

23 September 2022

*To: The Independent Board Committee and the Independent Shareholders
of EverChina Int'l Holdings Company Limited*

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Disposal Agreements 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 23 September 2022 (the “**Circular**”), of which this letter forms apart. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 9 August 2022 (after trading hours of the Stock Exchange), Interchina Tianjin, a wholly-owned subsidiary of the Company, entered into (i) the Disposal Agreement 1 with Mr. Jiang, pursuant to which Interchina Tianjin has conditionally agreed to sell and Mr. Jiang has conditionally agreed to acquire 100,000,000 Sale Shares at an aggregate consideration of RMB254,000,000 (equivalent to approximately HK\$298,450,000); and (ii) the Disposal Agreement 2 with Shanghai Pengxin, pursuant to which Interchina Tianjin has conditionally agreed to sell and Shanghai Pengxin has conditionally agreed to acquire 127,312,500 Sale Shares at an aggregate consideration of RMB323,373,750 (equivalent to approximately HK\$379,964,000). After Completion, the Group will cease to hold any interests in Heilongjiang Interchina.

As the applicable percentage ratios (as defined under the Listing Rules) in respect of the Disposal exceed 25% but are less than 75%, the Disposal constitutes a major transaction of the Company under Chapter 14 of the Listing Rules, which is subject to reporting, announcement and shareholders’ approval requirements under Chapter 14 of the Listing Rules.

Mr. Jiang is a substantial Shareholder, an executive Director and the chairman of the Company. As at the Latest Practicable Date, Shanghai Pengxin is owned as to 99% by Mr. Jiang and as to 1% by Mr. Jiang Lei, Mr. Jiang's brother. Thus it is an associate of Mr. Jiang. Accordingly, the Purchasers are regarded as connected persons of the Company under Chapter 14A of the Listing Rules. The Disposal therefore also constitutes a connected transaction of the Company, which is subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The GM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Disposal Agreements and the transactions contemplated thereunder by way of poll. The Purchasers and their respective associates shall abstain from voting at the GM.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Ho Yiu Yue, Louis, Mr. Ko Ming Tung, Edward and Mr. Ng Ge Bun, has been established to advise the Independent Shareholders as to whether the Disposal is conducted in the ordinary and usual course of business of the Group, on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and is in the interests of the Company and the Independent Shareholders as a whole, and as to how to vote in respect of the relevant resolution(s) to be proposed at the GM to approve the Disposal Agreements and the transactions contemplated thereunder. As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

As at the Latest Practicable Date, Lego Corporate Finance Limited did not have any relationships or interests with the Company that could reasonably be regarded as relevant to the independence of Lego Corporate Finance Limited. In the last two years, save for the engagement as the independent financial adviser to the independent board committee and independent shareholder of the Company in respect of the major and connected transactions as stated in the circular of the Company dated 26 July 2021, there was no engagement between the Group and Lego Corporate Finance Limited that would affect our independence. Apart from normal professional fees paid or payable to us in connection with the aforesaid engagement and this appointment as the Independent Financial Adviser, no arrangements exist whereby we have received or will receive any fees or benefits from the Group. Accordingly, we are independent under Rule 13.84 of the Listing Rules and qualified to give independent advice in respect of the terms of the Disposal Agreements 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 provided 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 reviewed, inter alia, the announcement of the Company in relation to the Disposal, the Disposal Agreements, the annual reports of the Company for the year ended 31 March 2021 (the "2021 Annual

Report”) and the year ended 31 March 2022 (the “**2022 Annual Report**”), the annual report of Heilongjiang Interchina for the year ended 31 December 2021 and the first quarterly report of Heilongjiang Interchina for the three months ended 31 March 2022. We have also reviewed certain information provided by the management of the Company relating to the operations, financial condition and prospects of the Group. We have assumed that all the information provided and representations and opinions expressed to us by the Directors and/or the management of the Group for which they are solely and wholly responsible for, or contained or referred to in the Circular were true, accurate and complete in all respects as at the date hereof 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 date thereof and may be relied upon. We have also assumed that 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/or the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the GM. The Company shall inform the Independent Shareholders as soon as practicable if there is any material change to such information in accordance with the Listing Rules on or before the date of the GM.

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 Company or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in respect of the Disposal Agreements and the transactions contemplated thereunder, we have considered the following principal factors and reasons.

1. Financial information on the Group

The Company is an investment holding company. The Group is principally engaged in (i) property investment, being the leasing of rental property in the PRC; (ii) hotel operation in the PRC; (iii) agricultural operation, being agricultural farming and sale of crops and cattle raising and sales of cattle in Bolivia; (iv) securities investment and financing operation in Hong Kong and the PRC; and (v) resources operation, being the mining and production of manganese products in Indonesia.

The following table is a summary of the audited financial information of the Group for the three years ended 31 March 2020, 2021 and 2022 as extracted from the 2021 Annual Report and the 2022 Annual Report, respectively.

	For the year ended 31 March		
	2020	2021	2022
	HK\$' million (audited)	HK\$' million (audited)	HK\$' million (audited)
Revenue			
Property investment operation	47.8	31.9	31.3
Hotel operation	27.7	36.5	36.7
Agricultural operation	61.6	58.7	81.4
Securities investment and financing operation	—	—	—
Resources operation	—	—	—
Total	137.2	127.1	149.3
Loss for the year attributable to the Shareholders	(529.1)	(135.1)	(233.4)

	As at 31 March		
	2020	2021	2022
	HK\$' million (audited)	HK\$' million (audited)	HK\$' million (audited)
Non-current assets	2,195.5	2,234.5	2,098.7
Current assets	801.2	901.2	803.4
Current liabilities	756.3	822.0	736.4
Net current assets	44.9	79.2	67.0
Non-current liabilities	250.9	299.2	319.0
Net assets	1,989.5	2,014.5	1,846.7

Note: The above figures are subject to rounding adjustments.

For the year ended 31 March 2021

For the year ended 31 March 2021, total revenue of the Group was approximately HK\$127.1 million, representing a decrease of approximately 7.4% as compared to that of approximately HK\$137.2 million for the year ended 31 March 2020. With reference to the 2021 Annual Report, the decrease in revenue was mainly due to the decrease in rental revenue from the property investment operation which was adversely affected by the outbreak of COVID-19 and the expiration of rental guarantee agreement of property in Shanghai.

For the year ended 31 March 2021, the Group recognised loss for the period attributable to the Shareholders of approximately HK\$135.1 million, representing a decrease of approximately 74.5% as compared to that of approximately HK\$529.1 million for the year ended 31 March 2020. Such decrease in loss was mainly resulted from the recognition of gain arising on change in fair value of financial assets at fair value through profit and loss of approximately HK\$93.1 million against the loss of approximately HK\$282.9 million recognised for the previous corresponding year, as partially offset by the impairment loss on the Group's property, plant and equipment recognised for the year.

As at 31 March 2021, the Group recorded net current assets and net assets of approximately HK\$79.2 million and HK\$2,014.5 million, respectively.

