



# EVERCHINA INT'L HOLDINGS COMPANY LIMITED

潤中國際控股有限公司

(incorporated in Hong Kong with limited liability)

(Stock Code: 202)

*Executive Directors:*

Mr. Jiang Zhaobai  
Mr. Lam Cheung Shing, Richard  
Mr. Chen Yi, Ethan

*Registered office:*

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*Independent non-executive Directors:*

Mr. Ho Yiu Yue, Louis  
Mr. Ko Ming Tung, Edward  
Mr. Ng Ge Bun

23 September 2022

*To the Shareholders,*

Dear Sir or Madam,

**(1) MAJOR AND CONNECTED TRANSACTIONS;  
AND  
(2) NOTICE OF GENERAL MEETING**

**INTRODUCTION**

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).

As the applicable percentage ratios (as defined in 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 was 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 purpose of this circular is to provide you with, among other things, (i) details of the Disposal; (ii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iv) a notice of the GM; and (v) other information as required under the Listing Rules.

## THE DISPOSAL AGREEMENTS

Date: 9 August 2022 (after trading hours of the Stock Exchange)

	<b>Disposal Agreement 1</b>	<b>Disposal Agreement 2</b>
Parties:		
Vendor:	Interchina Tianjin, a wholly-owned subsidiary of the Company	Interchina Tianjin, a wholly-owned subsidiary of the Company
Purchaser:	Mr. Jiang	Shanghai Pengxin
	Mr. Jiang, an executive Director and the chairman of the Company, was interested in 1,742,300,000 Shares, representing approximately 23.89% of the issued Shares as at the Latest Practicable Date. Thus, he is regarded as a connected person of the Company under Chapter 14A of the Listing Rules.	As at the Latest Practicable Date, Shanghai Pengxin was owned as to 99% by Mr. Jiang and as to 1% by Mr. Jiang Lei, Mr. Jiang's brother. Shanghai Pengxin is an associate of Mr. Jiang and a connected person of the Company under Chapter 14A of the Listing Rules.
	As at the Latest Practicable Date, Mr. Jiang was also interested in 198,310,900 Heilongjiang Shares that are subject to selling restrictions, representing approximately 12.29% of Heilongjiang Interchina's issued share capital (including shares that are (i) not subject to selling restrictions; and (ii) subject to selling restrictions) as at the Latest Practicable Date.	According to Shanghai Pengxin, it is principally engaged in real estate development, investment in mining, agriculture and strategy investment.
		As at the Latest Practicable Date, Shanghai Pengxin did not hold any Shares or Heilongjiang Shares.

Assets to be disposed of:	100,000,000 Heilongjiang Shares, representing approximately 6.20% of Heilongjiang Interchina's issued share capital (including shares that are (i) not subject to selling restrictions; and (ii) subject to selling restrictions) as at the Latest Practicable Date.	127,312,500 Heilongjiang Shares, representing approximately 7.89% of Heilongjiang Interchina's issued share capital (including shares that are (i) not subject to selling restrictions; and (ii) subject to selling restrictions) as at the Latest Practicable Date.
Consideration:	RMB254,000,000 (equivalent to approximately HK\$298,450,000), representing RMB2.54 (equivalent to approximately HK\$2.98) per Sale Share	RMB323,373,750 (equivalent to approximately HK\$379,964,000), representing RMB2.54 (equivalent to approximately HK\$2.98) per Sale Share
Payment terms:	As at the Latest Practicable Date, Interchina Tianjin was indebted to Shanghai Pengxin in the aggregate amount of RMB536,053,333.34 (equivalent to approximately HK\$629,863,000) which is non-interest bearing, unsecured and repayable on demand (being the Existing Loan).	

Immediately before Completion, Shanghai Pengxin shall assign to Mr. Jiang part of the Existing Loan in the amount of RMB254,000,000 (equivalent to approximately HK\$298,450,000) at its face value ("Mr. Jiang Loan").

Upon Completion, the consideration of RMB254,000,000 (equivalent to approximately HK\$298,450,000) shall be set-off against Mr. Jiang Loan on a dollar-for-dollar basis.

