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17 April 2025

To: the Independent Board Committee

Dear Sirs,

(1) PROPOSAL FOR THE PRIVATISATION OF CANVEST ENVIRONMENTAL PROTECTION GROUP COMPANY LIMITED BY THE OFFEROR BY WAY OF A SCHEME OF ARRANGEMENT (UNDER SECTION 86 OF THE COMPANIES ACT OF THE CAYMAN ISLANDS); (2) OPTION OFFER; (3) CONNECTED TRANSACTIONS AND SPECIAL DEALS IN RELATION TO THE LAND DISPOSAL, SMART PARKING DISPOSAL AND OFFICE BUILDING DISPOSAL; (4) SPECIAL DEAL IN RELATION TO THE ROLLOVER ARRANGEMENT; (5) SPECIAL DEAL IN RELATION TO AMENDMENTS TO EXCHANGEABLE BONDS TERMS AND CONDITIONS; AND (6) PROPOSED WITHDRAWAL OF LISTING OF THE COMPANY

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee of the Company in relation to (i) the Proposal, the Scheme and the Option Offer, (ii) the Rollover Arrangement, (iii) the Land Disposal, the Smart Parking Disposal and the Office Building Disposal; and (iv) the EB Amendments ((i), (ii), (iii) and (iv), collectively, the "**Transactions**"). Details of the Transactions are set out in the scheme document dated 17 April 2025 (the "**Scheme Document**") jointly issued by the Company and the Offeror, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Scheme Document unless the context otherwise requires.

On 22 July 2024 (after trading hours), the Offeror requested, subject to the satisfaction of the Pre-Conditions, the Board to put forward the Proposal to the Scheme Shareholders for the proposed privatisation of the Company by way of the Scheme under section 86 of the Companies Act. All of the Pre-Conditions have been satisfied on 17 March 2025. The Proposal, if approved and implemented, will result in the Company being taken private by the Offeror and the withdrawal of the listing of the Shares on the Stock Exchange. Under the Scheme, on the Effective Date, all Scheme Shares will be cancelled in consideration for which each Scheme Shareholder will receive from the Offeror the Cancellation Price of HK$4.90 (less the Dividend Adjustment (if any)) payable in cash by the Offeror.

As at the Latest Practicable Date, there were 250,000 outstanding Share Options granted under the Share Option Scheme, each relating to one Share with an exercise price of HK$4.39. All such Share Options were held by Ms. Loretta Lee, an executive Director. As part of the Proposal and upon despatch of the Scheme Document, the Offeror will send the Option Offer Letter to the Optionholder in connection with the Option Offer to cancel every outstanding Share Option, whether vested or unvested, in accordance with Rule 13 of the Takeovers Code. The Option Offer will be conditional upon the Scheme becoming effective. Any Share Options granted under the Share Option Scheme that are not exercised or (if applicable) cancelled pursuant to the acceptance of the Option Offer will, with agreement, lapse upon the Scheme becoming effective.

Also, as at the Latest Practicable Date, Best Approach held 1,335,615,837 Shares, representing approximately 54.70% of the total issued share capital of the Company. The Offeror proposes to allow Best Approach to retain the 176,388,620 Rollover Shares, representing approximately 7.22% of the total issued share capital of the Company after the Scheme becomes effective. As the Rollover Arrangement is not offered to all Shareholders, the Rollover Arrangement constitutes a special deal and requires the consent of the Executive under Rule 25 of the Takeovers Code conditional on: (i) the independent financial adviser to the Independent Board Committee confirming that the Rollover Arrangement is fair and reasonable; and (ii) the passing of an ordinary resolution by the Independent Shareholders at the EGM to approve the Rollover Arrangement.

On 22 July 2024 (after trading hours), the Company (through itself and its wholly-owned subsidiaries) entered into the sale and purchase agreements with Best Approach in relation to the Land Disposal, the Smart Parking Disposal and the Office Building Disposal respectively.

According to the letter from the Board (the "**Board Letter**") as contained in the Scheme Document, as at the Latest Practicable Date, Best Approach owned approximately 54.70% of the total issued share capital of the Company and is a connected person of the Company under the Listing Rules. Accordingly, each of the Land Disposal, the Smart Parking Disposal and the Office Building Disposal (collectively, the "**Disposals**") constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratios (as defined under the Listing Rules) in respect of each of the Land Disposal, the Smart Parking Disposal and the Office Building Disposal exceed 0.1% but are less than 5%, each of the Land Disposal, the Smart Parking Disposal and the Office Building Disposal is subject to the reporting and announcement requirements but exempt from the circular and independent shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules. However, as the Disposals are not capable of being extended to all Shareholders, the Disposals constitute special deals and require the consent of the Executive under Note 4 to Rule 25 of the Takeovers Code conditional on: (i) the independent financial adviser to the Independent Board Committee confirming that the terms of each of the Land Disposal, the Smart Parking Disposal and the Office Building Disposal are fair and reasonable; and (ii) the passing of an ordinary resolution by the Independent Shareholders at the EGM to approve each of the Land Disposal, the Smart Parking Disposal and the Office Building Disposal.

In addition, on 9 April 2025 (after trading hours), Best Approach, Shanghai Industrial and Ms. Loretta Lee entered into the Amendment Agreement in relation to the amendment of certain terms and conditions of the Exchangeable Bonds issued by Best Approach to Shanghai Industrial.

According to the Board Letter, the EB Amendments is an arrangement among Best Approach, Ms. Loretta Lee (each being a party acting in concert with the Offeror) and Shanghai Industrial (being an indirect substantial shareholder of the Company through its indirect wholly-owned subsidiary, True Victor), which is not capable of being extended to all Shareholders. As such, the EB Amendments constitute a special deal which require the consent of the Executive under Rule 25 of the Takeovers Code, and such consent, if granted, will be subject to satisfaction of the other EB Amendments Conditions (including (i) the independent financial adviser to the Independent Board Committee confirming that the terms of the EB Amendments are fair and reasonable; and (ii) the passing of an ordinary resolution by the EB Amendments Independent Shareholders at the EGM to approve the EB Amendments).

The Independent Board Committee, comprising Mr. Feng Jun, being the non-executive Director, and Professor Sha Zhenquan, Mr. Chan Kam Kwan Jason, Mr. Chung Kwok Nam and Mr. Lee Tsung Wah Jonathan, being the independent non-executive Directors, has been established to advise the Independent Shareholders in relation to the Proposal, the Scheme, the Rollover Arrangement and the Disposals, to advise the EB Amendments Independent Shareholders in relation to the EB Amendments, and to advise the Optionholder in relation to the Option Offer. We, Somerley Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in the same regard (the "**Engagement**").

As at the Latest Practicable Date, we were not aware of any relationships or interests between Somerley Capital Limited and the Company, the Offeror, Best Approach, Ms. Loretta Lee, Shanghai Industrial, True Victor or any party acting, or presumed to be acting, in concert with any of them that could be reasonably regarded as a hindrance to Somerley Capital Limited's independence to act as the Independent Financial Adviser in respect of the Engagement. During the past two years immediately preceding the Latest Practicable Date, save for the Engagement, there have been no other engagements between the Company and Somerley Capital Limited. Apart from normal professional fees paid or payable to us in connection with the Engagement, no arrangement exists whereby we will receive any fees or benefits from the Company.

We have relied on the information as contained in the Scheme Document and the information and facts supplied by the Company and the opinions expressed by management of the Company (the "**Management**"), the Directors and the Offeror (where applicable), and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects as at the Latest Practicable Date. We have further assumed that all representations contained or referred to in the Scheme Document were true at the time they were made and at the date of the Scheme Document, and will continue to be true until the end of the Offer Period. Should there be any material changes to our opinion after the Latest Practicable Date, the Independent Shareholders, the EB Amendments Independent Shareholders and the Optionholder would be notified as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have also sought and received confirmation from the Directors that all material relevant information has been supplied to us and that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach our opinion and give the advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. However, we have not conducted any independent investigation into the business and affairs of the Company, the Offeror, Best Approach, Ms. Loretta Lee, Shanghai Industrial or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them; nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation on the Transactions, we have taken into account the following principal factors and reasons:

A. Background and Principal Terms of the Proposal

The Scheme

Under the Scheme, as consideration for the cancellation of the Scheme Shares, the Offeror shall pay the Cancellation Price (less the Dividend Adjustment (as explained below) (if any)) in cash to the Scheme Shareholders for each Scheme Share held as at the Record Date on the following basis:

For each Scheme Share . . . . HK$4.90 in cash

As at the Latest Practicable Date, the Company had not declared any dividend which remains unpaid, and the Company does not intend to declare and/or pay any dividend before the Effective Date or the date on which the Scheme is not approved, or the Proposal otherwise lapses or is withdrawn (as the case may be).

If, after the Latest Practicable Date, any dividend and/or other distribution and/or other return of capital is announced, declared or paid in respect of the Shares, the Offeror reserves the right to reduce the Cancellation Price by all or any part of the amount or value of such dividend, distribution and/or, as the case may be, return of capital after consultation with the Executive (i.e. the Dividend Adjustment), in which case any reference in the Announcement, the Scheme Document or any other announcement or document to the Cancellation Price will be deemed to be a reference to the Cancellation Price as so reduced.

As at the Latest Practicable Date, (i) there were an aggregate of 10,100,000 Trustee Held Pool Shares held by the Share Award Trustee, which are unutilised under the Share Award Scheme; and (ii) no Share Award was granted or vested under the Share Award Scheme. All of the Trustee Held Pool Shares which are still held by the Share Award Trustee as of the Record Date shall form part of the Scheme Shares and be cancelled upon the Scheme becoming effective. Conditional upon the Scheme becoming effective, the Offeror shall pay to the Share Award Trustee an amount equivalent to the Cancellation Price multiplied by the number of the Trustee Held Pool Shares, which shall be paid by the Share Award Trustee to the Company after the Share Award Trustee receives such amount from the Offeror under the Scheme and upon the termination of the Share Award Scheme.

Pursuant to the rules of the Share Award Scheme, the Share Award Trustee shall not exercise the voting rights in respect of any Shares held by it under the Trust. Accordingly, all of the Trustee Held Pool Shares will not be voted at the Court Meeting and the EGM notwithstanding that such Shares form part of the Scheme Shares. During the Offer Period, the Company did not grant, does not intend to and will not grant any Share Awards and therefore the Share Award Trustee did not and will not further acquire Shares on market for the purpose of making grants under the Share Award Scheme.

For further details of the Scheme, please refer to Appendix IV to the Scheme Document.

The Option Offer

According to the Board Letter, as at the Latest Practicable Date, there were 250,000 outstanding Share Options granted under the Share Option Scheme, each relating to one Share with an exercise price of HK$4.39. As at the Latest Practicable Date, all the 250,000 Share Options were held by Ms. Loretta Lee and are exercisable.

The exercise of all the outstanding Share Options under the Share Option Scheme in full would result in the issue of 250,000 new Shares, representing approximately 0.01% of the total issued share capital of Company as at the Latest Practicable Date and approximately 0.01% of the total issued share capital of the Company as enlarged by the issue of such new Shares.

The Offeror is making the Option Offer to the Optionholder to cancel every outstanding Share Option, whether vested or unvested, in accordance with Rule 13 of the Takeovers Code. The Option Offer is conditional upon the Scheme becoming effective. Under the Option Offer, the Offeror is offering holder of the outstanding Share Options the Option Offer Price, which represents the "see-through" price (being the Cancellation Price of HK$4.90 minus the exercise price of HK$4.39) for each outstanding Share Option for the cancellation of every Share Option in accordance with Rule 13 of the Takeovers Code. Any Share Options granted under the Share Option Scheme that are not exercised or (if applicable) cancelled pursuant to the acceptance of the Option Offer will, with agreement, lapse upon the Scheme becoming effective. The Option Offer is being made by the Offeror on the following basis:

For each Option . . . . HK$0.51 in cash

For further details of the Option Offer, please refer to the Option Offer Letter as contained in Appendix VII to the Scheme Document.

The Irrevocable Undertaking

On 22 July 2024, Best Approach (as the covenanter), Mr. KM Lai and Ms. Loretta Lee (as Best Approach's guarantors) and the Offeror entered into the Irrevocable Undertaking, pursuant to which each of Best Approach, Mr. KM Lai and Ms. Loretta Lee irrevocably and unconditionally undertook to the Offeror, among other things, that it/he/she will, and will procure and ensure that during the term of the Irrevocable Undertaking:

(i) Best Approach and Ms. Loretta Lee will, so far as permitted under the relevant laws and regulations (including the Takeovers Code), exercise all voting rights attached to the IU Shares in favour of all the resolutions necessary to implement the Proposal and any such other matters in connection therewith at the EGM to be convened for the purposes of passing the necessary resolutions for, among others, the implementation of the Proposal, and not to (a) encourage, solicit or promote offers by any person other than the Offeror to acquire any Shares (whether by way of an offer, scheme of arrangement or otherwise), accept any other offers involving the IU Shares; (b) sell, transfer or otherwise dispose of or pledge the IU Shares (save for the Pledged Shares); (c) purchase or acquire any other Shares without the prior written consent of Offeror; or (d) take any actions which may adversely affect or impede giving effect to the Scheme; and

(ii) Ms. Loretta Lee will refrain from exercising the 250,000 Share Options held by her and will accept the Option Offer in respect of Share Options held by her.

On the assumption that (i) no further Shares will be issued before the Record Date, (ii) no Share Option is granted under the Share Option Scheme before the Record Date; and (iii) taking into account Ms. Loretta Lee will not exercise her Share Options and will accept the Option Offer, the amount of cash required to implement the Proposal and the Option Offer would be approximately HK$11,100,472,490.10 and HK$127,500, respectively, with a total amount of approximately HK$11,100,599,990.10.

B. The Scheme

1. *Information on the Group*

1.1 Business

The Company was incorporated in the Cayman Islands with limited liability and its Shares are listed on the Main Board of the Stock Exchange (stock code: 1381). The principal activity of the Company is investment holding. The principal activities of the Group are the operation and management of waste-to-energy plants, provision of environmental hygiene and related services and integrated smart city management services across several regions in the PRC.

1.2 Financial information

Financial performance

Set out below is a summary of the consolidated financial results of the Group for each of the year ended 31 December 2022 ("**FY2022**"), 31 December 2023 ("**FY2023**") and 31 December 2024 ("**FY2024**") as extracted from the annual reports of the Company for the year ended 31 December 2023 (the "**2023 Annual Report**") and 31 December 2024 (the "**2024 Annual Report**") respectively.