For the year ended 31 March 2022

For the year ended 31 March 2022, total revenue of the Group was approximately HK\$149.3 million, representing an increase of approximately 17.5% as compared to that of approximately HK\$127.1 million for the year ended 31 March 2021. With reference to the 2022 Annual Report, the increase in revenue was mainly due to the increase in revenue generated from agricultural operation as a result of increase in average selling price of soybean, being the major crops sold by the Group, as compared to the previous year.

For the year ended 31 March 2022, the Group recognised loss for the period attributable to the Shareholders of approximately HK\$233.4 million, representing an increase of approximately 72.8% as compared to that of approximately HK\$135.1 million for the year ended 31 March 2021. As noted from the 2022 Annual Report, such enlargement in loss was mainly resulted from (i) an impairment loss recognised in respect of the mining rights of approximately HK\$109.1 million as a result of decrease in market price of manganese ore during the year, which was absent in the previous year; and (ii) the recognition of loss on change in fair value of financial assets at fair value through profit and loss of approximately HK\$68.9 million due to the decrease in share price of Heilongjiang Interchina, being listed equity investment of the Group as opposed to gain of approximately HK\$93.1 million recognised for the previous corresponding year.

As at 31 March 2022, the Group recorded net current assets and net assets of approximately HK\$67.0 million and HK\$1,846.7 million, respectively.

2. Background and financial information on Heilongjiang Interchina

As disclosed in the Letter from the Board, Heilongjiang Interchina is principally engaged in sewage water treatment, water supply and the provision of environmental technology services. The Heilongjiang Shares that are not subject to selling restrictions are listed on the Shanghai Stock Exchange (stock code: 600187).

As at the Latest Practicable Date, Interchina Tianjin was interested in 227,312,500 Heilongjiang Shares that are not subject to selling restrictions (being the Sale Shares), representing approximately 14.09% of Heilongjiang Interchina's issued share capital (including shares as at the Latest Practicable Date that are (i) not subject to selling restrictions; and (ii) subject to selling restrictions).

Set out below is a summary of the consolidated financial information of Heilongjiang Interchina and its subsidiaries ("**Heilongjiang Interchina Group**") for the two years ended 31 December 2020 and 2021 and for the three months ended 31 March 2021 and 2022, respectively, which was prepared in accordance with PRC accounting standard, as extracted from the published annual report of Heilongjiang Interchina for the year ended 31 December 2021 and the first quarterly report of Heilongjiang Interchina for the three months ended 31 March 2022:

	For the year ended		For the three months ended	
	31 December		31 March	
	2020	2021	2021	2022
	RMB' million	RMB' million	RMB' million	RMB' million
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	379.1	384.5	93.8	81.4
Profit/(loss) for the year/ period	27.3	(93.5)	(12.4)	(10.3)
Profit/(loss) for the year/ period attributable to the shareholders of Heilongjiang Interchina	30.5	(90.6)	(10.8)	(8.5)
	As at	As at	As at	
	31 December	31 December	31 March	
	2020	2021	2022	
	RMB' million	RMB' million	RMB' million	
	(audited)	(audited)	(unaudited)	
Non-current assets	2,285.9	1,857.7	1,816.3	
Current assets	2,411.2	2,981.0	2,974.0	
Current liabilities	964.3	1,214.4	1,188.1	
Net current assets	1,446.9	1,766.6	1,785.9	
Non-current liabilities	287.1	295.0	287.7	
Net assets	3,445.7	3,329.3	3,314.5	

Note: The above figures are subject to rounding adjustments.

For the year ended 31 December 2021

For the year ended 31 December 2021, total revenue of Heilongjiang Interchina Group amounted to approximately RMB384.5 million, representing a slight increase of approximately 1.4% as compared to the revenue of approximately RMB379.1 million for the year ended 31 December 2020, which was relatively stable.

For the year ended 31 December 2021, Heilongjiang Interchina Group recognised loss for the year of approximately RMB93.5 million, as opposed to the profit for the year of approximately RMB27.3 million for the year ended 31 December 2020. With reference to the annual report of Heilongjiang Interchina for the year ended 31 December 2021, it is noted that the change from profit-making to loss-making performance was mainly attributable to (i) the decrease in volume of sewage treatment as compared to the previous year as a result of part of the sewage treatment plants were then under repair and maintenance; (ii) the lower gross profit margin of the environmental technology services than expected as there were decrease in income as well as increase in cost of services; and (iii) the increase in impairment loss on receivables due to delay in payment of outstanding balance for the disposal of certain equity interest of subsidiaries in prior years. The loss attributable to shareholders of Heilongjiang Interchina for the year ended 31 December 2021 amounted to approximately RMB90.6 million, as opposed to the profit attributable to shareholders of Heilongjiang Interchina of approximately RMB30.5 million for the previous year.

It is further noted that the profit for the year ended 31 December 2020 was mainly attributable to the gain on disposal of water supply and sewage treatment project companies of approximately RMB92,618,000. If this one-off gain was excluded from the profit, Heilongjiang Interchina would have recorded an adjusted loss of RMB65,326,000 for the year ended 31 December 2020 (the “**Adjusted Loss**”).

As at 31 December 2021, Heilongjiang Interchina Group recorded net current assets and net assets of approximately RMB1,766.6 million and approximately RMB3,329.3 million, respectively.

For the three months ended 31 March 2022

For the three months ended 31 March 2022, total revenue of Heilongjiang Interchina Group was approximately RMB81.4 million, representing a decrease of approximately 13.2% as compared to that of approximately RMB93.8 million for the three months ended 31 March 2021.

For the three months ended 31 March 2022, Heilongjiang Interchina Group recognised loss for the period of approximately RMB10.3 million, representing a decrease of approximately 16.9% as compared to the loss of approximately RMB12.4 million for the previous corresponding period. The loss attributable to shareholders of Heilongjiang Interchina for the three months ended 31 March 2022 amounted to approximately RMB8.5 million, representing a decrease of approximately 21.3% as compared to the loss attributable to shareholders of Heilongjiang Interchina of approximately RMB10.8 million for the previous corresponding period. According to the

first quarterly report of Heilongjiang Interchina for the three months ended 31 March 2022, the loss for the three months ended 31 March 2022 included a non-operating income of approximately RMB18.1 million mainly representing a gain on disposal of non-current assets of approximately RMB18.0 million. If this one-off gain was excluded from the loss, Heilongjiang Interchina Group would have recorded an adjusted loss of approximately RMB28.3 million for the three months ended 31 March 2022, representing an increase of approximately 128.2% as compared to the previous corresponding period, which was mainly due to the decrease in the return in investment and recognition of loss in the fair value of the financial products invested by the Heilongjiang Interchina Group.

As at 31 March 2022, the Heilongjiang Interchina Group recorded net current assets and net assets of approximately RMB1,785.9 million and RMB3,314.5 million, respectively.