Immediately after the assignment of Mr. Jiang Loan, Interchina Tianjin shall owe Shanghai Pengxin a total of RMB282,053,333.34 (equivalent to approximately HK\$331,413,000) ("Shanghai Pengxin Loan").

Upon Completion, (i) part of the consideration of RMB282,053,333.34 (equivalent to approximately HK\$331,413,000) shall be set-off against the the Shanghai Pengxin Loan on a dollar-for-dollar basis; and (ii) the remaining consideration of RMB41,320,416.66 (equivalent to approximately HK\$48,551,000) shall be paid in cash by Shanghai Pengxin.

After Completion, the Existing Loan will be fully paid off.

Save for the identity of each of the Purchasers, the number of Sale Shares to be acquired by each of the Purchasers, the consideration to be paid by each of the Purchasers and the payment terms as set out above, the principal terms of the Disposal Agreement 1 and the Disposal Agreement 2 are identical and are summarised below:

### **Conditions precedent**

Completion is subject to the fulfilment of the following conditions precedent:

- (1) the confirmation from the Shanghai Stock Exchange in relation to the signing of the Disposal Agreements having been obtained;
- (2) the passing of the necessary resolution(s) by the Shareholders (other than those who are required to abstain from voting under the Listing Rules) at the GM to approve the Disposal Agreements and the transactions contemplated thereunder;
- (3) all conditions precedent (save for the condition precedent relating to this condition precedent) of the Disposal Agreement 1 or the Disposal Agreement 2 (as the case may be) having been fulfilled; and
- (4) all obligations on the part of the Purchasers under the Disposal Agreements having been performed and there being no breach of the warranties and undertakings given by the Purchasers in the Disposal Agreements and such warranties and undertakings having remained not misleading in all material respects.

None of the above conditions precedent can be waived. In the event the conditions precedent above are not satisfied on or before 30 November 2022 or such other date as the Purchasers and Interchina Tianjin may agree in writing, the Disposal Agreements shall terminate automatically. Neither party to the Disposal Agreements shall have any obligations and liabilities towards each other thereunder save for any antecedent breaches of the terms hereof. In the event that the parties fail to fulfill any of the abovementioned conditions precedent (including but not limited to condition precedent (1) of the confirmation from the Shanghai Stock Exchange), the Company will re-evaluate to hold the Sale Shares or consider other disposal plans.

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.

As at the Latest Practicable Date, none of the above conditions precedent had been satisfied.

## **Basis of Consideration**

The Consideration, being an aggregate of RMB577,373,750 (equivalent to approximately HK\$678,414,000), representing RMB2.54 (equivalent to approximately HK\$2.98) per Sale Share, was determined after arm's length negotiations between Interchina Tianjin and the Purchasers with reference to the recent trading price of Heilongjiang Shares on the Shanghai Stock Exchange.

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

- (i) a discount of 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 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; and
- (iv) a premium of approximately 24.5% over the unaudited consolidated net asset value per Heilongjiang Share attributable to the Heilongjiang Interchina 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 Heilongjiang Interchina 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).

Notwithstanding 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 premium of approximately 24.5% over the unaudited consolidated net asset value per Heilongjiang Share attributable to the shareholders as at 31 March 2022; (ii) 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; and (iii) the overall downward trend 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, the Board is of the view that the Consideration per Sale Share is fair and reasonable.

The Board is of the view that the terms of the Disposal Agreements (including the Consideration) are fair and reasonable, which are in the interests of the Company and the Independent Shareholders as a whole.

### **Completion**

Completion of all Disposal Agreements shall take place simultaneously on the fifth working day (or such other date as may be agreed in writing by the parties thereto) after all conditions precedent have been satisfied. Unless simultaneous completion of all Disposal Agreements takes place, Interchina Tianjin is not under any obligation to sell the Sale Shares.

On the date of Completion, Interchina Tianjin shall make applications to CSDC in order to deliver the Sale Shares to the Purchasers through CSDC.