	For the year ended 31 December			
	2024	**2023**	**2023**	**2022**
		(Restated)		
	(note)	*(note)*		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Continuing operations				
Revenue	**4,198,331**	**4,960,197**	**4,980,160**	**8,246,645**
Cost of sales	(2,172,533)	(2,883,354)	(2,900,661)	(5,717,624)
Gross profit	**2,025,798**	**2,076,843**	**2,079,499**	**2,529,021**
Gross margin (%)	**48.25%**	**41.87%**	**41.76%**	**30.67%**

	For the year ended 31 December			
	2024	2023	2023	2022
		(Restated)		
	(note)	*(note)*		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)	(Audited)
General and administrative expenses	(654,264)	(632,476)	(658,312)	(580,010)
Other income	276,103	220,842	220,954	215,875
Other (losses)/gains, net	(44,973)	2,619	2,537	(108,163)
Operating profit	**1,602,664**	**1,667,828**	**1,644,678**	**2,056,723**
Interest income	19,018	18,081	18,133	14,500
Interest expense	(674,250)	(675,900)	(675,928)	(614,284)
Interest expense, net	(655,232)	(657,819)	(657,795)	(599,784)
Share of net profits of associates and joint ventures	158,236	153,889	153,390	189,934
Profit before income tax	**1,105,668**	**1,163,898**	**1,140,273**	**1,646,873**
Income tax expense	(167,331)	(120,562)	(119,746)	(287,410)
Profit from continuing operations	938,337	1,043,336	1,020,527	1,359,463
Discontinued operation				
Loss from discontinued operation	(58,338)	(22,809)	—	—
Profit for the year	**879,999**	**1,020,527**	**1,020,527**	**1,359,463**
Profit attributable to equity holders of the Company from continuing operations	923,593	1,022,459	1,001,264	1,332,805
Loss attributable to equity holders of the Company from discontinued operation	(57,455)	(21,195)	—	—
Net profit attributable to equity holders of the Company	**866,138**	**1,001,264**	**1,001,264**	**1,332,805**

Note: On 22 July 2024, the Group entered into a sale and purchase agreement with Best Approach in relation to the Smart Parking Disposal, pursuant to which the Group conditionally agreed to sell the entire 100% equity interests in Canvest Technology. The underlying assets to be disposed of are all smart car parking projects located in several regions in the PRC held by Canvest Technology through its subsidiaries and joint venture. The smart car parking business is classified as "discontinued operation" and its net results for FY2024 and the comparatives are presented separately as one-line item below net profit of the continuing operations.

i. Revenue

As advised by the Management, the Group's revenue is primarily generated from three key revenue streams: (i) operations, including power sales, waste treatment and environmental hygiene and other services income; (ii) project construction services; and (iii) finance income from service concession arrangements. Further details are set out below:

	For the year ended 31 December			
	2024	**2023** (Restated)	**2023**	**2022**
	HK$'000 (Audited)	*HK$'000* (Audited)	*HK$'000* (Audited)	*HK$'000* (Audited)
Revenue	**4,198,331**	**4,960,197**	**4,980,160**	**8,246,645**
— *Revenue from power sales*	*2,543,934*	*2,416,634*	*2,416,634*	*2,399,495*
— *Waste treatment fee*	*1,031,644*	*1,013,027*	*1,013,027*	*1,087,176*
— *Environmental hygiene and other services income*	*414,800*	*322,188*	*342,151*	*227,001*
— *Revenue from project construction services*	*22,451*	*1,018,266*	*1,018,266*	*4,360,980*
— *Finance income from service concession arrangements*	*185,502*	*190,082*	*190,082*	*171,993*

For FY2023 (without considering the effects of discontinued operations), the Group recorded revenue of approximately HK$4,980.16 million, representing a decrease by approximately 39.61% as compared to approximately HK$8,246.65 million for FY2022. As set out in the 2023 Annual Report, the decrease in total revenue was mainly due to a decrease of approximately 76.65% in revenue from the provision of construction services, which amounted to approximately HK$1,018.27 million for FY2023 as compared to approximately HK$4,360.98 million for FY2022. We also noted that among the amount of revenue from provision of construction services for FY2023 of approximately HK$1,018.27 million, a significant portion amounting to approximately HK$997.20 million had already been recorded during the first half of 2023. The decrease in revenue from the provision of construction services for FY2023 was mainly due to the reason that most of the waste-to-energy ("**WTE**") projects had been put into operation in 2022 and the WTE industry had entered a mature stage with fewer new projects, with only a few construction works being carried out during the second half of 2023.

On the other hand, the revenue relating to operations, including power sales, waste treatment and environmental hygiene and other services income (without considering the effects of discontinued operations), amounted to approximately HK$3,771.81 million in total for FY2023, which increased by approximately 1.57% as compared to approximately HK$3,713.67 million for FY2022. As advised by the Management, the increase in revenue relating to operations was mainly attributable to additional WTE projects and environmental hygiene projects under operation in FY2023. In addition, the finance income from service concession arrangements was approximately HK$190.08 million for FY2023, representing an increase by approximately 10.52% as compared to approximately HK$172.00 million for FY2022. As advised by the Management, the increase in finance income from service concession arrangements was mainly attributable to the increase in average balance of receivables under service concession arrangements in FY2023, which was because of the commencement of operation of certain WTE projects completed during FY2022 leading to a larger balance of receivables being accumulated under service concession arrangements.

For FY2024, the Group recorded revenue from continuing operations of approximately HK$4,198.33 million, representing a decrease of approximately 15.36% as compared to approximately HK$4,960.20 million for FY2023. According to the 2024 Annual Report, such decline in revenue was primarily due to the decrease in the Group's construction revenue during FY2024 as most of the Group's WTE projects are now in operation. Such decrease was partially offset by an increase in revenue related to operations, including power sales, waste treatment and environmental hygiene and other services income during FY2024. The revenue related to operations was approximately HK$3,990.38 million in total for FY2024, representing an increase of approximately 6.36% as compared to approximately HK$3,751.85 million for FY2023. As advised by the Management, such increase was mainly attributable to an increase in revenue generated from power sales (which was mainly due to increase in volume of waste treated) and the provision of environmental hygiene and other services (which was mainly due to additional environmental hygiene projects under operation in FY2024).

ii. Gross profit and gross profit margin

For FY2023, the gross profit of the Group (without considering the effects of discontinued operations) was approximately HK$2,079.50 million, representing a decrease of approximately 17.77% as compared to approximately HK$2,529.02 million for FY2022. According to the 2023 Annual Report, such decline in gross profit was primarily due to the decrease in revenue from project construction services. For FY2023, the gross profit margin of the Group (without considering the effects of discontinued operations) was approximately 41.76%, as compared to approximately 30.67% for FY2022, representing an increase by approximately 11.09 percentage points. As advised by the Management, the provision of project construction services have a lower gross profit margin as compared to other revenue streams, therefore, the reduction in construction projects in FY2023 led to the increase in gross profit margin.

For FY2024, the gross profit of the Group was approximately HK$2,025.80 million, representing a decrease of approximately 2.46% as compared to approximately HK$2,076.84 million for FY2023. As advised by the Management, such decrease in gross profit was mainly attributable to the decrease in revenue generated from the provision of construction services as discussed above. The gross profit margin of the Group increased from approximately 41.87% for FY2023 to approximately 48.25% for FY2024. According to the 2024 Annual Report, such increase in profit margin was primarily attributable to the increase in the share of power sales and waste treatment operations, which has a higher gross profit margin.

iii. General and administrative expenses

As set out in the 2023 Annual Report, the general and administrative expenses of the Group mainly comprise employee and related benefit expenses for administrative personnel, promotion, entertainment and travelling expenses, depreciation and amortisation, research and development expenses and office expenses. For FY2023, the general and administrative expenses of the Group (without considering the effects of discontinued operations) were approximately HK$658.31 million, representing an increase of approximately 13.50% from approximately HK$580.01 million for FY2022. According to the 2023 Annual Report and as advised by the Management, such increase was mainly attributable to (i) additional WTE projects under operation, leading to increase in administrative staff and the corresponding staff costs; and (ii) the increase in research and development expenses in technology and technological innovation for enhancing the Group's core competitiveness in the solid waste management industry.

For FY2024, the general and administrative expenses of the Group were approximately HK$654.26 million, representing an increase of approximately 3.44% from approximately HK$632.48 million for FY2023. According to the 2024 Annual Report, such increase was primarily due to the additional WTE projects under operation, and increase in research and development expenses for innovation and digitalization.

iv. Other income

According to the 2023 Annual Report and the 2024 Annual Report, other income of the Group primarily comprises (i) value-added tax ("**VAT**") refunds, (ii) sales of bottom ash and scrap materials, (iii) revenue from non-hazardous waste handling, and (iv) government subsidies. For FY2023, the Group recorded other income (without considering the effects of discontinued operations) of approximately HK$220.95 million, representing an increase of 2.35% from approximately HK$215.88 million for FY2022. According to the 2023 Annual Report, such increase was primarily due to an increase in sales of bottom ash and scrap materials of approximately HK$8.96 million, representing an increase of approximately 25.01% as compared to FY2022, partially offset by a decrease of approximately HK$1.45 million in government subsidies as compared to FY2023.

For FY2024, the Group recorded other income of approximately HK$276.10 million, representing an increase of approximately 25.02% as compared to approximately HK$220.84 million for FY2023. Such increase was primarily attributable to an increase in VAT refund of approximately HK$34.43 million due to the additional operating plants that were entitled to VAT refund.

v. Other (losses)/gains, net

For FY2023, the Group recorded other net gains (without considering the effects of discontinued operations) of approximately HK$2.54 million as compared to other net losses of approximately HK$108.16 million for FY2022. According to the 2023 Annual Report, such change was mainly due to (i) a reduction in the net exchange losses from approximately HK$108.15 million for FY2022 to approximately HK$9.25 million for FY2023, as a result of larger depreciation of RMB against Hong Kong in

FY2022 as compared to that in FY2023; and (ii) gains on disposal of property, plant and equipment for approximately HK$5.33 million for FY2023, as compared to nil for FY2022.

For FY2024, the Group's other net losses amounted to approximately HK$44.97 million, as compared to a gain of approximately HK$2.62 million for FY2023. According to the 2024 Annual Report, such change was mainly due to the increase in net exchange losses from approximately HK$9.25 million for FY2023 to approximately HK$53.45 million for FY2024. Such increase in net exchange losses was mainly due to an increase in offshore RMB-denominated outstanding balances due from group companies in FY2024 which RMB had depreciated against HKD during FY2024.

vi. Operating profit and net profit/loss

The Group's operating profit (without considering the effects of discontinued operations) amounted to approximately HK$1,644.68 million for FY2023, representing a decrease of approximately 20.03% as compared to approximately HK$2,056.72 million for FY2022. The Group recorded net profit (without considering the effects of discontinued operations) of approximately HK$1,020.53 million for FY2023 as compared to net profit of approximately HK$1,359.46 million for FY2022, representing a decrease of approximately 24.93%. The decrease in operating profit and net profit was mainly due to the fluctuations in income and expenses as explained above.

The Group's operating profit amounted to approximately HK$1,602.66 million for FY2024, representing a decrease of approximately 3.91% as compared to approximately HK$1,667.83 million for FY2023. The Group recorded net profit of approximately HK$880.00 million for FY2024 as compared to approximately HK$1,020.53 million for FY2023. The decrease in operating profit and net profit was mainly due to the fluctuations in income and expenses as explained above.

Financial position

Set out below is a summary of the consolidated financial position of the Group as at 31 December 2022, 31 December 2023 and 31 December 2024 as extracted from the 2023 Annual Report and the 2024 Annual Report respectively:

	As at 31 December		
	2024	**2023**	**2022**
	HK$'000	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)
Non-current assets	**20,681,936**	**22,115,092**	**21,341,396**
— Right of-use of assets	233,014	452,272	475,737
— Property, plant and equipment	1,486,687	1,574,824	1,158,951
— Intangible assets	14,256,874	15,015,890	14,569,667
— Interests in associates and joint ventures	1,467,697	1,595,903	1,461,723
— Deferred tax asset	—	2,335	—
— Long-term deposits and prepayments	239,842	336,326	432,445
— Receivables under service concession arrangements	2,997,822	3,137,542	3,242,873
Current assets	**5,699,693**	**4,960,064**	**4,478,785**
— Inventories	30,052	31,625	30,569
— Other receivables, deposits and prepayments	547,319	823,804	876,949
— Receivables under service concession arrangements	271,957	277,098	266,752
— Trade and bills receivables	2,594,599	1,828,593	1,316,320
— Restricted deposits	102,216	101,296	124,626
— Time deposits	—	—	22,500
— Cash and cash equivalents	1,806,734	1,897,648	1,809,883
— Assets classified as held-for-sale	346,816	—	31,186
Total assets	**26,381,629**	**27,075,156**	**25,820,181**
Current liabilities			
— Trade and other payables	1,769,311	2,306,402	2,014,727
— Current income tax liabilities	64,430	48,103	62,280
— Bank borrowings	5,322,985	2,448,179	1,743,809
— Lease liabilities	—	—	2,751
— Deferred government grants	12,032	12,294	12,473
— Liabilities relating to assets classified as held-for-sale	16,460	—	—

	As at 31 December		
	2024	2023	2022
	HK$'000	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)
Non-current liabilities			
— Bank borrowings	7,962,105	11,496,916	11,838,520
— Deferred income tax liabilities	859,051	908,020	941,508
— Deferred government grants	159,030	174,800	189,807
— Other non-current liabilities	14,306	11,765	10,400
Total liabilities	**16,179,710**	**17,406,479**	**16,816,275**
Net assets	**10,201,919**	**9,668,677**	**9,003,906**
Net assets attributable to equity holders of the Company ("NAV")	**9,847,209**	**9,298,523**	**8,703,034**
NAV per Share (HK$) *(Note)*	**4.04**	**3.81**	**3.57**

Note:

Figures of NAV per Share are calculated based on (i) the NAV; and (ii) the total issued Shares of the Company as at the respective time.