The unaudited consolidated total assets of Heilongjiang Interchina as at 31 March 2022 amounted to approximately RMB4,790,318,000 (equivalent to approximately HK\$5,628,624,000), which mainly consisted of:

- (i) approximately RMB1,063,870,000 (equivalent to approximately HK\$1,250,147,000) of intangible assets, mainly representing service concessions arrangements of sewage and water supply projects operated by Heilongjiang Interchina;
- (ii) approximately RMB650,000,000 (equivalent to approximately HK\$763,750,000) of asset management plan (資管計畫理財);
- (iii) approximately RMB659,988,000 (equivalent to approximately HK\$775,486,000) of cash and cash equivalents;
- (iv) approximately RMB454,574,000 (equivalent to approximately HK\$534,124,000) of other receivables;
- (v) approximately RMB309,624,000 (equivalent to approximately HK\$363,807,000) of account receivables;
- (vi) approximately RMB346,374,000 (equivalent to approximately HK\$406,989,000) of assets held for sale; and
- (vii) approximately RMB139,290,000 (equivalent to approximately HK\$163,666,000) of fixed assets.

The unaudited consolidated total liabilities of Heilongjiang Interchina as at 31 March 2022 amounted to approximately RMB1,475,810,000 (equivalent to approximately HK\$1,734,078,000), which mainly consisted of:

- (i) approximately RMB685,614,000 (equivalent to approximately HK\$805,596,000) of advance payment;

- (ii) approximately RMB174,107,000 (equivalent to approximately HK\$204,576,000) of long term borrowing;
- (iii) approximately RMB161,714,000 (equivalent to approximately HK\$190,014,000) of liabilities held for sale (持有待售負債),
- (iv) approximately RMB157,974,000 (equivalent to approximately HK\$185,619,000) of account payables; and
- (v) approximately RMB131,131,000 (equivalent to approximately HK\$154,079,000) of other payables.

3. Background of and reasons for the Disposal and use of proceeds

As set out in the Letter from the Board, the Company first announced in August 2007 its intended acquisition of approximately 70.21% equity interests in Heilongjiang Interchina, an A share company listed on the Shanghai Stock Exchange which was then subject to formal suspension of trading in its shares, and was in the process of submitting resumption proposals to the Shanghai Stock Exchange to resume the trading in its shares. It was intended that, upon Heilongjiang Interchina's resumption of trading in its shares, it would acquire water projects and be engaged in the relevant operations. At that time, the Group was engaged in, among other things, investment in environmental and water treatment operation in the PRC. As set out in the Company's circular dated 31 January 2008 in relation to such acquisition, the Group could use Heilongjiang Interchina as a platform to pursue more investments in the PRC, which might generate new growth potentials to the Group, and to further expand the Group's business, including but not limited to the water treatment operations. Such acquisition was completed in January 2009, whereupon Heilongjiang Interchina became a non-wholly owned subsidiary of the Company. As set out in the Company's annual report for year ended 31 December 2009, after its resumption of trading in shares, Heilongjiang Interchina acquired two water supply projects in Shaanxi Province and one sewage treatment project in Qinghai Province, thus giving the Group the opportunity to further expand the development in the environmental protection and water treatment operation. Throughout the 13 years between the Group's acquisition of Heilongjiang Interchina and the Latest Practicable Date, Heilongjiang Interchina had conducted numerous equity fund raising and capital restructuring, and the Group had realised its investment on various occasions, whereupon the Group's interests had been gradually diluted and reduced to the current approximate 14.09%. The average investment cost of the Sale Shares was approximately RMB1.09 (equivalent to approximately HK\$1.28) per Heilongjiang Share.

On 27 May 2021, Interchina Tianjin has previously entered into disposal agreements (the **"2021 Disposal Agreements"**) with (1) Mr. Jiang, (2) Mr. Jiang Lei (the brother of Mr. Jiang) and (3) Shanghai Pengxin (together, the **"2021 Disposal Purchasers"**), pursuant to which the Company has conditionally agreed to dispose of the Sale Shares (the **"2021 Disposal"**) at the aggregate consideration of RMB534,184,375 (equivalent to approximately HK\$627,667,000) to the 2021 Disposal Purchaser. The 2021 Disposal was conditional upon, among other things (i) the confirmation from the Shanghai Stock Exchange in relation to the signing of the 2021 Disposal Agreements; and (ii) the passing of the necessary resolution(s) by the Independent Shareholders at the Company's general meeting to approve the 2021

Disposal Agreements and the transactions contemplated thereunder. None of the conditions precedent to the 2021 Disposal could be waived. The Independent Shareholders' approval was obtained at the general meeting held on 3 September 2021. However, while making the relevant application to the Shanghai Stock Exchange for its confirmation of the 2021 Disposal Agreements, the Group had been advised that the Shanghai Stock Exchange had issued the 2021 Guidelines (which as dated 21 August 2021, i.e. after the date of the 2021 Disposal Agreements). Pursuant to the 2021 Guidelines, among other things, each single transfer of shares listed on the Shanghai Stock Exchange to be approved by the Shanghai Stock Exchange should be not less than 5% of the issued share capital of a listed issuer listed on the Shanghai Stock Exchange. The number of Heilongjiang Shares contemplated to be disposed to each of Mr. Jiang and Mr. Jiang Lei under the 2021 Disposal represented approximately 3.09% and 3.05% of the then issued shares capital of Heilongjiang Interchina respectively. As each of the percentage proposed to be transferred was less than 5%, the confirmation from the Shanghai Stock Exchange in relation to the 2021 Disposal could not be obtained. In light of the above, Interchina Tianjin and each of the 2021 Disposal Purchasers entered into termination agreements on 29 November 2021 to terminate the 2021 Disposal.

As regards the Disposal, it is also conditional upon, among other things, the confirmation from the Shanghai Stock Exchange in relation to the signing of the Disposal Agreements. As the structure contemplated under the Disposal complied with the requirement of the 2021 Guidelines, in that the percentage of the Heilongjiang Shares proposed to be disposed of to each of the Purchasers, being Mr. Jiang and Shanghai Pengxin, is higher than 5%, the Company and the Purchasers are confident that confirmation from the Shanghai Stock Exchange in relation to the signing of the Disposal Agreements could be obtained. The Company understands and has confirmed with the management of Heilongjiang Interchina, that apart from the 2021 Guidelines, there are no other regulatory restrictions the Company has to address in relation to the Disposal. In the unlikely event that the Group should fail to obtain the confirmation from the Shanghai Stock Exchange, the Company would continue to hold the Sale Shares and might seek out other disposal plans.

In considering the Disposal Agreements, we have principally reviewed and taken into account (i) the business strategy of the Group and the development of its securities investment business, including the investment performance of the Sale Shares; (ii) the business and development of Heilongjiang Interchina; and (iii) the general outlook of the water utilities industry in the PRC.