### **INFORMATION OF HEILONGJIANG INTERCHINA**

Heilongjiang Interchina is principally engaged in sewage water treatment, water supply and the provision of environmental technology services, and the Heilongjiang Shares that are not subject to selling restrictions are listed on the Shanghai Stock Exchange.

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 that are (i) not subject to selling restrictions; and (ii) subject to selling restrictions) as at the Latest Practicable Date.

As at the Latest Practicable Date, Mr. Jiang was also interested in 198,310,900 Heilongjiang Shares that are subject to selling restrictions, representing approximately 12.29% of Heilongjiang Interchina's issued share capital (including shares that are (i) not subject to selling restrictions; and (ii) subject to selling restrictions) as at the Latest Practicable Date. After Completion, the Group will cease to hold any interests in Heilongjiang Interchina.

Set out below is a summary of the consolidated financial information of Heilongjiang Interchina for the two years ended 31 December 2021 and for the three months ended 31 March 2022, which was prepared in accordance with PRC accounting standard:

	<b>For the year ended 31 December 2020</b>	<b>For the year ended 31 December 2021</b>	<b>For the three months ended 31 March 2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(unaudited)
Profit/(loss) before taxation	59,757	(116,659)	(7,182)
Profit/(loss) after taxation	27,292	(93,541)	(10,300)

The audited consolidated net assets of Heilongjiang Interchina as at 31 December 2020 and 2021 were approximately RMB3,445,691,000 (equivalent to approximately HK\$4,048,687,000) and RMB3,329,298,000 (equivalent to approximately HK\$3,911,925,000) respectively. As at 31 March 2022, the unaudited consolidated net assets of Heilongjiang Interchina amounted to approximately RMB3,314,508,000 (equivalent to approximately HK\$3,894,547,000).

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;
- (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;
- (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.

## **REASONS FOR THE DISPOSAL AND USE OF PROCEEDS**

The Company is an investment holding company. The Group is principally engaged in the property investment operation, hotel operation, agricultural operation and securities investment and financing operation.

### **The Group's initial acquisition of Heilongjiang Interchina**

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 March 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\$1.31) per Heilongjiang Share.

### **The 2021 Disposal**

Reference is made to the Company's (i) announcement dated 27 May 2021; (ii) circular dated 26 July 2021; (iii) announcement dated 1 November 2021; and (iv) announcement dated 29 November 2021, in relation to, among other matters, the major and connected transactions of the Company regarding the disposal (the "**2021 Disposal**") of the Sale Shares at the aggregate consideration of RMB534,184,375 (equivalent to approximately HK\$643,585,000), to (1) Mr. Jiang, (2) Mr. Jiang Lei (the brother of Mr. Jiang) and (3) Shanghai Pengxin (together, the "**2021 Disposal Purchasers**") pursuant to disposal agreements entered into by Interchina Tianjin and each of the 2021 Disposal Purchasers on 27 May 2021 (the "**2021 Disposal Agreements**"), the extension of the long stop date; and the termination of the 2021 Disposal.

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.

### Investment in the Sale Shares

The Group recognised its investment in the Sale Shares as financial assets at fair value through profit or loss. 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. As disclosed in the Group's annual report for the year ended 31 March 2022, the carrying value of the Sale Shares amounted to approximately RMB541,004,000 (equivalent to approximately HK\$667,906,000 as at 31 March 2022), representing approximately RMB2.38 (equivalent to approximately HK\$2.94 as at 31 March 2022) per Heilongjiang Share that was not subject to selling restrictions.