The Group recorded total assets of approximately HK$27,075.16 million as at 31 December 2023, which mainly included (i) approximately HK$15,015.89 million of intangible assets; (ii) approximately HK$1,828.59 million of trade and bill receivables; (iii) approximately HK$1,897.65 million of cash and cash equivalents; and (iv) approximately HK$3,414.64 million of receivables under service concession arrangements. The Group's total assets as at 31 December 2023 represented an increase of approximately 4.86% as compared to approximately HK$25,820.18 million as at 31 December 2022. Such increase was primarily due to the increase in property, plant and equipment and trade and bills receivables. According to the 2023 Annual Report, the increase in property, plant and equipment of approximately 35.88% as compared to that as at 31 December 2022 was mainly attributable to the increase in construction in progress. Also, as advised by the Management, the increase in trade and bills receivables of approximately 38.92% as compared to that as at 31 December 2022 was mainly attributable to the increase in waste treatment fee receivables as the local government's ability to pay had been hindered by the unfavourable macroeconomic factors. As at 31 December 2024, the Group recorded total assets of approximately HK$26,381.63 million, which mainly included (i) approximately HK$14,256.87 million of intangible assets; (ii) approximately HK$2,594.60 million of trade and bills receivables; (iii) approximately HK$1,806.73 million of cash and cash equivalents; and (iv) approximately HK$3,269.78 million of receivables under service concession arrangements. The Group's total assets as at 31 December 2024 represented a decrease of approximately 2.56% as compared to that as at 31 December 2023. Such decrease was primarily due to the decreases in intangible assets and other receivables, deposits and prepayments, while being partially offset by the increase in trade and bills receivables. According to the 2024 Annual Report, the decrease in intangible assets of approximately 5.05% as compared to that as at 31 December 2023 was mainly due to the amortisation of the concession rights. In addition, as advised by the Management, the decrease in other receivables, deposits and prepayments was primary due to utilisation of deductible input VAT. As advised by the Management, the increase in trade and bills receivables of approximately 41.89% as compared to that as at 31 December 2023 was mainly attributable to the increase in waste treatment fee receivables.

The Group recorded total liabilities of approximately HK$17,406.48 million as at 31 December 2023, which mainly included (i) approximately HK$13,945.10 million of bank borrowings; and (ii) approximately HK$2,306.40 million of trade and other payable. The Group's total liabilities as at 31 December 2023 represented an increase of approximately 3.51% as compared to approximately HK$16,816.28 million as at 31 December 2022. Such increase was primarily due to the increases in bank borrowings and trade and other payables. According to the 2023 Annual Report, the increase in bank borrowings of approximately 2.67% as compared to that as at 31 December 2022 was primary attributable to the increase in short-term unsecured revolving loan. According to the 2023 Annual Report, the increase in trade and other payables of approximately 14.48% as compared to that as at 31 December 2022 was primary attributable to the increase in accruals and other payables. As at 31 December 2024, the Group recorded total liabilities of approximately HK$16,179.71 million, which mainly included (i) approximately HK$13,285.09 million of bank borrowings; and (ii) approximately HK$1,769.31 million of trade and other payables. The Group's total liabilities as at 31 December 2024 represented a decrease of approximately 7.05% as compared to that as at 31 December 2023. Such decrease was primarily due to a decrease in trade and other payables. According to the 2024 Annual Report, the decrease in trade and other payables of approximately 23.29% as compared to 31 December 2023 was mainly due to the decrease in construction payables.

The Group recorded a NAV of approximately HK$9,298.52 million, equivalent to approximately HK$3.81 per Share, as at 31 December 2023, representing an increase of approximately 6.84% as compared to approximately HK$8,703.03 million, equivalent to approximately HK$3.57 per Share, as at 31 December 2022. The Group recorded a NAV of approximately HK$9,847.21 million as at 31 December 2024, representing an increase of approximately 5.90% as compared to that as at 31 December 2023. The Group's NAV equal to approximately HK$4.04 per Share as at 31 December 2024. The aforesaid increases in NAV were mainly due to the profit generated in corresponding periods.

Dividends

Set out below is a summary of the dividends declared by the Company and the dividend yield analysis:

	Year ended 31 December		
	2024	**2023**	**2022**
Dividend per Share	**Nil**	**HK$0.081**	**HK$0.109**
Closing price of the Share at year end *(Note 1)*	**HK$4.59**	**HK$3.73**	**HK$4.21**
Dividend yield *(Note 2)*	**Not applicable**	**2.17%**	**2.59%**

Notes:

1. Sourced from Bloomberg.

2. Figures of dividend yield are calculated by dividing the dividend per Share with the closing price of the Share at the end of the corresponding year.

During FY2022, the Company declared a dividend of HK$0.109 per Share, whereas during FY2023, the Company declared a dividend of HK$0.081 per Share. For FY2024, the Board did not recommend the payment of a final dividend.

The dividend yields were approximately 2.17% and 2.59% for each of FY2023 and FY2022 respectively. According to Bloomberg terminal, the 12-month dividend yields of Hang Seng Index as at 31 December 2023 and 2022 were approximately 3.37% and 4.06% respectively. The dividend yields of the Company were lower than that of the Hang Seng Index. The Proposal provides an opportunity for the Shareholders to exit at the Cancellation Price and re-invest into other companies with a higher dividend yields if they so wish.

As set out in the section headed "2. TERMS OF THE PROPOSAL" of the Scheme Document, as at the Latest Practicable Date, the Company has not declared any dividend which remains unpaid, and the Company does not intend to declare and/or pay any dividend before the Effective Date or the date on which the Scheme is not approved, or the Proposal otherwise lapses or is withdrawn (as the case may be).

Material change and the Disposals

According to the section headed "4. MATERIAL CHANGE" of Appendix I to the Scheme Document, the Directors have confirmed that, there had been no material change in the financial or trading position or outlook of the Group since 31 December 2024, being the date to which the latest published audited consolidated financial statements of the Company were made up, and up to the Latest Practicable Date.

The Company has entered into the sale and purchase agreements with Best Approach in relation to the Disposals, namely the Land Disposal, the Smart Parking Disposal and the Office Building Disposal. The considerations for the Disposals were determined based on, among other things, valuation reports of the subject assets in respect of the Disposals, and such valuation reports are attached as Appendix II to the Scheme Document. According to the section headed "5. ADJUSTED NET ASSET VALUE" of Appendix I to the Scheme Document, the unaudited adjusted NAV (the "Adjusted NAV"), based on the audited NAV as at 31 December 2024 as adjusted by the market value of the assets and properties of the Group as at 28 February 2025 as set out in the valuation reports as contained in Appendix II to the Scheme Document, amounted to approximately HK$9,839.5 million, representing a decrease of approximately 0.08% as compared to the audited NAV as at 31 December 2024. Based on a total of 2,439,541,169 issued Shares as at 31 December 2024, the Adjusted NAV per Share is approximately HK$4.03.

1.3 Outlook

The primary activities of the Group involve the operation and management of waste-to-energy plants, the provision of environmental hygiene and related services, and integrated smart city management services across various regions in the PRC.

According to the 2023 Annual Report, the uncertainty of the macro-environment exerts certain pressure on the development of the environmental protection industry, which faces challenges such as market saturation and slowing growth. We have reviewed the "14th Five-Year Plan — Urban Domestic Waste Classification and Treatment Facilities Development Plan" (「十四五 — 城鎮生活垃圾分類和處理設施發展規劃」) (the "**Development Plan**") published by the National Development and Reform Commission of the PRC in May 2021, and noted that the PRC government intends to ramp up efforts to bolster local waste incineration facilities. This initiative is expected to escalate competition within the waste management industry in China. According to the Development Plan, the PRC government targets the urban domestic waste incineration treatment capacity to account for about 65% by the end of 2025. In addition, according to the 2023 China Urban Construction Status Bulletin (「2023年中國城市建設狀況公報」) published by the Ministry of Housing and the Urban-Rural Development in October 2024, we noted that the incineration treatment capacity has reached 75.3% by the end of 2023 which surpassed the expectations, and it indicated that the WTE industry in China is approaching saturation. According to the Development Plan, the PRC government also committed and will implement a comprehensive domestic waste classification system to ensure a significant reduction in waste generation, coupled with the efficient utilization of resources during the period from the year of 2021 to the year of 2025. As set out in the Development Plan, the PRC government expects to elevate the national urban domestic waste resource utilization rate to approximately 60%. This strategic objective is expected to result in a moderation of the growth trajectory for waste management enterprises operating in the PRC. As set out in the 2024 Annual Report, in order to respond to the challenges from the structural transformation of the WTE market, the Group has actively responded to the change from construction-oriented to operations and service-oriented, showcasing its strong resilience and flexibility.

Furthermore, as mentioned in the 2024 Annual Report, as far as the WTE incineration market is concerned, it has shifted from an incremental market to an existing market due to prevailing saturation. The number and scale of tender opening projects further decreased during the year of 2024. During the year of 2024, the PRC government continued to pursue green transformation in its economy and society. Guided by the goals of "Carbon Peak" and "Carbon Neutral", it has made coordinated efforts to cut carbon emissions, reduce pollution, expand green development, and pursue economic growth. In addition, series of policies including the "Opinions on Accelerating the Construction of a Waste Recycling System" (「關於加快構建廢棄物循環利用體系的意見」), put emphasis on the circular economy principles of reduce, reuse and resource recovery in expediting the establishment of a waste recycling system across all sectors and fields..

Overall, the Management is of the view, and we concur, that the WTE industry in the PRC is facing challenges such as market saturation and slowing growth, mainly due to macroeconomic factors and increasing competition driven by government initiatives. In addition, the PRC government aims for significant improvements in waste management and resource utilization over the coming years, which may impact the growth trajectories of the Group. Overall, the waste management industry is dealing with a challenging environment marked by regulatory shifts and competitive pressures.

2. *Information on the Offeror and intention of the Offeror*

Information on the Offeror

To provide Independent Shareholders with basic information on the background of the Offeror (i.e. Grandblue), set out below is the key information on the Offeror as disclosed in the explanatory memorandum (the "**Explanatory Memorandum**") as contained in the Scheme Document:

Grandblue is an investment holding company incorporated in Hong Kong with limited liability. As at the Latest Practicable Date, save for the Proposal, Grandblue had not engaged in any business activities. Grandblue is an indirect wholly owned subsidiary of Grandblue Environment, a joint stock limited company established in the PRC with limited liability, the shares of which are listed on the Shanghai Stock Exchange (Shanghai stock code: 600323).

Grandblue Environment is focused on the environmental service industry. Its business scope covers solid waste treatment, energy, water supply and drainage. As at the Latest Practicable Date, Grandblue Environment did not have any controlling shareholder (as defined in the Listing Rules). As at 31 December 2024, based on the public information available to Grandblue, the five largest shareholders of Grandblue Environment are Foshan Nanhai Water Supply Group Co., Ltd.* (佛山市南海供水集團有限公司), Nanhai Holding, SDIC Power Holdings Co., Ltd.* (國投電力控股股份有限公司), Foshan Nanhai Urban Construction Investment Co., Ltd.* (佛山市南海城市建設投資有限公司) and National Social Security Fund 101 Portfolio* (全國社保基金一零一組合), holding approximately 17.15%, 15.62%, 8.10%, 4.96% and 1.75% of the equity interest in Grandblue Environment, respectively.

Nanhai Hengjian Fund is a limited partnership enterprise established in the PRC. Nanhai Hengjian Fund is held as to 50%, 49.95% and 0.05% by Nanhai Holding, Guangdong Advanced Manufacturing Industry and Hengjian Asset Management, respectively. As at the Latest Practicable Date, the general partner of Nanhai Hengjian Fund is Hengjian Asset Management. Hengjian Asset Management is wholly owned by Hengjian Holding. Hengjian Holding is wholly owned by the Guangdong Province SASAC. As at the Latest Practicable Date, the limited partners of Nanhai Hengjian Fund are Nanhai Holding and Guangdong Advanced Manufacturing Industry. Nanhai Holding is 90% and 10% owned by Foshan Nanhai State-owned Assets Supervision and Administration Bureau and Department of Finance of Guangdong Province, respectively. Guangdong Advanced Manufacturing Industry is an indirect wholly-owned fund of Hengjian Holding. The principal business of Nanhai Hengjian Fund is investment management.

As at the Latest Practicable Date, the Offeror, Nanhai Hengjian Fund and their respective ultimate beneficial owners did not hold any Shares or other securities of the Company and are third parties independent of the Company and its connected persons (other than that Best Approach, Ms. Loretta Lee, Mr. CT Lai and Mr. KM Lai are Offeror Concert Parties).

Intention of the Offeror

Set out below is the intention in respect of Offeror as disclosed in the Explanatory Memorandum:

It is the intention of the Offeror that the Group will continue to carry on its current business. The Offeror does not have plans to make any major changes to the current business or operations of the Group (including any redeployment of fixed assets of the Group). The Offeror does not intend to make any significant changes to the continued employment of the employees of the Group, except for staff movements which are part of normal conduct of business. The Offeror will continue to monitor all business opportunities in relation to the Group as they arise from time to time.

3. Reasons for and benefits of the Proposal

(i) The Proposal will create synergy and enhance competitive strengths of the Company and will allow the Company more flexibility in implementing its long-term growth strategy

As mentioned in the Explanatory Memorandum, Grandblue Environment is a listed company in the PRC focused on the environmental service industry. Its business scope covers solid waste treatment, energy, water supply and drainage. Grandblue Environment is one of the top 10 waste incineration power generation enterprises in terms of grid-connection installed capacity, waste disposal capacity and power generation capacity in the PRC and one of the top 10 influential enterprises in solid waste treatment in the PRC. The Group is a leading provider of integrated urban environmental protection and sanitation solutions, principally engaged in the operation and management of WTE plants, provision of environmental hygiene and related services and integrated smart city management services. As at 31 December 2023, the Group had secured 36 WTE projects with a total daily municipal solid waste processing capacity of approximately 54,540 tonnes and the operating daily municipal solid waste processing capacity reached approximately 43,690 tonnes.

As the Company and Grandblue Environment are both engaging in the environmental protection related business with a high degree of synergy in business area, business model, operation management and control capabilities, the Offeror believes that the Proposal will be able to create synergy and enhance competitive strengths and facilitate the Offeror to become a leading enterprise in solid waste treatment and WTE business through horizontal industrial integration after the completion of the Proposal.

As mentioned in the Explanatory Memorandum, the implementation of the Proposal will permit the Offeror and the Company to make strategic decisions focused on long-term growth and benefits, free from regulatory constraints from the perspective of managing a publicly listed company, the pressure of market expectations and share price fluctuations which arise from being a publicly listed company.