3.1 Business strategy of the Group and the development of securities investment segment

Based on the 2021 Annual Report and 2022 Annual Report, we note that during the past two years, the Group did not make any new securities investment nor carry any financing operation. The total value of securities investment of the Group amounted to approximately HK\$578.4 million, HK\$720.3 million and HK\$667.9 million as at 31 March 2020, 2021 and 2022, respectively. Save for the Sale Shares, there are no other securities investment held by the Group. Such business did not contribute any revenue to the Group, unlike other business of the Group namely property investment operation, hotel operation and agricultural operation which have been consistently generating

considerable level of revenue during the past years. We understand from the Company that the Group has been reviewing its investment strategy from time to time and closely monitoring the market change, and will explore the possibility of realising its investment in Heilongjiang Interchina to enhance its working capital if necessary and when timing is appropriate. Following the Disposal, the Company will cease the operation of securities investment business. As advised by the management of the Company, the Group will cautiously monitor the market situation and evaluate any potential business opportunities with long-term returns in order to enhance the Shareholders' value.

In accordance with the Group's accounting principles, financial assets at fair value through profit or loss are stated at fair value at the end of each financial reporting period. The Group's investment in the Heilongjiang Shares has been adversely affecting the Group's profitability. Notwithstanding the trading price per Heilongjiang Share surged to RMB11.19 on 4 June 2015, based on our research conducted from the public domain, the trading price per Heilongjiang Share has been on an overall downtrend in recent years, during which the trading price of Heilongjiang Share displayed a notable decline from the highest of RMB7.41 per Heilongjiang Share on 6 September 2016 to the lowest of RMB2.02 per Heilongjiang Share on 4 February 2020, representing a maximum decrease of approximately 72.7% during the period. The trading price of the Heilongjiang Share has then been trading around the lower bound of the aforesaid range since 2020. Due to the continuous decrease in the trading price of Heilongjiang Shares, the Group has been recognising relatively substantial amount of unrealised loss for its investment in the Heilongjiang Shares. In the past five years, the Group had recognised aggregate unrealised net loss of approximately HK\$907,897,000 arising on change in fair value of the Sale Shares, representing approximately 39.8% of the aggregate losses of approximately HK\$2,283,671,000 for the past five years since 2018. Other than the unrealised gain from the Heilongjiang Shares recognised for the year ended 31 March 2021, we note that the Company recognised unrealised losses arising from the Heilongjiang Shares which contributed as to approximately 42.3%, 53.0%, 53.5% and 28.9% among the corresponding losses of the Group for the years ended 31 March 2018, 2019, 2020 and 2022 respectively. No dividend income has been received by the Group from its investment in the Sale Shares.

Use of proceeds

Pursuant to the Disposal Agreements, the parties agreed that the Consideration be made payable by way of set-off of the Existing Loan, being the loan owing from Interchina Tianjin to Shanghai Pengxin which is non-interest bearing, unsecured and repayable on demand. After Completion, the Existing Loan will be fully paid off and the Group shall no longer owe Shanghai Pengxin any amount. The net proceeds from the Disposal (not including any tax payment) amounted to RMB576,700,000 (equivalent to approximately HK\$677,623,000). The majority part of the net proceeds will be used by the Group to set-off against the Existing Loan upon Completion and the remaining as general working capital. As such, the Disposal represents an opportunity for the Group to realise its investment in Heilongjiang Interchina at a gain while avoiding any future recognition of further potential unrealised losses, and at the same time reduce the Group's debt level upon set-off of the Existing Loan by the Consideration. We further

learnt that as at 31 July 2022, other than the Existing Loan, the Group had outstanding other borrowings of approximately HK\$266,000,000 denominated in HK\$ and/or obtained in Hong Kong, repayable at the beginning of September 2023. The Existing Loan constituted all borrowings of the Group denominated in RMB and/or obtained in the PRC as at 31 July 2022.

Having considered (i) the Consideration of RMB577,373,750 (equivalent to approximately HK\$678,414,000) is higher than that of the 2021 Disposal of RMB534,184,375 (equivalent to approximately HK\$627,667,000); (ii) the Disposal would bring upon an estimated gain on Disposal (exclusive of transaction costs and tax) of approximately RMB36,370,000 (equivalent to approximately HK\$42,735,000) (whereupon the 2021 Disposal would have brought upon an estimated loss on disposal of approximately HK\$76,694,000 as set out in the Company's circular dated 26 July 2021); (iii) the Group's unaudited consolidated liabilities could be reduced by approximately HK\$629,863,000 from approximately HK\$895,863,000 as at 31 July 2022 to approximately HK\$266,000,000; and (iv) a net cash inflow of approximately RMB41,320,000 (equivalent to approximately HK\$48,551,000), being the remaining Consideration after set-off of the Existing Loan (whereupon upon settlement of the 2021 Disposal consideration (also by way of set-off against loan due to the 2021 Disposal Purchasers), the Group would have still been indebted to Shanghai Pengxin in the amount of RMB249,368,958.34 (equivalent to approximately HK\$293,009,000)), we concur with the Directors' view that conducting the Disposal at this material time is in the interest of the Company and the Independent Shareholders as a whole.

3.2 Development of Heilongjiang Interchina's business

As noted from the annual report of Heilongjiang Interchina for the year ended 31 December 2021, revenue from the sewage water treatment and water supply segments in aggregate accounted for approximately 64.4% of the total revenue of Heilongjiang Interchina for the year ended 31 December 2021. We note that a number of project companies that were engaged in sewage treatment and water supply operations had been disposed of by Heilongjiang Interchina from 2018 to 2021. As a result, the aggregate daily wastewater and water treatment capacity of Heilongjiang Interchina have significantly decreased from approximately 1,050,000 tonnes on 31 December 2017 to approximately 513,000 tonnes on 31 December 2021, by approximately 537,000 tonnes or 51.1% over the years. Such reduction in daily processing capacity has negatively affected the operating income and financial performance of Heilongjiang Interchina. Taking into consideration the Adjusted Loss (as described in the above section headed "2. Background and financial information on Heilongjiang Interchina"), the Heilongjiang Interchina Group had been recording consecutive losses in recent years and up to the first quarter of 2022. Moreover, as noted from the profit warning announcement of Heilongjiang Interchina dated 14 July 2022, Heilongjiang Interchina expected to record a loss attributable to shareholders for the six months ended 30 June 2022 against the profit attributable to shareholders for the previous corresponding period.

While it is noted that Heilongjiang Interchina intended to undergo some strategic investments to diversify its business and has proposed to enter into two material acquisitions as disclosed in the announcement of Heilongjiang Interchina on 28 July 2020 and 23 March 2022, such acquisitions were subsequently terminated respectively. We also noted that Heilongjiang Interchina has begun to invest in the nursery business in 2020, which recorded a share of loss for the year ended 31 December 2020. We note that Heilongjiang Interchina has divested such investment in late 2021. Save for the aforesaid, we were not aware of other investments announced by Heilongjiang Interchina as at the Latest Practicable Date.