The investment in the Sale Shares has brought upon negative impact to the Group's performance. The highest trading price per Heilongjiang Share reached RMB11.19 (equivalent to approximately HK\$13.16) on 4 June 2015 while the lowest trading price per Heilongjiang Share was RMB2.01 (equivalent to approximately HK\$2.36) on 27 April 2022. Due to continuing decrease in the trading price of Heilongjiang Shares, the Group recognised a substantial unrealised loss for the investment. In the past five years, the Group 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. No dividend income has been received from the investment in the Sale Shares. Summary of the fair value (gain) or loss recognised from the Sale Shares is set out as follows:

<b>Financial Year</b>	<b>Fair value (gain) or loss recognised from the Sale Shares HK\$'000</b>	<b>Net loss of the Company HK\$'000</b>
2018	328,340	775,873
2019	320,912	604,960
2020	282,878	529,111
2021	(93,116)	135,091
2022	68,883	238,636
<b>Total</b>	<u>907,897</u>	<u>2,283,671</u>

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) as further detailed in the section headed “Financial effects” below (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 (being the latest practicable date for the purpose of the statement of indebtedness set out in Appendix I to this circular) 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)), the Directors consider conducting the Disposal at this material time is in the interest of the Company and the Independent Shareholders as a whole.

### **Business of Heilongjiang Interchina**

The Board further noted that the business of Heilongjiang Interchina has been weakening in recent years:

For the year ended 31 December 2019, Heilongjiang Interchina recorded total operating income of approximately RMB537,836,000 (equivalent to approximately HK\$631,957,000), profit for the year of approximately RMB22,445,000 (equivalent to approximately HK\$26,373,000) and net asset value of approximately RMB3,452,081,000 (equivalent to approximately HK\$4,056,195,000). Heilongjiang Interchina operated 13 sewage and water supply projects with aggregate daily processing capacity of approximately 1,050,000 tonnes.

For the year ended 31 December 2020, Heilongjiang Interchina recorded (i) total operating income of approximately RMB379,101,000 (equivalent to approximately HK\$445,444,000), representing a decrease of 29.5% as compared to the previous year, (ii) profit for the year of approximately RMB27,292,000 (equivalent to approximately HK\$32,068,000), representing an increase of 21.6% as compared to the previous year, and (iii) net asset value of approximately RMB3,445,691,000 (equivalent to approximately HK\$4,048,687,000), representing a decrease of 0.19% as compared to the previous year. Heilongjiang Interchina operated 8 sewage and water supply projects with aggregate daily processing capacity of approximately 513,400 tonnes. The decrease in operating income was mainly attributable to the decrease in the aggregate daily processing capacity as a result of disposal of a number of subsidiaries that were engaged in sewage and water supply projects during the year ended 31 December 2020. The increase in profit was mainly attributable to the gain on disposal of water supply and sewage treatment project companies of approximately RMB92,618,000 (equivalent to approximately HK\$108,826,000). If this one-off gain was

excluded from the profit, Heilongjiang Interchina would have record an adjusted loss of RMB65,326,000 (equivalent to approximately HK\$76,758,000) (the “Adjusted Loss of 2020”) for the year ended 31 December 2020.

For the year ended 31 December 2021, Heilongjiang Interchina recorded (i) total operating income of approximately RMB384,499,000 (equivalent to approximately HK\$451,786,000), representing an increase of 1.42% as compared to the previous year, (ii) loss for the year of approximately RMB93,541,000 (equivalent to approximately HK\$109,911,000), representing an increase of 43.2% as compared to the Adjusted Loss of 2020 and (iii) net asset value of approximately RMB3,329,298,000 (equivalent to approximately HK\$3,911,925,000), representing a decrease of 3.4% as compared to the previous year. Although the operating income for the year was comparable to the previous year, loss increased significantly as compared to the previous year. As noted in the annual report of Heilongjiang Interchina for the year ended 31 December 2021, the financial performance were mainly attributable to the factors mentioned below: (i) the decrease in volume of sewage treatment as compared to the previous year was because part of the sewage treatment plants were then under repair and maintenance; (ii) the gross profit margin of the environmental technology services went below expectation because there was decrease in income as well as increase in cost of services; and (3) the increase in impairment loss on receivables was generated from the disposal of certain equity interest of subsidiaries in prior years.