(ii) *An opportunity for Scheme Shareholders to realise their investment at a premium*

During the period from 1 July 2022, being approximately two years prior to the date of the Rule 3.7 Announcement, up to and including the Last Trading Day, the lowest and highest closing prices per Share on the Stock Exchange were HK$3.47 and HK$5.24, respectively, with a simple average closing price of approximately HK$4.13. The Cancellation Price of HK$4.90 per Share is higher than closing prices of the Shares in 493 out of 505 trading days during the aforesaid period, and is also higher than the NAV per Share of the Company as at 31 December 2023 and 31 December 2024 and the Adjusted NAV per Share (detailed analysis is set out in the section headed "4. The Cancellation Price" in this letter). According to the Explanatory Memorandum, the Offeror believes that the Proposal provides the Scheme Shareholders an attractive exit premium and opportunity to realise their investment in return for cash, and redeploy into other investment opportunities that they may be considered more attractive.

4. The Cancellation Price

As mentioned in the Explanatory Memorandum, the Cancellation Price has been determined on a commercial basis after taking into account, among others, the Offeror's view of the Group's business and future prospects, the recent and historical trading prices of the Shares on the Stock Exchange and the financial performance of the Group, with reference to other similar privatisation transactions in Hong Kong in recent years.

4.1 Cancellation Price comparison

The Cancellation Price of HK$4.90 per Scheme Share represents:

(i) a premium of approximately 20.69% over the closing price of HK$4.06 per Share as quoted on the Stock Exchange on the last trading day prior to the publication of the Rule 3.7 Announcement;

(ii) a premium of approximately 16.95% over the average closing price of approximately HK$4.19 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the last trading day prior to the publication of the Rule 3.7 Announcement;

(iii) a premium of approximately 20.85% over the average closing price of approximately HK$4.05 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the last trading day prior to the publication of the Rule 3.7 Announcement;

(iv) a premium of approximately 21.77% over the average closing price of approximately HK$4.02 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the last trading day prior to the publication of the Rule 3.7 Announcement;

(v) a premium of approximately 21.78% over the average closing price of approximately HK$4.02 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the last trading day prior to the publication of the Rule 3.7 Announcement;

(vi) a premium of approximately 21.27% over the average closing price of approximately HK$4.04 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the last trading day prior to the publication of the Rule 3.7 Announcement;

(vii) premium of approximately 23.50% over the average closing price of approximately HK$3.97 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the last trading day prior to the publication of the Rule 3.7 Announcement;

(viii) a premium of approximately 11.62% over the closing price of HK$4.39 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ix) a premium of approximately 13.03% over the average closing price of approximately HK$4.34 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;

(x) a premium of approximately 16.90% over the average closing price of approximately HK$4.19 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;

(xi) a premium of approximately 19.77% over the average closing price of approximately HK$4.09 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;

(xii) a premium of approximately 21.00% over the average closing price of approximately HK$4.05 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;

(xiii) a premium of approximately 19.96% over the average closing price of approximately HK$4.08 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;

(xiv) a premium of approximately 23.08% over the average closing price of approximately HK$3.98 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day;

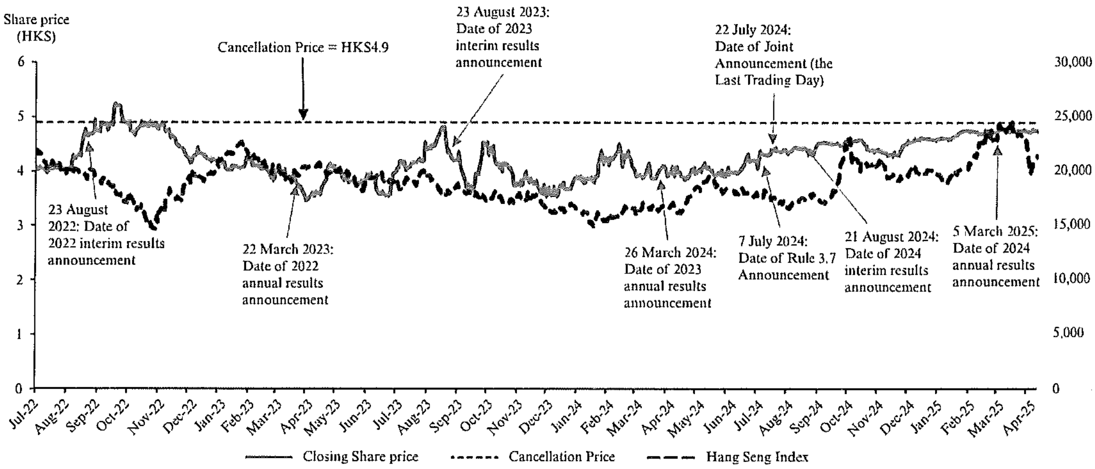
(xv) a premium of approximately 3.16% over the closing price of HK$4.75 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(xvi) a premium of approximately 21.29% over the audited NAV per Share of approximately HK$4.04 as at 31 December 2024, as mentioned in the sub-section headed "1.2 Financial information" of this letter above; and

(xvii) a premium of approximately 21.59% over the Adjusted NAV per Share of approximately HK$4.03 as mentioned in the sub-section headed "1.2 Financial information" of this letter above.

4.2 Historical price performance of the Shares

Set out below is a chart of the closing prices of the Shares during the period from 1 July 2022, being approximately two years prior to the date of the Rule 3.7 Announcement, up to and including the Latest Practicable Date (the "**Review Period**") to illustrate the general trend of movement of the closing prices of the Shares. We consider that an approximate two-year period represents an appropriate period of time to provide a general overview on the recent market performance of the Shares, and is fair and reasonable. The comparison of the Share price performance with Hang Seng Index and the Cancellation Price is as follows:



Source: Bloomberg

During the Review Period and up to the Last Trading Day, the Share price closed in a range of HK$3.47 and HK$5.24 per Share, with a simple average closing price of approximately HK$4.13 per Share. Approximately 97% of the trading days during the Review Period (up to the Last Trading Day) saw a closing Share price below the Cancellation Price of HK$4.9 per Share.

From July 2022 to mid-September 2022, the closing Share price demonstrated a general upward trend, and the performance of the Shares was generally in an opposite direction with the Hang Seng Index during the same period. On 23 August 2022, the Company published its interim results announcement for the six months ended 30 June 2022, showing an increase in profit of the Company of approximately 26.37% as compared to the six months ended 30 June 2021. Subsequently, the closing Share price increased from HK$4.70 per Share on 23 August 2022 to HK$5.24 per Share on 21 September 2022, reaching the highest closing Share price during the Review Period.

During the period from 26 September 2022 to 17 March 2023, the closing Share prices dropped from HK$5.21 per Share to HK$3.86 per Share, representing a decrease in closing Share prices of approximately 25.91% during this period. On 22 March 2023 (before the afternoon trading session), the Company released its annual results for the year ended 31 December 2022. The results indicated an increase in profit of the Group of approximately 3.05% as compared to the same period in 2021. The closing Share price rose to HK$3.95 per Share on 22 March 2023 from HK$3.89 per Share on the previous trading day (i.e., 21 March 2023). Since then, the closing Share prices exhibited a general downward trend, and closed at HK$3.47 per Share on 4 April 2023, reaching the trough of the Review Period. After reaching the trough, the closing Share price fluctuated between HK$3.55 and HK4.13 during the period from 14 April 2023 to 28 June 2023.

From early July to mid-August 2023, the closing Share price rose significantly from HK$4 per Share on 3 July 2023 to HK$4.82 per Share on 21 August 2023, representing an increase in closing Share price of approximately 20.50% during this period. Before the afternoon trading session on 23 August 2023, the Company published its interim results announcement for the six months ended 30 June 2023. The results showed a decrease in profit of the Group of approximately 18.18% as compared to same period in 2022. Subsequently, the closing Share price dropped from HK$4.56 per Share on 23 August 2023 to HK$3.7 per Share on 13 September 2023. Afterward, the closing Share price rebounded and reached HK$4.30 per Share on 5 October 2023. After the rebound, the closing Share price experienced a decline, and reached HK$3.54 on 14 December 2023.

From early January 2024 to end of February 2024, the closing Share price fluctuated between HK$3.79 per Share and HK$4.50 per Share. On 26 March 2024, the Company published its 2023 annual results announcement, and indicated a decrease in profit of the Group of approximately 24.93% as compared to the same period in 2022. Subsequent to the publication of the 2023 annual results announcement, the closing Share price went up from HK$3.89 per Share on 25 March 2024 to HK$3.95 per Share on 26 March 2024. Since then, the closing Share price was generally on an upward trend and closed at HK$4.2 on 28 June 2024.

Prior to the trading session on 8 July 2024, the Company published the Rule 3.7 Announcement. The closing Share price rose to HK$4.38 per Share on 8 July 2024 from HK$4.06 on the previous trading day. Subsequently, between the date of the Rule 3.7 Announcement and the Last Trading Day, the closing Share price fluctuated between HK$4.30 per Share and HK$4.41 per Share. After the trading hours on 22 July 2024, the Company published the Announcement, and the closing Share price rose to HK$4.44 per Share on 23 July 2024.

During the period after the publication of the Announcement and until the Latest Practicable Date, the closing Shares price ranged between HK$4.28 per Share and HK$4.79 per Share, and closed at HK$4.75 per Share as at the Latest Practicable Date.

Based on the above, in summary, we note that the closing Share prices were not stable and fluctuated during the Review Period, particularly from July 2022 to early September 2023. Following this period and until the publication of the Rule 3.7 Announcement, the movement of the closing Share prices was generally in line with the Hang Seng Index. It is also worth mentioning that approximately 97% of the trading days during the Review Period (up to the Last Trading Day) recorded closing Share prices below the Cancellation Price of HK$4.9 per Share. Our opinion on the fairness and reasonableness of the Cancellation Price is set out in the sub-section headed "4.6 Our View on the Cancellation Price" below.

4.3 Trading liquidity analysis

Set out below are the monthly total trading volumes of the Shares and the percentages of the monthly total trading volume to the total issued Shares and the total issued Shares in public float of the Company during the Review Period:

	Monthly total trading volume of the Shares *(Note 1)*	**Approximate percentage of the monthly total trading volume of the Shares to the total issued Shares** *(Note 2)*	**Approximate percentage of the monthly total trading volume of the Shares to the total issued Shares in public float** *(Note 3)*
2022			
July	13,754,096	0.56%	2.19%
August	59,992,262	2.46%	9.54%
September	85,047,794	3.49%	13.53%
October	29,278,093	1.20%	4.66%
November	23,726,300	0.97%	3.77%
December	39,621,300	1.62%	6.30%
2023			
January	13,923,607	0.57%	2.21%
February	22,523,982	0.92%	3.58%
March	13,327,896	0.55%	2.12%
April	12,711,130	0.52%	2.02%
May	5,400,683	0.22%	0.86%
June	16,987,447	0.70%	2.70%
July	21,087,694	0.86%	3.35%
August	46,858,637	1.92%	7.45%
September	14,490,209	0.59%	2.30%
October	16,840,869	0.69%	2.68%
November	49,899,811	2.05%	7.94%

	Monthly total trading volume of the Shares *(Note 1)*	Approximate percentage of the monthly total trading volume of the Shares to the total issued Shares *(Note 2)*	Approximate percentage of the monthly total trading volume of the Shares to the total issued Shares in public float *(Note 3)*
December	18,671,913	0.77%	2.97%
2024			
January	15,844,675	0.65%	2.52%
February	11,375,769	0.47%	1.81%
March	20,443,000	0.84%	3.25%
April	17,649,757	0.72%	2.81%
May	36,677,414	1.50%	5.83%
June	34,687,000	1.42%	5.52%
July	148,454,775	6.09%	23.61%
August	67,840,000	2.78%	10.79%
September	79,648,550	3.26%	12.67%
October	69,677,470	2.86%	11.08%
November	51,507,026	2.11%	8.19%
December	32,617,640	1.34%	5.19%
2025			
January	40,227,842	1.65%	6.40%
February	37,580,082	1.54%	5.98%
March	60,613,092	2.48%	9.64%
From 1 April 2025 to the Latest Practicable Date	29,412,184	1.20%	4.67%

Notes:

1. Source: Bloomberg.

2. the calculation is based on the monthly total trading volume of the Shares divided by the total issued Share of the Company at the end of each month (or at the Latest Practicable Date for April 2025).

3. the calculation is based on the monthly total trading volume of the Shares divided by the total issued Shares in public float at the end of each month (or at the Latest Practicable Date for April 2025).

4. Figures are subject to rounding.

From the table above, in general, we note that the monthly total trading volume of the Shares (as a percentage to the total issued Shares in public float) was not consistently active during the Review Period. During the Review Period and up to June 2024 (i.e., prior to the publication of the Rule 3.7 Announcement and the Announcement), the percentages of monthly total trading volumes of the Shares to the total issued Shares in public float were below 10%, except for the month of September 2022. In September 2022, it is noted that trading with relatively large volume took place on 14 September 2022 and the total trading volume on 14 September 2022 was approximately 9.23 million Shares, which was substantially higher than the average daily trading volume of approximately 2.06 million Shares during the Review Period.

The percentages of monthly total trading volumes of the Shares to the total issued Shares in public float was approximately 23.61% for July 2024. Also, the trading volumes around the Rule 3.7 Announcement and the Announcement were significant, suggesting they were affected by the Proposal. Subsequently to the publication of the Announcement, the percentages of monthly total trading volumes of the Shares to the total issued Shares in public float maintained above 10% during July to October 2024, which was possibly due to the Proposal.

Given the thin trading volume in the Shares in general during the Review Period, if the Shareholders wish to sell a significant number of Shares within a short period in the market, it is possible that a downward pressure would be exerted on the market price of the Shares. The higher level of trading volume subsequent to the Rule 3.7 Announcement and the Announcement may not, in our view, be sustained if the Proposal lapses. Therefore, the Cancellation Price provides an opportunity for the Shareholders, especially those holding a large block of Shares, to dispose of their holdings at a fixed cash price if they so wish.

4.4 Peer comparison analysis

According to the 2024 Annual Report, the Group's operations are generally operated and managed as a single segment, which is WTE project construction and operation in the PRC. To further evaluate the fairness and reasonableness of the Cancellation Price, we have conducted a research on the companies listed on the Stock Exchange which generated 50% or more of their revenue from WTE businesses in the PRC, based on information available from their latest published annual reports as at the date immediately preceding the Latest Practicable Date (the "**Comparable Companies**"). In assessing the fairness and reasonableness of the Cancellation Price, we have compared between the price-to-earnings ratio ("**P/E Ratio**") and the price-to-book ratio ("**P/B Ratio**") of the Group implied by the Cancellation Price against those of the Comparable Companies. The P/E Ratio and the P/B Ratio are the commonly adopted trading multiple analyses to assess the valuation of companies/shares. In addition, as the P/E Ratio and P/B Ratio take into account the profitability and asset-scale of the Comparable Companies which engage in similar lines of businesses (i.e. the WTE businesses) as the Company, we consider such ratios appropriate for the purpose of our analysis of the Cancellation Price. The Comparable Companies set out in the table below represent an exhaustive list of companies comparable to the Group based on the above criteria. The comparison of the P/E Ratio and the P/B Ratio of the Scheme with those of the Comparable Companies is set out below.