3.3 Outlook of the water utilities industry in the PRC

For our analysis purpose, we have also made reference to the general outlook of the water utilities industry in the PRC in which Heilongjiang Interchina has been operating in. Based on our research conducted from the public domain, the development of water utilities industry in the PRC is becoming more challenging given the more stringent regulations and the keen competitions in recent years. According to the “China’s Progress Report on Implementation of the 2030 Agenda for Sustainable Development (2019)” (<https://www.fmprc.gov.cn/>) published by the Ministry of Foreign Affairs of the PRC, China has achieved water safety in both urban and rural areas and the condition of drinking water has significantly improved. The penetration ratios of centralised water supply and tap water in rural areas under the water safety consolidation projects have increased from 82% and 76%, to 86% and 81%, respectively, primarily resulted from stricter regulatory measures on the water utilities industry imposed by the PRC government with a view to promote an orderly development of the industry. Among the industry guidelines, the “three red lines” being the controlling development and utilisation of water resources, water usage efficiency and pollution discharge in different water function zones have been strictly monitored. On the other hand, we have also made reference to the historical trend of water supply and related indicators in the PRC from 2016 to 2020, being the latest available statistics as published from official sources, as follows:

	2016	2017	2018	2019	2020
Total urban water supply (million of cubic meters)	58,069.1	59,375.9	61,462.4	62,830.1	62,954.2
Total annual sewage treatment capacity (million cubic meters)	44,879.4	46,549.1	49,761.3	53,692.8	55,727.8
— Sewage treatment plants (million cubic meters)	43,131.2	45,289.5	48,647.7	52,585.0	54,722.8
— Other sewage treatment facilities (million cubic meters)	1,748.3	1,259.6	1,113.5	1,107.8	1,005.1
Annual sewage discharged (million cubic meters)	48,030.5	49,239.0	52,112.5	55,464.7	57,136.3
Urban sewage treatment rate (<i>Note 1</i>)	93.4%	94.5%	95.5%	96.8%	97.5%
Treatment rate of sewage treatment plant (<i>Note 2</i>)	92.0%	92.0%	93.4%	94.8%	95.8%

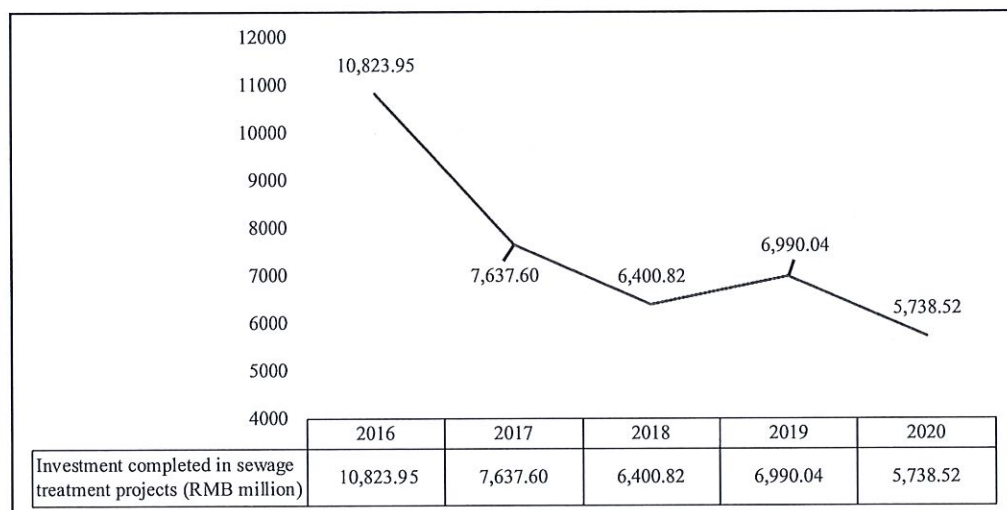
Source: National Bureau of Statistics (<https://data.stats.gov.cn>) and Ministry of Housing and Urban-Rural Development (<http://www.mohurd.gov.cn>)

Notes:

1. Urban sewage treatment rate was computed by dividing the total annual sewage treatment capacity by annual sewage discharged.
2. Treatment rate of sewage treatment plant was computed by dividing the annual sewage treatment capacity of wastewater treatment plants by annual sewage discharged.

As shown in the table above, the level of the urban water supply was relatively stable from 2016 to 2020 with a moderate growth. It is also notable that the urban sewage treatment rate and treatment rate of sewage treatment plant maintained at a generally high level with a narrow yearly growth rate.

Set out below is a summary of investment on sewage treatment projects from 2016 to 2020 in the PRC:



Source: National Bureau of Statistics (<https://data.stats.gov.cn>) and Ministry of Housing and Urban-Rural Development (<http://www.mohurd.gov.cn>)

As shown above, the investment completed in sewage treatment projects exhibited an overall downward trend from 2016 to 2020. Such slowdown in investment may indicate a potentially saturated market of the sewage treatment industry in the PRC.

In view of the above and considering that (i) the trading price of the Heilongjiang Shares has been fluctuating but on an overall downward trend in the past five years, leading to the recognition of consecutive aggregate unrealised losses arising from the investment of the Heilongjiang Shares by the Group; (ii) the challenging operating environment of the water utilities industry in the PRC faced by Heilongjiang Interchina as a private enterprise in view of the potentially saturated market, while the Disposal represents an opportunity for the Group to unlock its investment at a price above the average investment cost of approximately RMB1.09 per Heilongjiang Share to reallocate its resources and efforts to support and develop

other businesses which have more revenue-generating potential; and (iii) the Consideration would be applied to set off the Existing Loan which would accordingly reduce the liabilities and improve the gearing ratio of the Group, we are of the view that the entering into of the Disposal Agreements and the transactions contemplated thereunder are in line with the business strategy of the Group and in the interests of the Company and the Independent Shareholders as a whole.

4. Principal terms of the Disposal Agreements

Pursuant to the Disposal Agreements, (i) Interchina Tianjin has conditionally agreed to sell and Mr. Jiang has conditionally agreed to acquire 100,000,000 Sale Shares at an aggregate consideration of RMB254,000,000 (equivalent to approximately HK\$298,450,000); (ii) Interchina Tianjin has conditionally agreed to sell and Shanghai Pengxin has conditionally agreed to acquire 127,312,500 Sale Shares at an aggregate consideration of RMB323,373,750 (equivalent to approximately HK\$379,964,000). The aggregate Consideration for the Sale Shares amounted to RMB577,373,750 (equivalent to approximately HK\$678,414,000), representing RMB2.54 (equivalent to approximately HK\$2.98) per Sale Share. For further details of the principal terms of the Disposal Agreements, please refer to the section headed “The Disposal Agreements” in the Letter from the Board.

The Disposal Agreements are inter-conditional on each other. After signing of the Disposal Agreements, the Purchasers and Interchina Tianjin shall make an application to the Shanghai Stock Exchange in relation to the Disposal Agreements for approval in accordance with relevant rules and regulations, including the requirements under the 2021 Guidelines. In the event that the parties fail to fulfill any of the conditions precedent (including but not limited to the confirmation from the Shanghai Stock Exchange in relation to the signing of the Disposal Agreements), the Company will reevaluate to hold the Sale Shares or consider other disposal plans.