For the three months ended 31 March 2022, Heilongjiang Interchina recorded (i) operating income of approximately RMB81,372,000 (equivalent to approximately HK\$95,612,000), representing a decrease of 13.24% as compared to the same period of the previous year, (ii) loss for the period of approximately RMB10,300,000 (equivalent to approximately HK\$12,103,000), representing a decrease of 17.2% as compared to the same period of the previous year and (iii) net asset value of approximately RMB3,314,508,000 (equivalent to approximately HK\$3,894,547,000), representing a decrease of 0.4% as compared to RMB3,329,298,000 (equivalent to approximately HK\$3,911,925,000) as at the end of last year. As noted from the first quarterly report of Heilongjiang Interchina for the three months ended 31 March 2022, the loss included a non-operating income of approximately RMB18,143,000 (equivalent to approximately HK\$21,318,000) mainly representing a gain on disposal of non-current assets of approximately RMB18,007,000 (equivalent to approximately HK\$21,158,000). If this one-off gain was excluded from the loss, Heilongjiang Interchina would have recorded an adjusted loss of RMB28,307,000 (equivalent to approximately HK\$33,261,000) for the three months ended 31 March 2022, representing an increase of 127.5% as compared to the same period of last year.

During recent years, Heilongjiang Interchina had disposed of a number of subsidiaries that were engaged in sewage treatment and water supply operations. As a result, the aggregate daily treatment capacity decreased by approximately 537,000 tonnes or 51.1% from approximately 1,050,000 tonnes as at 31 December 2017 to approximately 513,000 tonnes as at 31 December 2021. At the same time, Heilongjiang Interchina had proposed two material acquisitions in February 2019 and 10 March 2022 respectively, for the purpose of diversifying

its business. However, as disclosed in the announcements of Heilongjiang Interchina on 28 July 2020 and on 23 March 2022, such acquisitions were subsequently terminated respectively.

The Company had considered disposing of the Sale Shares in the market via the bulk-volume trading system of the Shanghai Stock Exchange. However, in view of the average daily trading volume of Heilongjiang Shares on the Shanghai Stock Exchange versus the substantial number of Sale Shares (representing more than 10% of Heilongjiang Interchina's issued share capital) to be disposed of, the Company considered it would be highly unlikely for such disposal to be conducted in one lot or within just one single trading day. If the Group were to dispose of the Sale Shares in the market via different tranches, this would inevitably drive down the trading price of Heilongjiang Shares, which in turn would drive down the sale price of the Sale Shares. Given the Purchasers were willing to acquire the Sale Shares all in one lot at a fixed price with reference to the recent market price, the Company considered this is in the best interests of the Company and the Independent Shareholders as a whole.

### **The Existing Loan**

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\$11,116,000) 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 will be fully settled and the Group shall no longer owe Shanghai Pengxin any amount.

## **Use of proceeds**

The net proceeds (not including any tax payment) amount to RMB576,700,000 (equivalent to approximately HK\$677,623,000) from the Disposal. The majority 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 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. As (i) the Disposal is to be conducted in the PRC with the subject Sale Shares being shares listed on the Shanghai Stock Exchange; (ii) the proceeds from the Disposal is to be received in the PRC and denominated in RMB; and (iii) there being foreign exchange restrictions, the Directors consider it is reasonable to apply such proceeds from the Disposal to pay off liabilities incurred in the PRC denominated in RMB, being the Existing Loan.

Upon set-off of the Existing Loan, the gearing ratio of the Group would decrease from 30.08% to 11.7%, calculated with reference to the audited financial statements of the Group as at 31 March 2022, effectively reducing the financial risks of the Company.

Having considered (i) the Company's financial operation should not be solely dependent upon Mr. Jiang's financial support which is non-interest bearing and unsecured; and (ii) the Company currently does not have any material capital expenditure and/or transaction that warrant application of the proceeds from the Disposal, the Directors are of the view that the use of proceeds is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole.

The terms of the Disposal Agreements have been negotiated on an arm's length basis and the Disposal was entered into in the ordinary and usual course of business of the Group. The Directors consider the terms of the Disposal Agreements are fair and reasonable so far as the Independent Shareholders are concerned, and the Disposal is in the interests of the Company and the Independent Shareholders as a whole.

## **FINANCIAL EFFECTS**

After the Disposal, the Group will cease to hold any interests in Heilongjiang Interchina.