Comparable Companies	**Market Capitalisation (HK$ million)** *(Note 1)*	**P/E Ratio** *(Note 1)*	**P/B Ratio** *(Note 1)*
China Conch Venture Holdings Ltd (586.HK)	13,458.2	6.09	0.27
Beijing Enterprises Environment Group Limited (154.HK)	585.1	1.88	0.16
Dynagreen Environmental Protection Group Cp., Ltd. (1330.HK)	9,136.3	8.80	0.64
	Maximum	8.80	0.64
	Minimum	1.88	0.16
	Average	5.59	0.36
The Scheme	11,963.6 *(Note 2)*	12.89 *(Note 3)*	1.21 *(Note 4)*

Notes:

1. The market capitalisation, P/E Ratio and P/B Ratio of the Comparable Companies are sourced from Bloomberg as at the Latest Practicable Date.

2. The implied market capitalisation of the Scheme is calculated by multiplying the Cancellation Price with the total issued Shares of 2,441,541,169 as at the Latest Practicable Date.

3. The implied P/E Ratio of the Scheme is calculated by dividing the Cancellation Price with the earnings per Share (as calculated by the Group's net profit attributable to the Shareholders for FY2024 divided by the total issued Shares as at 31 December 2024).

4. The implied P/B Ratio of the Scheme is calculated by dividing the Cancellation Price with the audited consolidated NAV per Share of approximately HK$4.04 as at 31 December 2024 as set out in the sub-section headed "1.2 Financial information" of this letter.

5. Figures are subject to rounding.

As set out in the table above, the P/E Ratios of the Comparable Companies range from approximately 1.88 times to approximately 8.80 times, with an average of approximately 5.59 times. The implied P/E Ratio of the Cancellation Price of approximately 12.9 times is higher than those of the Comparable Companies.

The P/B Ratios of the Comparable Companies range from approximately 0.16 times to approximately 0.64 times, with an average of approximately 0.36 times. The implied P/B Ratio of the Cancellation Price of approximately 1.21 times is higher than those of the Comparable Companies.

4.5 Privatisation precedents

As part of the assessment of the fairness and reasonableness of the Cancellation Price, we have searched for the completed privatisation proposals of companies listed on the Main Board of the Stock Exchange, excluding privatisation proposals without cash alternative consideration, that were announced since 1 July 2023 (the "**Privatisation Precedents**"), which is approximately one year before the Rule 3.7 Announcement. We consider that the selection period of approximately one year is fair and reasonable to include an appropriate number of recent Privatisation Precedents for the purpose of our analysis of the Cancellation Price. Despite that the businesses, operations and prospects of the Company are not the same as the subject companies of the Privatisation Precedents, the Privatisation Precedents can demonstrate the market practices of similar transactions during the selection period and we consider that such information is meaningful for the purpose of our analysis.

The table below illustrates the premia/discounts represented by the cancellation/offer price over/to the respective last trading day and respective last 5 days, 10 days, 30 days and 60 days average share prices in respect of such privatisation proposals. The Privatisation Precedents set out below provide a comparison between the cancellation/offer price and the then prevailing market prices per share of successful privatisation proposals conducted by different ways. We have compared the Scheme with the Privatisation Precedents in terms of their historical share price comparison for different periods to illustrate the market sentiments towards successful privatisation proposals, i.e. how much the shareholders are being offered and the level of premium that is acceptable to shareholders in terms of historical share price ranges. As such market sentiments towards successful privatization proposals can be illustrated through the comparison between the cancellation/offer price and the then prevailing market prices per share, we consider the Privatisation Precedents an appropriate basis in assessing the fairness and reasonableness of the Cancellation Price. The Privatisation Precedents represent an exhaustive list of privatisation proposals meeting the said criteria, a summary of which is set out in the table below.

Date of announcement *(note 2)*	Company name (stock code)	Premium or (discount) represented by offer/cancellation price over/to closing share price/average share price on/over *(note 1)* Last full trading day *(note 3)*	5-trading day *(note 3)*	10-trading day *(note 3)*	30-trading day *(note 3)*	60-trading day *(note 3)*	Premium or (discount) represented by cancellation/ offer price over/to the latest NAV per share as disclosed in the respective scheme/offer document *(note 4)*
19 December 2024	Pentamaster International Limited (1665) *(note 5)*	25.0%	49.3%	53.6%	52.7%	49.7%	32.6%
10 December 2024	Fosun Tourism Group (1992)	95.0%	112.1%	112.7%	111.2%	109.1%	(27.4)%
22 November 2024	Ronshine Service Holding Co., Ltd (2207)	15.4%	9.9%	1.7%	(5.8)%	2.1%	(53.5)%
28 October 2024	Beijing Capital Grand Limited (1329)	46.6%	52.9%	55.7%	42.2%	45.4%	(53.8)%
14 October 2024	CM Hi-Tech Cleanroom Limited (2115)	17.9%	24.3%	27.2%	30.3%	38.9%	(3.2)%
2 September 2024	Doyen International Holdings Limited (668)	78.6%	81.5%	81.9%	81.8%	86.1%	(39.3)%
16 Jul 2024	SAMSON HOLDING LTD. (531)	77.8%	86.8%	101.5%	146.5%	182.1%	(47.1)%
12 Jun 2024	A8 New Media Group Limited (800)	162.8%	159.4%	168.3%	185.4%	189.7%	(48.1)%
27 May 2024	Huafa Property Services Group Company Limited (982)	30.6%	36.5%	40.2%	69.2%	81.3%	982.9%
29 Apr 2024	L'Occitane International S.A (973)	15.3%	9.9%	8.8%	11.9%	21.0%	598.2%
18 Apr 2024	Kin Yat Holdings Limited (638)	33.3%	43.4%	52.4%	51.5%	54.0%	(57.4)%
28 March 2024	SciClone Pharmaceuticals (Holdings) Limited (6600)	17.2%	30.8%	34.1%	45.7%	47.6%	228.1%
11 Mar 2024	CIMC Vehicles (Group) Co., Ltd. (1839)	4.9%	7.5%	8.0%	8.6%	8.5%	(6.9)%
26 Jan 2024	Bank of Jinzhou Co., Ltd. (416)	0.0%	(0.6)%	(1.0)%	(0.4)%	11.7%	(71.9)%
15 Dec 2023	Vinda International Holdings Limited (3331)	13.5%	16.5%	17.4%	19.4%	21.8%	145.3%
14 Dec 2023	Sinosoft Technology Group Limited (1297)	29.4%	30.4%	31.2%	31.1%	22.6%	(78.8)%
4 Dec 2023	Weiqiao Textile Company Limited (2698)	104.7%	104.9%	102.7%	109.2%	140.6%	(78.3)%
6 Oct 2023	Haitong International Securities Group Limited (665)	114.1%	111.1%	108.2%	127.1%	122.6%	(39.3)%
6 Oct 2023	Pine Care Group Limited (1989)	(1.1)%	0.7%	0.9%	13.9%	7.6%	(7.9)%
15 Sep 2023	Lansen Pharmaceutical Holdings Limited (503)	26.8%	24.1%	22.6%	20.5%	15.1%	(22.1)%
1 Sep 2023	CST Group Limited (985)	61.3%	24.4%	21.4%	36.9%	(0.7)%	(60.7)%
	Maximum	162.8%	159.4%	168.3%	185.4%	189.7%	982.9%
	Minimum	(1.1)%	(0.6)%	(1.0)%	(5.8)%	(0.7)%	(78.8)%
	Average	46.1%	48.4%	50.0%	56.6%	59.9%	61.5%
	Median	29.4%	30.8%	34.1%	42.2%	45.4%	(39.3)%
7 Jul 2024	**The Company**	**20.7%**	**17.8%**	**16.9%**	**20.8%**	**21.8%**	**21.29%** *(note 6)* and **21.59%** *(note 7)*

Source: Bloomberg and the website of the Stock Exchange

Notes:

1. The premia/discounts of the cancellation/offer price over/(to) the share price (averages) for the respective periods were calculated based on (i) the cancellation/offer price in relation to the privatisation proposal as disclosed in the subject announcement; and (ii) the historical share prices of the companies extracted from Bloomberg.

2. The date of the Rule 3.5 announcement

3. Premium/(discount) is up to and including the last full trading day of the shares prior to the publication of the respective Rule 3.5 announcement.

4. Premium/(discount) represented by cancellation/offer price over/to the then latest NAV per share, or reassessed/adjusted NAV per share (if available), as disclosed in the respective scheme/offer document.

   For the case of Huafa Property Services Group Company Limited ("**Huafa Property**"), only comparison of cancellation price with total net assets value per share (but not attributable to the shareholders of Huafa Property) was included in the relevant scheme document. We have therefore calculated the premium of cancellation price over NAV per share based on the then latest published financial results of Huafa Property prior to the date of the relevant scheme document.

5. The shareholders of Pentamaster International Limited received a total of HK$1.00 per scheme share, which include the cancellation price of HK$0.93 per scheme share and the special dividend of HK$0.07 per scheme share.

6. Based on the premium represented by the Cancellation Price over the NAV per Share as at 31 December 2024.

7. Based on the premium represented by the Cancellation Price over the Adjusted NAV per Share as mentioned in the sub-section headed "1.2 Financial information" of this letter.

8. Figures are subject to rounding differences.

As shown in the table above, the premia represented by the Cancellation Price over the last trading day, 5-day average, 10-day average, 30-day average and 60-day average fall within the range of the premia/discounts of the Privatisation Precedents. Despite that the premia represented by the Cancellation Price over the last trading day, 5-day average, 10-day average, 30-day average and 60-day average are below the median premia/discounts of the Privatisation Precedents, the premia represented by the Cancellation Price over the NAV per Share as at 31 December 2024 and the Adjusted NAV per Share of approximately 21.29% and 21.59%, respectively, are higher than the respective median premia/discounts of the Privatisation Precedents.

4.6 Our view on the Cancellation Price

Having considered that (i) the historical price performance of the Shares (in particular, the Cancellation Price of HK$4.90 per Share is higher than closing prices of the Shares in most of the trading days during the Review Period); (ii) the Cancellation Price of HK$4.90 per Share is higher than the NAV per Share of the Company as at 31 December 2024 as well as the Adjusted NAV per Share; (iii) the thin trading volume in the Shares during the Review Period; (iv) the implied P/E Ratio and implied P/B Ratio of the Cancellation Price are higher than those of the Comparable Companies; (v) the premia represented by the Cancellation Price over different periods fall within the range of the premia/discounts of the Privatisation Precedents; and (vi) the premia represented by the Cancellation Price over the NAV per Share as at 31 December 2024 and the Adjusted NAV per Share are with the range of premia/discount and higher than the median premia/discounts of those of the Privatisation Precedents, we are of the view that the Cancellation Price is fair and reasonable.

C. The Option Offer

As at the Latest Practicable Date, there were 250,000 outstanding Share Options granted under the Share Option Scheme, each relating to one Share with an exercise price of HK$4.39. Under the Option Offer, the Offeror is offering holder of the outstanding Share Options the Option Offer Price, which represents the "see-through" price of HK$0.51 (being the Cancellation Price of HK$4.90 minus the exercise price of HK$4.39) for each outstanding Share Option for the cancellation of every Share Option in accordance with Rule 13 of the Takeovers Code.

According to the Board Letter, pursuant to the Irrevocable Undertaking, Ms. Loretta Lee has undertaken that she will refrain from exercising the 250,000 Share Options held by her and will accept the Option Offer in respect of Share Options held by her.

Since the commencement of the Offer Period up to and including the Latest Practicable Date, the closing price of the Shares fluctuated between HK$4.28 and HK$4.79 (the "**Offer Period Closing Price Range**"). The exercise price of HK$4.39 of the Share Options fall within the aforesaid range of closing price of Shares. Based on the closing price of the Shares of HK$4.75 as at the Latest Practicable Date, all Share Options were in-the-money.

Taking into account that (i) the Option Offer Price is based on the "see-through" price, being the Cancellation Price (which we consider to be fair and reasonable) minus the exercise price of the Share Options; (ii) if the Option Offer is not accepted, the unexercised Share Options will lapse upon the Scheme becoming effective and the Optionholder will enjoy no economic benefits; and (iii) the Cancellation Price is higher than the Offer Period Closing Price Range (which means accepting the Option Offer with a "see-through" price of HK$0.51 is potentially more attractive than exercising the Share Option and selling the Shares in the open market), we consider that the Option Offer Price is fair and reasonable.

Having considered the principal factors and reasons considered in the sections "A. THE PROPOSAL", "B. THE SCHEME" and "C. THE OPTION OFFER", we are of the opinion that the terms of the Option Offer, the Proposal and the Scheme are fair and reasonable.

D. The Rollover Arrangement

1. Background of the Rollover Arrangement

As mentioned in the Explanatory Memorandum, the Offeror proposes to allow Best Approach to retain the 176,388,620 Rollover Shares, representing approximately 7.22% of the total issued share capital of the Company after the Scheme becomes effective.

2. Information on Best Approach and its beneficial owners

As at the Latest Practicable Date, Best Approach held 1,335,615,837 Shares, representing approximately 54.70% of the total issued share capital of the Company. The entire issued share capital of Best Approach is directly or indirectly held by VISTA Co, whose entire issued share capital is held by HSBC International Trustee Limited as trustee of the Harvest VISTA Trust, a trust with Mr. KM Lai and Ms. Loretta Lee as founders and established in accordance with the laws of the BVI. The discretionary beneficiaries of the Harvest VISTA Trust include Mr. KM Lai, Ms. Loretta Lee and the personal trust of Ms. Loretta Lee (the beneficiaries of which are Ms. Loretta Lee and her immediate family members).

According to the 2023 Annual Report, Ms. Loretta Lee has been an executive Director and the chairlady of the Company since 2014, and is also a director of certain subsidiaries of the Company. She joined the Group in November 2011 and is responsible for formulating the Group's overall strategies, and making major corporate and operational decisions of the Group.

According to the 2023 Annual Report, Mr. KM Lai has been an executive Director and the deputy chairman of the Company since 2014 and is a director of certain subsidiaries of the Company. He is, alongside with Ms. Loretta Lee, responsible for formulating the Group's overall strategies and making major corporate and operational decisions of the Group.