As disclosed in the Letter from the Board, Mr. Jiang, through Shanghai Pengxin, has been providing unsecured financial support to the Group. As at 30 September 2020, the Group was indebted to Shanghai Pengxin in the aggregate amount of RMB201,120,000 (equivalent to approximately HK\$236,316,000) that was non-interest bearing, unsecured and repayable on demand. As at 30 September 2020, the Group had recorded approximately HK\$658,966,000 as substantial other borrowings, of which HK\$626,966,000 was repayable within three months. In order to repay the matured loan, during the period from 1 October 2020 to 31 January 2021, the Group had further obtained a total advance of RMB582,433,333.34 (equivalent to approximately HK\$684,359,000) from Shanghai Pengxin, which was non-interest bearing, unsecured and repayable on demand. Thereafter as at 31 March 2021, the Group’s outstanding other borrowings had significantly reduced to HK\$33,000,000 while the amount due to Shanghai Pengxin increased to RMB783,553,333.34 (equivalent to approximately HK\$920,675,000). During the year ended 31 March 2022, the Group repaid an aggregate of RMB238,000,000 (equivalent to approximately HK\$279,650,000) to Shanghai Pengxin. As at 31 March 2022, the outstanding principal amount due to Shanghai Pengxin was RMB545,553,333.34 (equivalent to approximately HK\$641,025,000) was non-interest bearing, unsecured and repayable on demand. During the period from 1 April 2022 to the date of the Disposal Agreements, the Group further repaid an aggregate amount of RMB9,500,000

(equivalent to approximately HK\$11,163,000) to Shanghai Pengxin. As at the Latest Practicable Date, the Group was indebted to Shanghai Pengxin in the aggregate amount of RMB536,053,333.34 (equivalent to approximately HK\$629,863,000) that was non-interest bearing, unsecured and repayable on demand (being the Existing Loan).

Given the Disposal was made to Shanghai Pengxin and its shareholder, the parties therefore agreed that the Consideration be made payable by way of set-off of the Existing Loan. After Completion, the Existing Loan is fully settled and the Group shall no longer owe Shanghai Pengxin any amount.

The Consideration of RMB2.54 (equivalent to approximately HK\$2.98) per Sale Share represents:

- (i) a discount of approximately 3.79% to the closing price of RMB2.64 (equivalent to approximately HK\$3.10) per Heilongjiang Share that are not subject to selling restrictions as quoted on the Shanghai Stock Exchange on 9 August 2022, being the date of the Disposal Agreements;
- (ii) the average closing price of RMB2.54 (equivalent to approximately HK\$2.98) per Heilongjiang Share that are not subject to selling restrictions as quoted on the Shanghai Stock Exchange for the last five consecutive trading days immediately prior to the date of the Disposal Agreements;
- (iii) a discount of approximately 2.46% to the average closing price of RMB2.604 (equivalent to approximately HK\$3.06) per Heilongjiang Share that are not subject to selling restrictions as quoted on the Shanghai Stock Exchange for the last ten consecutive trading days immediately prior to the date of the Disposal Agreements;
- (iv) a discount of approximately 3.79% to the average closing price of RMB2.64 (equivalent to approximately HK\$3.10) per Heilongjiang Share that are not subject to selling restrictions as quoted on the Shanghai Stock Exchange for the last 20 consecutive trading days immediately prior to the date of the Disposal Agreements;
- (v) a discount of approximately 14.48% to the closing price of RMB2.97 (equivalent to approximately HK\$3.49) per Heilongjiang Share that are not subject to selling restrictions as quoted on the Shanghai Stock Exchange as at the Latest Practicable Date;
- (vi) a premium of approximately 23.90% over the unaudited consolidated net asset value per Heilongjiang Share as at 31 March 2022 of approximately RMB2.05 (equivalent to approximately HK\$2.41) per Heilongjiang Share (computed by dividing the unaudited consolidated net asset value as at 31 March 2022 of approximately RMB3,314,508,000 (equivalent to approximately HK\$3,894,547,000) by the number of issued Heilongjiang Shares 1,613,781,103 as at the Latest Practicable Date); and

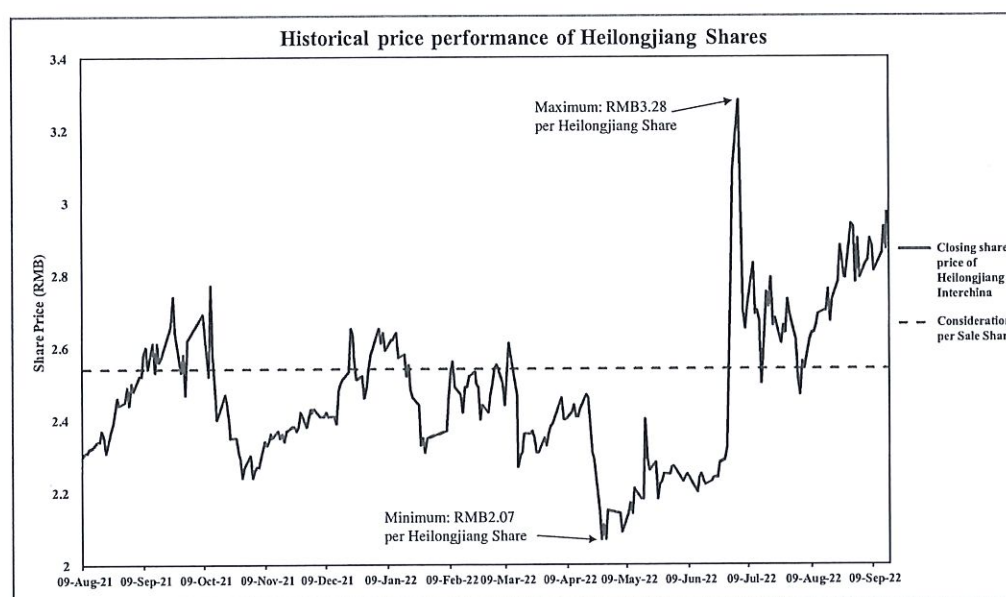
- (vii) a premium of approximately 24.51% over the unaudited consolidated net asset value per Heilongjiang Share attributable to the shareholders as at 31 March 2022 of approximately RMB2.04 (equivalent to approximately HK\$2.40) per Heilongjiang Share (computed by dividing the unaudited consolidated net asset value attributable to the shareholders as at 31 March 2022 of approximately RMB3,298,100,000 (equivalent to approximately HK\$3,875,268,000) by the number of issued Heilongjiang Shares of 1,613,781,103 as at the Latest Practicable Date).

Evaluation of the Consideration

In assessing the fairness and reasonableness of the Consideration, we have primarily considered the historical performance and trading liquidity of the Heilongjiang Shares during the one-year period before the date of the Disposal Agreements and up to the Latest Practicable Date (the “**Review Period**”). We considered that the Review Period covering the one-year period prior to the date of the Disposal Agreements is reasonable and represents a sufficient period of time to provide a general reference on the recent market performance of the Heilongjiang Shares for the purpose of our analysis.