The excess of the Consideration over the net book value of the Sale Shares as at 31 March 2022 amounts to RMB36,370,000 (equivalent to approximately HK\$42,735,000).

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).

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. It is therefore considered that the Disposal would not have any material adverse effect on the total assets and total liabilities of the Group. However, pursuant to the payment terms of the Disposal Agreements, part of the Consideration will be used to set off against Mr. Jiang Loan and the Shanghai Pengxin Loan on a dollar-for-dollar basis, accordingly the total assets of the Group would be decreased by approximately RMB504,633,750 (equivalent to approximately HK\$592,945,000) and total liabilities of the Group would be decreased by RMB536,053,333.34 (equivalent to approximately HK\$629,863,000).

## **LISTING RULES IMPLICATIONS**

As the applicable percentage ratios (as defined in 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 was 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 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.

As Mr. Jiang is considered to have a material interest in the Disposal Agreements, he has abstained from voting at the Board meeting approving the Disposal. Save as disclosed above, no other Director has a material interest in the Disposal, and therefore no other Directors is required to abstain from voting on the Board resolution in relation to the Disposal.

As at the Latest Practicable Date, (i) Mr. Jiang was interested in 1,742,300,000 Shares, representing approximately 23.89% of the issued Shares; and (ii) Shanghai Pengxin did not hold any Shares. The Purchasers and their respective associates shall abstain from voting on the relevant resolutions in relation to the Disposal Agreements and the transactions contemplated thereunder at the GM.

Lego Corporate Finance Limited has been appointed as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the Disposal. The Independent Board Committee, comprising all the independent non-executive Directors, has been established by the Company to advise the Independent Shareholders as to whether the terms of the Disposal Agreements are fair and reasonable and whether the transactions contemplated thereunder are in the interests of the Company and the Independent Shareholders as a whole.

## **GM**

A notice convening the GM to be held at Unit 1506, 15/F., Capital Centre, 151 Gloucester Road, Wanchai, Hong Kong at 10:30 a.m. on Thursday, 20 October 2022 is set out on pages 57 to 59 of this circular.

A form of proxy for use by the Shareholders at the GM is enclosed with this circular. Whether or not you intend to attend and vote at the GM in person, you are requested to complete the form of proxy and return it to the office of the Company's share registrar, Tricor Tengis Limited, at 17th Floor, Far East Finance Centre, No.16 Harcourt Road, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the GM or any adjourned meeting. Completion and return of the form of proxy will not prevent you from attending and voting at the GM or any adjourned meeting should you so wish.

#### **CLOSURE OF REGISTER OF MEMBERS**

For the purpose of determining Shareholders who are entitled to attend and vote at the GM, the register of members of the Company will be closed from Monday, 17 October 2022 to Thursday, 20 October 2022, both dates inclusive, during which period, no transfer of shares of the Company will be registered. To be eligible to attend and vote at the GM, all transfer of Shares accompanied by the relevant share certificates must be deposited at the Company's share registrar, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong not later than 4:30 p.m. on Friday, 14 October 2022.

An announcement will be made by the Company after the GM regarding the results of the GM pursuant to the requirements of the Listing Rules.

#### **RECOMMENDATIONS**

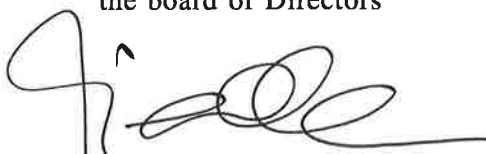
Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders set out on pages 21 to 22 of this circular and the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 23 to 46 of this circular in connection with the Disposal.

The Directors (including the Independent non-executive Directors whose view is expressed in the letter from the Independent Board Committee set out on pages 21 to 22 of this circular) consider the terms of the Disposal Agreements are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the GM to approve the Disposal Agreements and the transactions contemplated thereunder.

#### **FURTHER INFORMATION**

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

Yours faithfully,  
for and on behalf of  
the board of Directors



**Lam Cheung Shing, Richard**  
*Chief Executive Officer and Executive Director*

\* For identification only