3. Reasons and benefits for the Rollover Arrangement

As at the Latest Practicable Date, Best Approach held approximately 54.70% of the total issued share capital of the Company. The Offeror is of the view that it is important for the Company to retain Best Approach as a Shareholder after the completion of the Scheme so that the Offeror can draw upon the experience and long-term involvement of Best Approach and its beneficial owners in the business and operations of the Company to ensure that the benefits of synergies and collaboration between the Offeror and the Company continue to be realised, which will enhance the competitiveness of the Offeror and the Company in the market and benefit the long-term sustainable development and growth of the Offeror and the Company.

4. Conditions of the Rollover Arrangement

The Rollover Arrangement will be terminated if (i) the Yuezhan Environmental Disposal is not completed within three months from the date of the Announcement and/or any of the Pre-Conditions (other than the Yuezhan Environmental Disposal) is not satisfied on or before the Pre-Conditions Long Stop Date; (ii) the Proposal and the Scheme do not become effective by the Long Stop Date; (iii) the Scheme is not sanctioned by the Grand Court; (iv) the requisite resolutions necessary to implement the Proposal are or any transaction disclosed in the Announcement that requires approval of the Shareholders is not approved at the EGM; (v) Best Approach and the Offeror mutually agree to terminate the Irrevocable Undertaking in writing; or (vi) the Proposal or Share Option Offer is withdrawn or lapses.

5. Our view on the Rollover Arrangement

The approval of the Rollover Arrangement by the Independent Shareholders at the EGM is a condition precedent to the implementation of the Proposal. If the Rollover Arrangement is not approved by the Independent Shareholders, the Proposal will not be implemented and the Scheme will not take effect. In view of that the terms of the Proposal and the Scheme are considered fair and reasonable, we also consider that the approval of the Rollover Arrangement, which is a prerequisite for the implementation of the Proposal, is in the interests of the Company and the Shareholders as a whole, and in the interests of the Independent Shareholders.

In addition, Best Approach is familiar with the Group's business (in particular, Best Approach is beneficially owned by Mr. KM Lai and Ms. Loretta Lee who are each a controlling Shareholder, executive Director and a senior management of the Company). Given the background of Best Approach and its beneficial owners, it is important for the Company to retain Best Approach as Shareholders after the Scheme becoming effective so that Best Approach and its beneficial owners will have incentives to continue to contribute to the future development and growth of the Group. Accordingly, we are of the opinion that the terms of the Rollover Arrangement are fair and reasonable.

E. **Special Deal in Relation to the Disposals**

1. ***Introduction***

The Land Disposal

On 22 July 2024 (after trading hours), Canvest Kewei Environmental Protection Investment (Guangdong) Company Limited (粵豐科維環保投資(廣東)有限公司) (an indirect wholly-owned subsidiary of the Company) ("**Canvest Kewei**") entered into a sale and purchase agreement with Best Approach ("**Canvest Kewei S&P Agreement**"), pursuant to which Canvest Kewei conditionally agreed to sell, and Best Approach conditionally agreed to purchase, the entire equity interests in Canvest Kewei Subsidiary for a total consideration of RMB135.0 million. Canvest Kewei Subsidiary is Shanghai Keda Chuangjia Environmental Protection Co., Ltd.* (上海科達創佳環保有限公司) ("**Shanghai Keda**"), which was incorporated on 27 September 2024 and is wholly-owned by Canvest Kewei. It is expected that immediately prior to the completion of the Land Disposal, the land use rights and the structures on the Land will be transferred to Shanghai Keda by Canvest Kewei.

The Smart Parking Disposal

On 22 July 2024 (after trading hours), the Company entered into a sale and purchase agreement with Best Approach, pursuant to which the Company conditionally agreed to sell and Best Approach conditionally agreed to purchase the entire equity interests in Canvest Technology (being a direct wholly-owned subsidiary of the Company) for a total consideration of HK$30.0 million ("**Canvest Technology S&P Agreement**"). Upon completion, the Company will cease to own any direct or indirect interest in Canvest Technology.

Canvest Technology, through its subsidiaries, is principally engaged in the business of providing smart car parking solutions in the PRC.

The Office Building Disposal

On 22 July 2024 (after trading hours), Yi Feng Development Limited ("**Yi Feng**", being a direct wholly-owned subsidiary of the Company) entered into a sale and purchase agreement with Best Approach, pursuant to which Yi Feng conditionally agreed to sell and Best Approach conditionally agreed to purchase, the entire equity interests and shareholders' loan in each of KK VII (BVI) Limited and KK VIII (BVI) Limited (being indirect wholly-owned subsidiaries of the Company) for a total consideration of HK$165.0 million ("**KK S&P Agreement**"). Upon completion of the Office Building Disposal, both Yi Feng and the Company will cease to own any direct or indirect interest in each of KK VII (BVI) Limited and KK VIII (BVI) Limited.

2. ***Information on the disposal assets***

(a) *The Land Disposal*

The underlying assets to be disposed of under the Land Disposal are the land use rights and structures on the Land situated at 1/5 of land in the 3rd neighbourhood of Yuepu Town, Baoshan District, Shanghai, the PRC (中國上海市寶山區月浦鎮3街坊1/5丘土地). As at the Latest Practicable Date, the land use rights and structures on the Land had been transferred from Canvest Kawei to Shanghai Keda. It is expected that immediately prior to the completion of the Land Disposal, the land use rights and the structures on the Land will be transferred to Shanghai Keda by Canvest Kewei.

Shanghai Keda is a limited liability company established under the laws of the PRC and is a direct wholly-owned subsidiary of Canvest Kewei and is an indirect wholly-owned subsidiary of the Company. It is principally engaged in investment holding and the development of the Land.

(b) *The Smart Parking Disposal*

The underlying assets to be disposed of under the Smart Parking Disposal are smart car parking projects (the "**Smart Parking Business**") located in several regions in the PRC held by Canvest Technology through its subsidiaries and joint venture. Currently, there are six smart car parking projects in operation, one of which is located in Guangdong Province, four of which are located in Hunan Province, and one of which is located in Hubei Province.

Canvest Technology is a limited liability company incorporated under the laws of BVI and is a direct wholly-owned subsidiary of the Company. It is an investment holding company and principally engaged in the business of providing smart car parking solutions in the PRC through its subsidiaries and joint venture.

As set out in the Board Letter, according to the audited consolidated financial information of Canvest Technology prepared in accordance with Hong Kong Financial Reporting Standards, the consolidated total assets and net assets of Canvest Technology as at 31 December 2024 are approximately HK$39,836,000 and HK$23,736,000, respectively. Set out below is a summary of the audited consolidated financial information of Canvest Technology for years ended 31 December 2023 and 2024 as extracted from the Board Letter:

	For the year ended 31 December 2024	**For the year ended 31 December 2023**
	HK$'000	*HK$'000*
Net loss before taxation and extraordinary items	64,143	23,624
Net loss after taxation and extraordinary items	57,886	22,808

(c) The Office Building Disposal

The underlying assets to be disposed of under the Office Building Disposal (the "**Properties**") are (i) a commercial property situated at 28th Floor, King Kong Commercial Center, No. 9 Des Voeux Road West and a car park space situated at No. P22 on 2nd floor, King Kong Commercial Center, No. 9 Des Voeux Road West in Hong Kong held by KK VII (BVI) Limited; and (ii) a commercial property situated at 29th Floor, King Kong Commercial Center, No. 9 Des Voeux Road West, a car park space situated at No. P12 on 2nd floor, King Kong Commercial Center, No. 9 Des Voeux Road West and the flat roof above 29th floor, King Kong Commercial Center, No. 9 Des Voeux Road West in Hong Kong held by KK VIII (BVI) Limited.

KK VII (BVI) Limited and KK VIII (BVI) Limited are both limited liability companies incorporated under the laws of BVI and are indirect wholly-owned subsidiaries of the Company. They are both principally engaged in investment holding.

As set out in the Board Letter, according to the audited financial information of KK VII (BVI) Limited and KK VIII (BVI) Limited prepared in accordance with Hong Kong Financial Reporting Standards, the total assets and net assets of KK VII (BVI) Limited as at 31 December 2024 are approximately HK$78,191,000 and HK$78,127,000, the total assets and net assets of KK VIII (BVI) Limited as at 31 December 2024 are approximately HK$82,022,000 and HK$82,621,000, respectively. Set out below is a summary of the audited financial information of KK VII (BVI) Limited and KK VIII (BVI) Limited for years ended 31 December 2023 and 2024 as extracted from the Board Letter:

	For the year ended 31 December 2024 *HK$'000*	**For the year ended 31 December 2023** *HK$'000*
KK VII (BVI) Limited		
Net loss before taxation and extraordinary items	56,794	3,028
Net loss after taxation and extraordinary items	56,794	2,913
KK VIII (BVI) Limited		
Net loss before taxation and extraordinary items	60,509	2,884
Net loss after taxation and extraordinary items	60,509	2,111

3. *Reasons for and benefits of the Disposals and intended use of proceeds*

Given that the Land Disposal, the Smart Parking Disposal and the Office Building Disposal are part of the arrangement under the proposal for the privatisation of the Company, the parties to the S&P Agreements agreed that Best Approach will acquire the entire equity interests in Canvest Kewei Subsidiary, Canvest Technology, KK VII (BVI) Limited and KK VIII (BVI) Limited on the terms and subject to the conditions set out in the S&P Agreements. The Disposals and the Proposal are inter-conditional on each other.

As mentioned in the Board Letter, each of the Land Disposal, the Smart Parking Disposal and the Office Building Disposal represents a transaction at an opportune time and allows the Group and Best Approach to reallocate their assets and also help the Group to streamline its assets structure.

The Properties under the Office Building Disposal are used as the Company's principal office in Hong Kong and car park spaces for employees. As advised by the Management, given that the Group is mainly domiciled in the PRC (with vast majority of the employees located in the PRC and all of the revenue generated in the PRC), the Office Building Disposal would allow the Group to realize the Properties which are not the major part of their operation and focus on its operation in the PRC following the withdrawal of listing of the Shares on the Stock Exchange.

The Land under the Land Disposal was acquired by the Group in 2024. The original acquisition cost of the land use rights and structures on the Land to Canvest Kewei was approximately RMB135 million. As at the Latest Practicable Date, the development of the Land had not progressed. As advised by the Management, the Land Disposal would allow the Group to realize its investment in the Land development which did not commence as planned and focus its resources on other areas of operation.

The Smart Parking Disposal represents a disposal of the underperforming Smart Parking Business under the environmental hygiene and related services segment commenced by the Group in 2021. According to the Company's announcement dated 22 July 2024 in relation to the Disposals, Canvest Technology recorded consecutive loss of approximately HK$22.81 million and HK$57.89 million for the year ended 31 December 2023 and 2024 respectively.

According to the Board Letter, the Group intends to utilize the net proceeds from the Disposals for general working capital.

Having considered the above, we are of the view that the Disposals are in the interests of the Company and the Shareholders as a whole, and are in the interests of the Independent Shareholders.

4. *Principal terms of the Disposals*

4.1 The Land Disposal

Set out below are the principal terms of the Canvest Kewei S&P Agreement, further details of which are set out in the Board Letter:

Date:	22 July 2024 (after trading hours)
Parties involved:	(i) Best Approach, as buyer
	(ii) Canvest Kewei, as seller

Assets to be disposed of:	Pursuant to the Canvest Kewei S&P Agreement, Canvest Kewei has conditionally agreed to sell, and Best Approach has conditionally agreed to acquire the entire equity interests in Canvest Kewei Subsidiary. Canvest Kewei Subsidiary is Shanghai Keda, which was incorporated on 27 September 2024 and is wholly-owned by Canvest Kewei. The underlying assets to be disposed of under the Land Disposal are the land use rights and structures on the Land situated at 1/5 of land in the 3rd neighbourhood of Yuepu Town, Baoshan District, Shanghai, the PRC (中國上海市寶山區月浦鎮3街坊1/5丘土地). As at the Latest Practicable Date, the land use rights and structures on the Land had been transferred from Canvest Kewei to Shanghai Keda.
Transfer of equity interests and registration procedures:	Canvest Kewei shall cooperate with Shanghai Keda in the registration procedures in respect of the Land Disposal in accordance with the applicable laws and regulations, which will be completed before the date on which the Scheme becomes effective. Upon completion of the registration procedures in respect of the Land Disposal, (i) Canvest Kewei will cease to own any interest in Shanghai Keda and the land use rights and structures on the Land; and (ii) Shanghai Keda will cease to be a subsidiary of the Company and its financial results will no longer be consolidated into the consolidated financial statements of the Group.

Consideration:	The consideration under the Canvest Kewei S&P Agreement is RMB135 million, which was determined after arm's length negotiations with reference to the appraised value of the underlying assets in the total amount of RMB135,350,000 as at 10 July 2024 based on a valuation report prepared by Shanghai Kedong Real Estate Appraisal Co., Ltd. ("**Shanghai Kedong**"), an independent valuer. The consideration shall be settled by Best Approach in cash and in a lump sum within 30 days from the date of the first payment of the Cancellation Price payable by the Offeror to Best Approach under the Proposal in accordance with the Takeovers Code.
Conditions:	The Canvest Kewei S&P Agreement and the transfer of the equity interests in Canvest Kewei Subsidiary are conditional upon satisfaction of the following conditions: (i) the receipt of an opinion from the Independent Financial Adviser to the Independent Board Committee confirming that the Land Disposal is fair and reasonable as far as the Independent Shareholders are concerned; (ii) the passing of an ordinary resolution by the Independent Shareholders at the EGM to approve the Land Disposal; (iii) the grant of consent under Rule 25 of the Takeovers Code from the Executive in respect of the Land Disposal; and (iv) the obtaining of approval of the Scheme by the Independent Shareholders, the Scheme Shareholders and the order sanctioning by the Grand Court of Cayman Islands. None of the aforesaid conditions have been waived as at the date of the Scheme Document. The conditions cannot be waived in any event.
Completion:	The completion of the Land Disposal shall take place upon the settlement of the consideration by Best Approach.

Assessment of the consideration of the Land Disposal

The consideration under the Land Disposal of RMB135 million was determined after arm's length negotiations with reference to the appraised value of the underlying assets (the "**Land Valuation**") in the total amount of approximately RMB135 million as at 10 July 2024 based on a valuation report prepared by an independent valuer.