4.1 Historical price performance

The chart below shows the historical movements of daily closing prices of the Heilongjiang Shares during the Review Period:



Source: Refinitiv Eikon

As illustrated in the above chart, the share price of Heilongjiang Shares was largely fluctuating during the Review Period, where the share price raised from around RMB2.30 per share at the beginning of the Review Period to RMB2.77 per share on 12 October 2021, and then exhibited a substantial drop and continue to fluctuate and bottomed at RMB2.07 per share on 26 April 2022 and 28 April 2022, before rebounding and reached the peak at RMB3.28 per share on 4 July 2022. We noted that during the period from August 2021 to April 2022, Heilongjiang Interchina has published various announcements relating to (i) refunds from capital reduction by Sailing Capital International Investment Fund (Shanghai) Company Limited which Heilongjiang Interchina invested in on 30 September 2021, 29 October 2021 and 26 March 2022; (ii) termination of joint investment with related parties on 25 December 2021 and 23 February 2022; (iii) publication of interim result of 2021 and the third quarterly result of 2021 on 20 August 2021 and 30 October 2021; and (iv) publication of annual result and the first quarterly result on 30 April 2022. It is notable that the share price of Heilongjiang Interchina surged significantly from RMB2.24 per share to RMB3.28 per share during the period from 23 June 2022 to 4 July 2022. The share price of Heilongjiang Shares continued to fluctuate with a downward trend up to the Latest Practicable Date. We note that Heilongjiang Interchina published an announcement on 1 July 2022 in response to such abnormal price fluctuation mainly regarding the status of the potential investment in a target company pursuant to a memorandum of understanding entered into by Heilongjiang Interchina which may or may not materialise, and the announcements on 29 June 2022 and 15 July 2022 in relation to the cancellation of 40,154,025 Heilongjiang Shares which was completed on 30 August 2022 pursuant to which the number of issued Heilongjiang Shares had been reduced from 1,653,935,128 to 1,613,781,103 Heilongjiang Shares (the “**Heilongjiang Share Cancellation**”). Save for the matters described in the aforesaid announcements, Heilongjiang Interchina was not aware of any other material information which may result in potential market speculation. It is noted that the Consideration of RMB2.54 per Sale Share is within the range of the maximum and minimum closing prices of the Heilongjiang Shares during the Review Period and represents (i) a premium of approximately 22.7% over the lowest closing price of RMB2.07 per share recorded on 26 April 2022 and 28 April 2022; (ii) a discount of approximately 22.6% to the highest price of RMB3.28 per share on 4 July 2022; and (iii) a premium of approximately 2.83% over the average closing price of RMB2.47 per Heilongjiang Share during the Review Period. The Heilongjiang Shares were traded below the Consideration of RMB2.54 per Sale Share for 180 trading days out of 270 trading days of the Review Period, representing more than 66% of the Review Period. The Heilongjiang Shares closed at RMB2.97 per share as at the Latest Practicable Date.

4.2 Trading liquidity of the Heilongjiang Shares

Set out below is the average daily trading volumes of the Heilongjiang Shares during the Review Period:

Table 1: Average daily trading volume of Heilongjiang Shares during the Review Period

	Number of trading days	Average daily trading volumes (Note 1)	Average daily trading volumes over the issued share capital of Heilongjiang Interchina (Note 2)
2021			
August (from 9 August 2021)	17	18,617,604.53	1.13%
September	20	28,677,010.65	1.73%
October	16	42,721,062.81	2.58%
November	22	13,287,374.59	0.80%
December	23	23,104,195.00	1.40%
2022			
January	19	23,316,437.26	1.41%
February	16	20,144,814.06	1.22%
March	23	28,007,194.00	1.69%
April	19	19,278,486.00	1.17%
May	19	18,839,313.21	1.14%
June	21	27,680,225.00	1.67%
July	21	115,671,183.29	6.99%
August (Note 3)	23	56,106,515.00	3.40%
September (up to and including the Latest Practicable Date) (Note 3)	11	56,748,658.09	3.52%

Source: Refinitiv Eikon

Notes:

1. Computed by dividing the monthly trading volumes of the Heilongjiang Shares by the total number of trading days of the respective corresponding months.
2. Computed by dividing the average daily trading volumes of the Heilongjiang Shares by the issued share capital of Heilongjiang Interchina of 1,653,935,128 Heilongjiang Shares.

3. As the Heilongjiang Share Cancellation had been completed on 30 August 2022, the number of issued shares had reduced from 1,653,935,128 Heilongjiang Shares to 1,613,781,103 Heilongjiang Shares thereafter. The average daily trading volumes over the issued share capital of Heilongjiang Interchina in August and September 2022 had been computed on the basis that the number of issued shares had been reduced after 30 August 2022.

As shown in Table 1 above, the average daily trading volumes of the Heilongjiang Shares represented approximately 0.80% to 6.99% of Heilongjiang Interchina's issued share capital during the Review Period. Excluding the higher average daily trading volume for the month of July 2022 due to the significantly higher number of shares traded in early July 2022 which is consistent with the abnormal price fluctuation during the relevant period as described in the above sub-section headed "4.1 Historical price performance" and therefore resulted in a relatively higher trading volume in July 2022 as compared to other months, the average daily trading volume of the Heilongjiang Shares only represented approximately 0.80% to 3.52% during the Review Period. Considering the generally thin trading liquidity of the Heilongjiang Shares and the substantial amount of the Sale Shares which represents more than 10% of Heilongjiang Interchina's issued share capital, it will be very unlikely for the Company to dispose of the Sale Shares in the market via the bulk-volume trading system of the Shanghai Stock Exchange without exerting downward pressure to the trading price of the Heilongjiang Shares. The Disposal therefore allows the Company to dispose of the Sale Shares in one lot at a fixed price to the Purchasers.

4.3 Comparable analysis

In assessing the fairness and reasonableness of the Consideration, we have also carried out an analysis by comparing peer companies listed in the PRC. Having considered the size of Heilongjiang Interchina, being the implied value of approximately RMB4.2 billion (based on the calculation below), and principal business activities that Heilongjiang Interchina engaged in (being the water supply, sewage water treatment and provision of environmental technology services), which contributed to more than 50% of its total revenue for the latest financial year, we have, on a best-effort basis, identified comparable companies based on the information extracted from public domain which are (i) listed on Shanghai Stock Exchange or Shenzhen Stock Exchange; (ii) established and principally operating in the PRC; (iii) principally engaged in water supply and/or drainage and sewage treatment business with more than 50% of the latest reported annual revenue generated from such business; and (iv) of market capitalisation between RMB1 billion and RMB5 billion as at the date of the Disposal Agreements. Based on our selection criteria, we have identified an exhaustive list of eight companies (the "**Comparable Companies**") which are considered representative and appropriate for comparison purpose as they are all engaged in the same or similar business sector in the PRC as Heilongjiang Interchina with comparable size and derived majority of their respective revenues from this business.

As Heilongjiang Interchina is loss-making for the year ended 31 December 2021, the price-to-earnings multiple is not applicable. Given that Heilongjiang Interchina is principally engaged in the water utilities industry which is typically capital intensive with significant reliance on fixed assets such as machinery and infrastructure built for business operations, we have considered the price-to-book (“P/B”) multiple which measures the book value of common owner equity, being an important indicator of shareholders’ value and a commonly used benchmark in assessing the valuation of capital intensive companies and therefore are considered appropriate for our analysis purpose. As such, we have computed and compared P/B ratios of Heilongjiang Interchina represented by the Consideration against P/B ratios of the Comparable Companies which are also engaged in the water utilities sector, details of which are set out in Table 2 below.

