other Directors or the chief executive of the Company or any of their associates who had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) 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 are taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

As at the Latest Practicable Date, none of the Directors was a director or an employee of any shareholders of the Company or a company which has an interest or short position in Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of three years, which may be terminated by not less than three months' notice in writing served by either party on the other.

The non-executive and independent non-executive Directors have been appointed for a term of three years in accordance with their respective letters of appointment with the Company.

As at the Latest Practicable Date, none of the Directors, including without limitation those who are proposed for re-election at the forthcoming annual general meeting, has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

4. EXPERTS' QUALIFICATIONS AND CONSENTS

The followings are the qualifications of the experts who have given opinions or advice for incorporation and as contained in this circular:

Name	Qualification
Vision Appraisal and Consulting Limited	Independent professional valuer

Name	Qualification
Yongtuo Fuson	Certified Public Accountants and Registered PIE Auditor
Rainbow Capital (HK) Limited	A licensed corporation permitted to carry out Type 1 and Type 6 regulated activities under the SFO

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with its respective letter included or references to its name in the form and context in which it is included.

As at the Latest Practicable Date, the above experts (i) 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 securities in any member of the Group; and (ii) had no direct or indirect interests in any assets which had been acquired or disposed of by or leased to any member of the Group since 31 December 2022 (the date to which the latest published audited combined financial statements of the Company were made up) or proposed to be acquired, disposed of or leased to any member of the Group.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2022, being the date to which the latest published audited consolidated financial statements of the Company were made up.

6. DIRECTORS' INTERESTS IN THE ASSETS OR CONTRACTS

Save for the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement), which Ms. Zhang Lin was considered to be interested in by reason of her being a connected person to Mr. Zhang Li and Mr. Zhang Liang, Johnson, both substantial shareholders of the Company, (a) none of the Directors, proposed director or expert had any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2022, being the date to which the latest published audited accounts of the Company were made up; and (b) none of the Directors, proposed director or expert was materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and was significant in relation to the business of the Group.

7. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective close associates (as defined under the Listing Rules) had any interest in a business which competed or was likely to compete, either directly or indirectly, with the business of the Group, or had or might have any other conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules.

8. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the website of the Stock Exchange **(www.hkexnews.hk)** and the Company's website **(http://www.kineticme.com/)** for a period of 14 days from the date of this circular:

(a) the Acquisition and Subscription Agreement; and

(b) the Supplemental Agreement.

9. MISCELLANEOUS

In the event of inconsistency, the English language text of this circular shall prevail over the Chinese language text.

Kinetic Development Group Limited
力量發展集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1277)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the "**EGM**") of Kinetic Development Group Limited (the "**Company**") will be held at 18th Floor, 80 Gloucester Road, Wanchai, Hong Kong on Friday, 28 July 2023 at 3:30 p.m., to consider, if thought fit, and transact the following resolutions of the Company by way of ordinary resolutions:

ORDINARY RESOLUTIONS

"**THAT**:

(a) (i) terms of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) entered into between Mr. Zhang Li, Kinetic Development Group Limited and Star Idea Enterprises Limited (星耀企業有限公司) dated 30 December 2022, pursuant to which (copies of which has been produced to this EGM and initialed by the chairman of the Meeting for identification purpose), and the transactions in connection therewith and any other ancillary documents be and are hereby confirmed, approved and ratified, subject to such addition or amendment as any director(s) of the Company (the "**Director(s)**") may consider necessary, desirable or appropriate;

(b) any authority of the Director(s) to sign, execute, deliver or to authorize the signing, execution and delivery of the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement), to do or authorize doing all such acts, matters and things as he/she may in his/her discretion consider necessary, expedient or desirable to give effect to and implement the Acquisition and Subscription Agreement (as varied by the Supplemental Agreement) and any ancillary documents and transactions thereof be and is hereby confirmed, approved and ratified."

Yours faithfully,
For and on behalf of the Board
Kinetic Development Group Limited
Ju Wenzhong
Chairman and Executive Director

Hong Kong, 30 June 2023

Registered office:
Windward 3,
Regatta Office Park,
P.O. Box 1350,
Grand Cayman KY1-1108,
Cayman Islands

Principal place of business in Hong Kong:
18th Floor,
80 Gloucester Road,
Wanchai,
Hong Kong

Headquarters and Principal Place of Business in the PRC:
Dafanpu Coal Mine,
Majiata Village,
Xuejiawan Town,
Zhunge'er Banner,
Ordos City, Inner Mongolia, China

Notes:

1. A shareholder of the Company (the "**Shareholder**") entitled to attend and vote at the EGM is entitled to appoint another person as his/her proxy to attend and vote in his/her stead. A Shareholder who is the holder of two or more shares in the Company (the "**Shares**") may appoint more than one proxy to represent him/her and vote on his/her behalf at the EGM. A proxy need not be a Shareholder.

2. In order to be valid, the form of proxy must be in writing under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal, or under the hand of an officer or attorney duly authorized, and must be deposited with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof) not less than 48 hours before the time fixed for holding of the EGM (or any adjournment thereof).

3. The register of members of the Company will be closed from Tuesday, 25 July 2023 to Friday, 28 July 2023 (both days inclusive), during which period no transfer of the Shares will be effected. In order to qualify for attending the EGM or any adjournment thereof, all transfers of Shares accompanied by the relevant share certificate(s) must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration by no later than 4:30 p.m. on Monday, 24 July 2023.

4. Delivery of an instrument appointing a proxy should not preclude a Shareholder from attending and voting in person at the EGM or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.

5. The Company reminds all Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. Shareholders may appoint the chairman of the EGM as their proxy to vote on the relevant resolution(s) at the EGM instead of attending the EGM in person, by completing and return the form of proxy.

6. If any Shareholder has any question about any resolution or about the Company, or has any matter for communication with the board of directors of the Company, he/she is welcome to send such question or matter in writing to the head office and principal place of business in Hong Kong of the Company or by fax at (852) 2865 0990. If any Shareholder has any question relating to the EGM, please contact Computershare Hong Kong Investor Services Limited, the Company's Hong Kong branch share registrar as follows:

   Computershare Hong Kong Investor Services Limited
   17M Floor, Hopewell Centre
   183 Queen's Road East
   Wan Chai
   Hong Kong

As at the date of this notice, the Directors are:

Executive Directors:
Mr. Ju Wenzhong *(Chairman)*
Mr. Li Bo
Mr. Ji Kunpeng

Non-executive Director:
Ms. Zhang Lin

Independent Non-executive Directors:
Ms. Liu Peilian
Mr. Chen Liangnuan
Ms. Xue Hui

This notice is prepared in both English and Chinese. In the event of inconsistency, the English text of the notice shall prevail over the Chinese text.