The Company has engaged Shanghai Kedong to conduct the Land Valuation. In addition to the Land Valuation as at 10 July 2024, Shanghai Kedong has also performed an updated valuation of the underlying assets as at 28 February 2025. According to the updated valuation report (details of which are contained in Appendix II to the Scheme Document), the Land Valuation as at 28 February 2025 was RMB135,290,000. In preparing the valuation report, Shanghai Kedong selected the cost approach to conclude the Land Valuation.

For due diligence purpose, we have reviewed the valuation report prepared by Shanghai Kedong and have discussed with Shanghai Kedong regarding the Land Valuation with details set out below. In the course of our review, we have discussed with Shanghai Kedong its scope of work and expertise, and also the methodologies, bases and assumptions adopted in the valuation report. Further details of the valuation report are set out in Appendix II to the Scheme Document.

(a) Scope of work and qualifications of the independent valuer

We have discussed with Shanghai Kedong regarding the qualification and expertise of Shanghai Kedong and the relevant engagement team members. We understand that Shanghai Kedong has experience in handling asset valuation exercises for assets within the PRC. The responsible signing person of the valuation report has over 10 years' industry experience in conducting valuation exercises. Shanghai Kedong also confirmed that it is independent from the Company and Best Approach to perform the Land Valuation under the relevant professional standards.

We understood that ABCI Capital, the Company's financial adviser, has been engaged to report on the valuation report under Rule 11.1(b) of the Takeovers Code for the qualification and experience of Shanghai Kedong in respect of the Land Valuation. We have reviewed the aforesaid report by ABCI Capital in accordance with Rule 11 of the Takeovers Code, which is contained in Appendix II-E to the Scheme Document, and noted that ABCI Capital (i) is satisfied that Shanghai Kedong is suitably qualified and experienced with sufficient knowledge, skills and understanding necessary to prepare the Land Valuation competently; and (ii) is satisfied that Shanghai Kedong possesses the qualifications and experience to compile the valuation report in respect of the Land Valuation.

We have also reviewed the terms of the Shanghai Kedong's engagement letter and noted that the purpose of the valuation is to perform a valuation of the Land. The Shanghai Kedong's engagement letter also contains standard valuation scopes that are typical of company valuations carried out by independent valuers.

(b) Valuation methodologies

Based on our discussion with Shanghai Kedong and review of the valuation report, it is noted that Shanghai Kedong has adopted the cost approach in arriving at the Land Valuation. We understand that Shanghai Kedong has considered the commonly used valuation approaches for valuation of real estate, namely the cost approach, the market approach and the income approach:

(1) Cost approach: Cost approach is an approach measuring the replacement cost or reconstruction cost and depreciation of the valuation object at the time of valuation, and subtracting depreciation from the replacement cost or reconstruction cost. Taking into consideration the availability of information regarding land acquisition costs and early development expenses in the district, as well as the transparency of construction costs, Shanghai Kedong considered that the cost approach is the suitable method for the Land Valuation.

(2) Market approach: Market approach provides an indication of value by comparing the subject asset to similar assets that have been sold in the market, with appropriate adjustments for the differences between the subject asset and the assets that are considered to be comparable to the subject asset. As advised by Shanghai Kedong, the planned usage of the Land is for the operation of waste integrated treatment plant. Due to the public facility nature of the planned usage, there was a lack of comparables as market value reference since the comparable properties are not generally sold/rented in the open market. Accordingly, Shanghai Kedong considered that the market approach is inappropriate.

(3) Income approach: Income approach (including the hypothetical development approach) provides an indication of value based on the principle that an informed buyer would pay no more than the present value of anticipated future economic benefits generated by the subject asset. Due to the public facility nature of the planned usage, there was a lack of

comparables as income reference since the comparable properties are not generally sold/rented in the open market, and the income approach (including the hypothetical development approach) is considered inapplicable by Shanghai Kedong.

As mentioned in the sub-section headed "3. Reasons for and benefits of the Disposals and intended use of proceeds" under the section headed "E. SPECIAL DEAL IN RELATION TO THE DISPOSALS" of this letter above, the Land under the Land Disposal was acquired by the Group in 2024 and the development of the Land had not progressed as at the Latest Practicable Date. We have also discussed with the Management and understand that the planned usage of the Land is for the operation of waste integrated treatment plant. Given (i) the public facility nature of the planned usage of the Land, which makes comparison with land with other usages non-meaningful; and (ii) the development of the Land did not commence as planned and there are uncertainties in the future development and operation of the planned waste integrated treatment plant, we are also of the view that it is appropriate to adopt the cost approach in performing Land Valuation.

(c) Valuation assumptions

We have reviewed the valuation report and discussed with Shanghai Kedong in respect of the key assumptions adopted for performing the Land Valuation. We understand from Shanghai Kedong that the assumptions are commonly adopted in other valuations of similar assets and there is no unusual assumption which has been adopted during the Land Valuation. We also consider that the assumptions adopted in the valuation report are general in nature and we are not aware of any material facts which lead us to doubt the reasonableness of the assumptions adopted by Shanghai Kedong.

(d) Details of valuation

Based on our discussion with Shanghai Kedong and review of the valuation report and the details of the valuation, we understand that under the cost approach valuation, Shanghai Kedong has conducted site visit of the Land and reviewed relevant documents/contracts in relation to the Land and the relevant structures. Shanghai Kedong has then derived the Land Valuation by deducting the estimated replacement cost with the depreciation, based on the nature and conditions of the Land and the relevant structures on the Land. In determining the replacement cost, Shanghai Kedong has considered the current status of the Land and the relevant structures on the Land and estimated the various costs enquired to reconstruct the subject property, including the acquisition costs of the Land, the construction costs of the buildings, the management fees, the sales costs, investment interests, sales related tax and profits in respect of the Land and the relevant structures on the Land. The depreciation considered by Shanghai Kedong includes material depreciation, functional depreciation and economic depreciation. Accordingly, the Land Valuation is derived as based on the following formula:

Land Valuation = Replacement costs of the Land + Replacement costs of the relevant structures on the Land – Depreciation

(i) Replacement costs of the Land

Acquisition costs of the Land

The acquisition costs of the Land were valued by weighted average of appraised value under the benchmark land price coefficient correction method and the cost approximation method.

Under the benchmark land price coefficient correction method, Shanghai Kedong referred to the benchmark land price established by the local government and adjusted the land price based on analysis of various factors affecting the land price. We reviewed the underlying data adopted by Shanghai Kedong regarding the benchmark land price and noted that Shanghai Kedong has relied on the latest benchmark land price guidance document in relation to urban and rural construction land in Shanghai as published by Shanghai Planning and Natural Resources Bureau* (上海市規劃和自然資源局).

Under the cost approximation method, Shanghai Kedong has obtained relevant information such as fee standards, land development costs, tax and interest in the applicable district to appraise the value of the Land. We have reviewed the underlying data adopted by Shanghai Kedong in arriving at the land acquisition costs and noted that the land acquisition costs adopted based on the underlying data of the original acquisition costs of land use rights nearby the area where the Land is located.

As advised by Shanghai Kedong, the aforesaid valuation of acquisition costs of the Land took into account both the land price as indicated by the local government and the costs of land development, and is consistent with normal market practice.

Sales costs

Under the valuation, Shanghai Kedong has considered the costs associated with the sales of the Land such as advertising expenses, costs of sales personnel and agency fees. Shanghai Kedong has estimated such fees based on certain applicable percentage to the land value.

Investment interest

The investment interest measures the cost of investment of the Land. It is estimated by Shanghai Kedong based on the completed portion of the land project, the completion time and the standard loan interest rate of RMB.

Sales related tax

During the appraisal, Shanghai Kedong has also considered tax applicable to the sales of the Land. As advised by Shanghai Kedong, such estimation was based on the PRC tax rule and regulations relevant to the development and sales of the Land.

Profits in respect of the Land

The profits represent the investment return of the project. It is estimated by Shanghai Kedong based on the profitability of comparable domestic waste comprehensive treatment plant properties.

Based on the above, the replacement costs of the Land are approximately RMB72.92 million.

(ii) Replacement costs of the relevant structures on the Land

Construction costs of the buildings

In valuing the construction costs of the buildings, Shanghai Kedong took into account the structures and facilities of the buildings and appraised the construction costs based on the costs of comparable construction cases. We have discussed with Shanghai Kedong and reviewed a summary of the comparable construction cases and noted that (i) those comparable construction cases were selected based on the usages similar to different parts of the structures on the Land; and (ii) Shanghai Kedong has made relevant adjustments to reflect the differences between those comparable cases and the structures on the Land.

Management fees

Management fees include wages and welfare fees, office expenses, travel expenses and other related fees. In the valuation, Shanghai Kedong has estimated the management fees based on an applicable percentage of the sum of construction and installation project costs and supporting overall project costs.

Sales costs, investment interest, sales related tax and profits in respect of the buildings

The sales costs, investment interest, sales related tax and profits in respect of the buildings were appraised by Shanghai Kedong by similar approach as the valuation of the replacement costs of the Land.

Based on the above, the replacement costs of the relevant structures on the Land are approximately RMB79.92 million

(iii) Depreciation

In determining the depreciation, Shanghai Kedong has considered a number of factors such as the design functions of the buildings, the real estate market situation, and the aging, wear and damage of buildings caused by use and natural forces based on the condition of the Land and the relevant structures on the Land. Shanghai Kedong has then applied a newness rate (which was assessed by Shanghai Kedong after taking into account the aforesaid factors based on the structural part, decorative part and equipment part of the properties) to the replacement costs of the properties to arrive at the depreciation.

Based on the above, the depreciation amount is approximately RMB17.55 million

Taking into account the above, we consider the underlying assumptions and bases to determine the replacement cost and depreciation adjustments are fair and reasonable.

(e) Conclusion

Having discussed with Shanghai Kedong and reviewed with them the reasons for adopting the various valuation methodologies, the bases and assumptions, including the relevant underlying information, used for the valuation and the valuation result, we are of the opinion that the chosen valuation methodologies, bases and assumptions in establishing the Land Valuation as at 28 February 2025 are in line with the industry practice. In assessing the fairness of the consideration, we consider it is appropriate to refer to the Land Valuation conducted by Shanghai Kedong. Having also considered that the consideration is close to the Land Valuation as at 28 February 2025 (representing a slight discount of approximately 0.21%), being the latest valuation, we are of the view that the consideration for the Land Disposal is fair and reasonable.

4.2 The Smart Parking Disposal

Set out below are the principal terms of the Canvest Technology S&P Agreement, further details of which are set out in the Board Letter:

Date:	22 July 2024 (after trading hours)
Parties involved:	(i) Best Approach, as buyer (ii) Canvest Kewei, as seller
Assets to be disposed of:	Pursuant to the Canvest Technology S&P Agreement, the Company has conditionally agreed to sell, and Best Approach has conditionally agreed to acquire the entire equity interests in Canvest Technology. Currently, there are six smart car parking projects in operation, one of which is located in Guangdong Province, four of which are located in Hunan Province, and one of which is located in Hubei Province.
Transfer of equity interests and registration procedures:	The Company shall cooperate with Canvest Technology in the registration procedures in respect of the Smart Parking Disposal in accordance with applicable laws and regulations, which will be completed before the date on which the Scheme becomes effective. Upon completion of the registration procedures in respect of the Smart Parking Disposal, Canvest Technology will cease to be a subsidiary of the Company and its financial results will no longer be consolidated into the consolidated financial statements of the Group.

Consideration: The consideration under the Canvest Technology S&P Agreement is HK$30 million, which was determined after arm's length negotiations with reference to the appraised value of the underlying assets in the total amount of RMB26,100,000 as at 30 June 2024 based on the valuation report prepared by Masterpiece Valuation Advisory Limited ("**Masterpiece**"), an independent valuer. The consideration shall be settled by Best Approach in cash and in a lump sum within 30 days from the date of first payment of the Cancellation Price payable by the Offeror to Best Approach under the Proposal in accordance with the Takeovers Code.

Conditions: The Canvest Technology S&P Agreement and the transfer of equity interests in Canvest Technology are conditional upon satisfaction of the following conditions: (i) the receipt of an opinion from the Independent Financial Adviser to the Independent Board Committee confirming that the Smart Parking Disposal is fair and reasonable as far as the Independent Shareholders are concerned; (ii) the passing of an ordinary resolution by the Independent Shareholders at the EGM to approve the Smart Parking Disposal; (iii) the grant of consent under Rule 25 of the Takeovers Code from the Executive in respect of the Smart Parking Disposal; and (iv) the obtaining of approval of the Scheme by the Independent Shareholders, the Scheme Shareholders and the order sanctioning by the Grand Court of Cayman Islands. None of the aforesaid conditions have been waived as at the date of the Scheme Document. The conditions cannot be waived in any event.

Completion: The completion of the Smart Parking Disposal shall take place upon the settlement of the consideration by Best Approach.

Assessment of the consideration of the Smart Parking Disposal

The consideration under the Smart Parking Disposal of HK$30 million (equivalent to approximately RMB26 million) was determined after arm's length negotiations with reference to the appraised value of the underlying assets (the "**Canvest Technology Valuation**") in the total amount of approximately RMB26 million as at 30 June 2024 based on a valuation report prepared by an independent valuer.

The Company has engaged Masterpiece to conduct the Canvest Technology Valuation. In addition to the Canvest Technology Valuation as at 30 June 2024, Masterpiece has also performed an updated valuation of the underlying assets as at 28 February 2025. According to the updated valuation report (details of which are contained in Appendix II to the Scheme Document), the Canvest Technology Valuation as at 28 February 2025 was RMB23,800,000. In preparing the valuation report, Masterpiece selected the asset-based approach to conclude the Canvest Technology Valuation.

We understood that ABCI Capital, the Company's financial adviser, has been engaged to report on the valuation report under Rule 11.1(b) of the Takeovers Code for the qualification and experience of Masterpiece in respect of the Canvest Technology Valuation. We have reviewed the aforesaid report by ABCI Capital in accordance with Rule 11 of the Takeovers Code, which is contained in Appendix II-F to the Scheme Document, and noted that ABCI Capital (i) is satisfied that Masterpiece is suitably qualified and experienced with sufficient knowledge, skills and understanding necessary to prepare the Canvest Technology Valuation competently; and (ii) is satisfied that Masterpiece possesses the qualifications and experience to compile the valuation report in respect of the Canvest Technology Valuation.

For due diligence purpose, we have reviewed the valuation report prepared by Masterpiece and have discussed with Masterpiece regarding the Canvest Technology Valuation with details set out below. In the course of our review, we have discussed with Masterpiece its scope of work and expertise, and also the methodologies, bases and assumptions adopted in the valuation report. Further details of the valuation report are set out in Appendix II to the Scheme Document.