Table 2: Summary of the Comparable Companies

Listed issuer	Stock code	Market capitalisation (Note 1) (RMB)	P/B (Note 2) (times)
Bohai Water Industry Co Ltd	000605.SZ	2,225,275,766	1.1
Wuhan Sanzhen Industry Holding Co Ltd	600168.SH	4,456,097,666	0.9
Qian Jiang Water Resources Development Co Ltd	600283.SH	4,656,014,048	2.2
Guangxi Nanning Waterworks Co Ltd	601368.SH	4,900,500,577	1.1
Guangdong Liantai Environmental Protection Co Ltd	603797.SH	3,358,459,362	1.3
Fujian Haixia Environmental Protection Group Co Ltd	603817.SH	3,494,631,728	1.4
CSD Water Service Co Ltd	603903.SH	2,640,003,423	1.7
GreenTech Environmental Co Ltd	688466.SH	1,796,244,800	1.7
		Minimum	0.9
		Maximum	2.2
		Average	1.4
		Median	1.3
Heilongjiang Interchina	600187.SH	4,097,755,500	1.2

Sources: The official websites of the Shenzhen Stock Exchange (<http://www.szse.cn>) and the Shanghai Stock Exchange (<http://www.sse.com.cn/>)

Notes:

1. Computed based on the total issued share capital and the closing share price of the Comparable Companies as at the date of the Disposal Agreements. The market capitalisation of Heilongjiang Interchina implied by the Consideration was computed by dividing the Consideration of RMB577,373,750 by 14.09%, being the approximate equity interests to be disposed of.

2. Computed by dividing the respective market capitalisations of the Comparable Companies as at the date of the Disposal Agreements by the respective net asset values attributable to shareholders as at the respective latest financial period end of the Comparable Companies as extracted from the latest published financial reports of the Comparable Companies. The implied P/B ratio of Heilongjiang Interchina was computed by dividing the market capitalisation implied by the Consideration by the unaudited consolidated net asset value attributable to the shareholders as at 31 March 2022 of approximately RMB3,298,100,000.

As illustrated in Table 2 above, the P/B ratios of the Comparable Companies ranged from approximately 0.9 times to approximately 2.2 times, with an average P/B ratio of approximately 1.4 times and median P/B ratio of approximately 1.3 times. The implied P/B ratio of Heilongjiang Interchina of approximately 1.2 times is therefore within the range of, lower than or approximates to the average and median P/B ratios of the Comparable Companies.

Notwithstanding that the Consideration of RMB2.54 per Sale Share represents discounts of approximately 3.79%, 2.46% and 3.79% to the closing price per Heilongjiang Share on the date of the Disposal Agreements, the average closing price per Heilongjiang Shares for the last 10 and 20 consecutive trading days immediately prior to the date of the Disposal Agreements, respectively, in light of (i) the fact that the Consideration per Sale Share represents (a) a premium of approximately 2.83% over the average closing price per Heilongjiang Share during the Review Period; and (b) a premium of approximately 24.51% over the unaudited consolidated net asset value per Heilongjiang Share attributable to the shareholders as at 31 March 2022; (ii) the Heilongjiang Shares have been traded below the Consideration of RMB2.54 per Sale Share for majority of the trading days throughout the Review Period; (iii) the disposal of a substantial amount of Sale Shares via the bulk-volume trading system in the market would likely bring a negative impact on the trading price of Heilongjiang Shares given the thin trading liquidity, while the Purchasers are willing to take up the Sale Shares in one lot at a fixed price; (iv) the implied P/B ratio of Heilongjiang Interchina is within the range of the P/B ratios of the Comparable Companies; and (v) the overall downtrend of the trading price of Heilongjiang Shares during the past five years leading to the recognition of substantial unrealised loss of the Group which attributed to a majority of the aggregate losses of the Group for the past five years since 2018, details of which are set out in the sub-section headed “3.1 Business strategy of the Group and the development of securities investment segment” above, we are of the view that the Consideration per Sale Share is fair and reasonable.

5. Financial effects of the Disposal

The Group’s investment in the Sale Shares has been accounted for as financial assets at fair value through profit or loss. After the Disposal, the Group will cease to hold any interests in Heilongjiang Interchina.

(a) Earnings

Based on the audited carrying amount of the Sale Shares as at 31 March 2022 of RMB541,003,750 (equivalent to approximately HK\$635,679,000), and the Consideration of RMB577,373,750 (equivalent to approximately HK\$678,414,000), it is estimated that, as a result of the Disposal, the Group will recognise an estimated gain (exclusive of transaction costs and tax) of approximately RMB36,370,000 (equivalent to approximately HK\$42,735,000).

(b) Gearing

According to the 2022 Annual Report, the gearing ratio of the Group amounted to 30.8%, which was calculated as total outstanding borrowings divided by the total assets as at 31 March 2022. Since the Consideration will be used to set off against the Existing Loan on a dollar-for-dollar basis, the Disposal will reduce the total outstanding borrowings of the Group and, for illustrative purpose only, would have lowered the Group's gearing ratio to approximately 11.7% as at 31 March 2022.

(c) Net assets

As the investment in the Sale Shares is regarded as current assets of the Group, and the Disposal will turn such current assets into receivables from the Purchasers and hence, the Disposal would not have any material adverse effects on the total assets and total liabilities of the Group. Pursuant to the payment terms of the Disposal Agreements, part of the Consideration will be used to set off against the Existing Loan on a dollar-for-dollar basis, the total assets of the Group would be decreased by approximately RMB499,683,333 (equivalent to approximately HK\$587,128,000) and the total liabilities of the Group would be decreased by RMB536,053,333 (equivalent to approximately HK\$629,863,000). Accordingly, the net assets of the Group is expected to increase.

In view of (i) the overall negative impact brought upon by the Group's investment in the Sale Shares as evidenced by the consistent recognition of substantial unrealised loss arising from the investment due to the continual decrease in the trading price of Heilongjiang Shares in the past years; (ii) that the Company is expected to recognise a gain from the Disposal; and (iii) the expected improvement of gearing ratio of the Group from settlement of the Consideration against the Existing Loan, we are of the view that the entering into of the Disposal is fair and reasonable.

Independent Shareholders should note that the above expected financial effects are for illustrative purposes only and do not represent how the financial position of the Group will be upon the Completion.

RECOMMENDATIONS

Having considered the principal factors and reasons as discussed above, we are of the view that the entering into of the Disposal Agreements are in the ordinary and usual course of business of the Group, and the terms of the Disposal Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Disposal Agreements are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the relevant resolution(s) to be proposed at the GM to approve the Disposal Agreements and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited



Billy Tang
Managing Director

Mr. Billy Tang is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 20 years of experience in the accounting and investment banking profession.

In this letter, the currency conversion rate of RMB to HK\$ is set at the approximate rate of RMB1 = HK\$1.175 for illustrative purpose.