(a) Scope of work and qualifications of the independent valuer

We have discussed with Masterpiece regarding the qualification and expertise of Masterpiece and the relevant engagement team members. We understand that Masterpiece has experience in handling asset valuation exercises for assets within the PRC. The responsible signing person of the valuation report has over 20 years' industry experience in conducting valuation exercises. Masterpiece also confirmed that it is independent from the Company and Best Approach to perform the Canvest Technology Valuation under the relevant professional standards.

We have also reviewed the terms of the Masterpiece's engagement letter and noted that the purpose of the valuation is to perform a valuation of the equity interest of Canvest Technology. The Masterpiece's engagement letter also contains standard valuation scopes that are typical of company valuations carried out by independent valuers.

(b) Valuation methodologies

Based on our discussion with Masterpiece and review of the valuation report, it is noted that Masterpiece has adopted the asset-based approach in arriving at the Canvest Technology Valuation. We understand that Masterpiece has considered the commonly used valuation approaches for valuation of companies, namely the income approach, the market approach, and the asset-based approach:

(1) Income approach: Due to Canvest Technology's history of net losses and its plans for downsizing operations, Masterpiece considered that the income approach was inappropriate.

(2) Market approach: Masterpiece considered that the market approach could not be reliably applied because comparable market multiples were not available.

(3) Asset-based approach: The asset-based approach and the cost approach are similar in nature. The asset-based valuation is commonly used to value businesses, while the cost approach is used to value assets. Under the asset-based approach, the value of the valuation target is determined based on the basis of a reasonable evaluation of the value of the assets and liabilities of the enterprise. The asset-based approach focuses on the fair value of identifiable assets and liabilities, irrespective of the enterprise's profitability. Since Canvest Technology was experiencing losses and downsizing, the

asset-based approach was considered the most suitable methodology to determine the fair value of Canvest Technology.

As set out in the sub-section headed "2. Information on the disposal assets" under the section headed "E. SPECIAL DEAL IN RELATION TO THE DISPOSALS" of this letter above, Canvest Technology recorded net loss for the two years ended 31 December 2022 and 2023. We have also discussed with Masterpiece and understand that valuation under market approach involves comparison with market multiples of comparable transactions or companies. Comparable transactions with sufficient data were not identified for the purpose of the Canvest Technology Valuation, and comparable listed companies were operating under the going-concern assumption. On the other hand, Canvest Technology has a history of net loss and plans for downsizing operations. In view of the above, we are also of the view that it is appropriate to adopt the asset-based approach in performing the Canvest Technology Valuation.

(c) Valuation assumptions

We have reviewed the valuation report and discussed with Masterpiece in respect of the key assumptions adopted for performing the Canvest Technology Valuation. We understand from Masterpiece that the assumptions are commonly adopted in other valuations of similar assets and there is no unusual assumption which has been adopted during the Canvest Technology Valuation. We also consider that the assumptions adopted in the valuation report are general in nature and we are not aware of any material facts which lead us to doubt the reasonableness of the assumptions adopted by Masterpiece.

(d) Details of valuation

Under asset-based approach, Masterpiece has categorised the assets and liabilities of Canvest Technology into different categories. Assets such as bank balances, prepayments, inventories, and other receivables were assumed to reasonably represent their fair values as book values. Based on our discussion with Masterpiece and review of the valuation report and the details of the valuation, we understand that when assessing the assets and liabilities of Canvest Technology, Masterpiece has discussed with the Management of Canvest Technology to understand the nature of different assets and liabilities of Canvest Technology and has reviewed relevant supporting documents relating to certain of the major assets and liabilities. We noted that the Canvest Technology Valuation as at 28 February 2025 represents a deficit of approximately 9.16% to the unaudited net assets value of Canvest Technology as at 28 February 2025. Such deficit was mainly attributable to the revaluation of account receivables and other receivables. Further details of the valuation deficit on account receivables and other receivables, together with the details of the asset-based approach of the major assets and liabilities of Canvest Technology are set out below:

For plant and equipment, fixed assets and intangible assets which involved assets used in the Canvest Technology's normal business operations, Masterpiece has appraised the fair value of such assets by replacement cost approach, pursuant to which Masterpiece took into account the then current status of the assets and the cost to be incurred to replicate such assets.

For cash and prepayments, Masterpiece has considered the nature of such assets, and the book values of such assets were adopted as the appraised values as no adjustment was necessary.

For receivables, Masterpiece has considered the book value of such assets and has determined the appraised values after conducting a credit assessment by reference to the nature of such assets. We have discussed with Masterpiece and reviewed the summary of the credit assessment on the receivables. We noted that (i) the credit assessment was made for all the receivables of Canvest Technology as at the valuation date; (ii) the ageing of different receivables were considered when performing the credit assessment; and (iii) Masterpiece has also considered the amounts subsequent recovered when performing the ageing analysis.

For liabilities, Masterpiece has confirmed with the management of Canvest Technology that all liabilities stated in the financial statement have fully reflected the indebtedness of Canvest Technology. Masterpiece has assessed such liabilities by reference to their nature and determined the appraised value based on the book value of the liabilities.

Taking into account the above, we consider the underlying assumptions to evaluate the assets and liabilities of Canvest Technology by Masterpiece are fair and reasonable.

(e) Conclusion

Having discussed with Masterpiece and reviewed with them the reasons for adopting the various valuation methodologies, the bases and assumptions used for the valuation and the valuation result, we are of the opinion that the chosen valuation methodologies, bases and assumptions, including the relevant underlying information, in establishing the Canvest Technology Valuation as at 28 February 2025 are in line with the industry practice. In assessing the fairness of the consideration, we consider it is appropriate to refer to the Canvest Technology Valuation conducted by Masterpiece. Having also considered that the consideration of HK$30 million (equivalent to approximately RMB27.9 million based on the HK$:RMB exchange rate of 1:0.93) represents a premium of approximately 17.23% over the Canvest Technology Valuation as at 28 February 2025, being the latest valuation, we are of the view that the consideration for the Smart Parking Disposal is fair and reasonable.

4.3 The Office Building Disposal

Set out below are the principal terms of the KK S&P Agreement, further details of which are set out in the Board Letter:

Date:	22 July 2024 (after trading hours)
Parties involved:	(i) Best Approach, as buyer (ii) Yi Feng, as seller
Assets to be disposed of:	Pursuant to the KK S&P Agreement, Yi Feng has conditionally agreed to sell, and Best Approach has conditionally agreed to acquire the entire equity interests in KK VII (BVI) Limited and KK VIII (BVI) Limited. The underlying assets to be disposed of under the Office Building Disposal are the Properties.
Transfer of equity interests and registration procedures:	Yi Feng shall cooperate with KK VII (BVI) Limited and KK VIII (BVI) Limited in the registration procedures in respect of the Office Building Disposal in accordance with applicable laws and regulations, which will be completed before the date on which the Scheme becomes effective. Upon completion of the registration procedures in respect of the Office Building Disposal, KK VII (BVI) Limited and KK VIII (BVI) Limited will cease to be subsidiaries of the Company and their financial results will no longer be consolidated into the consolidated financial statements of the Group.

Consideration:

The consideration under the KK S&P Agreement is HK$165 million, which was determined after arm's length negotiations with reference to the appraised value of the underlying assets in the total amount of HK$165,400,000 as at 30 June 2024 based on the valuation report prepared by Masterpiece. The consideration shall be settled by Best Approach in cash and in a lump sum within 30 days from the date of first payment of the total Cancellation Price payable by the Offeror to Best Approach under the Proposal in accordance with the Takeovers Code.

Conditions:

The KK S&P Agreement and the transfer of equity interests in KK VII (BVI) Limited and KK VIII (BVI) Limited are conditional upon satisfaction of the following conditions: (i) the receipt of an opinion from the Independent Financial Adviser to the Independent Board Committee confirming that the Office Building Disposal is fair and reasonable as far as the Independent Shareholders are concerned; (ii) the passing of an ordinary resolution by the Independent Shareholders at the EGM to approve the Office Building Disposal; (iii) the grant of consent under Rule 25 of the Takeovers Code from the Executive in respect of the Office Building Disposal; and (iv) the obtaining of approval of the Scheme by the Independent Shareholders, the Scheme Shareholders and the order sanctioning by the Grand Court of Cayman Islands. None of the aforesaid conditions have been waived as at the date of the Scheme Document. The conditions cannot be waived in any event.

Completion:

The completion of the Office Building Disposal shall take place upon the settlement of the consideration by Best Approach.

Assessment of the consideration of the Office Building Disposal

The consideration under the Office Building Disposal of HK$165 million was determined after arm's length negotiations with reference to the appraised value of the underlying assets (the "**Properties Valuation**") in the total amount of approximately HK$165 million as at 30 June 2024 based on a valuation report prepared by an independent valuer.

The Company has engaged Masterpiece to conduct the Properties Valuation. In addition to the Properties Valuation as at 30 June 2024, Masterpiece has also performed an updated valuation of the underlying assets as at 28 February 2025. According to the updated valuation report (details of which are contained in Appendix II to the Scheme Document), the Properties Valuation as at 28 February 2025 was HK$157,000,000. In preparing the valuation report, Masterpiece selected the market approach to conclude the Properties Valuation.

For due diligence purpose, we have reviewed the valuation report prepared by Masterpiece and have discussed with Masterpiece regarding the Properties Valuation with details set out below. In the course of our review, we have discussed with Masterpiece its scope of work and expertise, and also the methodologies, bases and assumptions adopted in the valuation report. Further details of the valuation report are set out in Appendix II to the Scheme Document.

(a) Scope of work and qualifications of the independent valuer

We have discussed with Masterpiece regarding the qualification and expertise of Masterpiece and the relevant engagement team members. We understand that Masterpiece has experience in handling asset valuation exercises for assets within the PRC (including Hong Kong). The responsible signing person of the valuation report has over 20 years' industry experience in conducting valuation exercises. Masterpiece also confirmed that it is independent from the Company and Best Approach to perform the Properties Valuation under the relevant professional standards.

We have also reviewed the terms of the Masterpiece's engagement letter and noted that the purpose of the valuation is to perform a valuation of the Properties. The Masterpiece's engagement letter also contains standard valuation scopes that are typical of company valuations carried out by independent valuers.

(b) Valuation methodologies

Based on our discussion with Masterpiece and review of the valuation report, it is noted that Masterpiece has adopted the market approach in arriving at the Properties Valuation as reliable market evidence is available. The market approach provides an indication of value by comparing the subject asset to similar assets that have been sold in the market, with appropriate adjustments for the differences between the subject asset and the assets that are considered to be comparable to the subject asset. As confirmed by the Masterpiece, the market approach is one of the commonly adopted approaches for valuation of property interest and is also consistent with normal market practice.

(c) Valuation assumptions

We have reviewed the valuation report and discussed with Masterpiece in respect of the key assumptions adopted for performing the Properties Valuation. We understand from Masterpiece that the assumptions are commonly adopted in other valuations of similar assets and there is no unusual assumption which has been adopted during the Properties Valuation. We also consider that the assumptions adopted in the valuation report are general in nature and we are not aware of any material facts which lead us to doubt the reasonableness of the assumptions adopted by Masterpiece.

(d) Details of valuation

Based on our discussion with Masterpiece, we understand that in valuing the Properties, Masterpiece has valued by comparing recent market evidence of similar properties located in the neighborhood area of the property. For our due diligence purpose, we have discussed with Masterpiece and have reviewed the details of the Properties Valuation. For the selection criteria of the comparable properties, we noted that Masterpiece has identified sales of similar properties in nearby district as the Properties within 3 years prior to the valuation date. As advised by Masterpiece, the considerations for selecting comparable transactions and the adjustments factors are consistent with normal market practice. For the comparable properties identified, we have reviewed the transaction details of such properties (including the transaction date, the consideration, size, address, view and other relevant information of the subject properties). Based on the details of valuation obtained, we also noted that Masterpiece has made various adjustments to the comparable properties to reflect the differences in various aspects including market conditions, size, location, time, age, quality and any other relevant factors of the sales of the comparable properties against the Properties. During our discussion with

Masterpiece and review of the valuation details, we did not identify any major factors which caused us to doubt the fairness and reasonableness of the principal bases and assumptions adopted for the Properties Valuation.

(e) Conclusion

Having discussed with Masterpiece and reviewed with them the reasons for adopting the valuation methodologies, the bases and assumptions, including the relevant underlying information, used for the valuation and the valuation result, we are of the opinion that the chosen valuation methodologies, bases and assumptions in establishing the Properties Valuation as at 28 February 2025 are in line with the industry practice. In assessing the fairness of the consideration, we consider it is appropriate to refer to the Properties Valuation conducted by Masterpiece. Having also considered that the consideration represents a premium of approximately 5.10% over the Properties Valuation as at 28 February 2025, being the latest valuation, we are of the view that the consideration for the Office Building Disposal is fair and reasonable.

4.4 Our view on the Disposals

Taking into account that (i) the considerations of the Disposals were based on the valuation results of valuation report issued by the independent valuers; (ii) our view regarding the Land Valuation, the Canvest Technology Valuation and the Properties Valuation as concluded in this section; (iii) the consideration of the Land Disposal is close to the Land Valuation as at 28 February 2025 (representing a slight discount of approximately 0.21%); and (iv) the considerations of the Smart Parking Disposal and the Office Building Disposal represent a premium of approximately 17.23% and a premium of approximately 5.10% over the Canvest Technology Valuation and the Properties Valuation respectively as at 28 February 2025, being the latest valuation, we are of the view that the terms of the Disposals are fair and reasonable.

5. *Financial Effect of the Disposals*

According to the Board Letter, (i) for the Land Disposal, it is expected that no material gain or loss will be recorded; (ii) for the Smart Parking Disposal, based on, *inter alia*, the consideration and the carrying value of net assets of Canvest Technology as at 31 December 2024 of HK$23.4 million, there will be a gain on disposal of HK$6.6 million; and (iii) for the Office Building Disposal, based on, *inter alia*, the consideration and the carrying value of KK VII (BVI) Limited and KK VIII (BVI) Limited as at 31 December 2024 of a total of HK$161.2 million, there will be a gain on disposal of HK$3.8 million. The actual amount of gain or loss and the financial effect as a result of the Disposals to be recorded are subject to the review and final audit by the auditor of the Company.

F. SPECIAL DEAL IN RELATION TO THE EB AMENDMENT

1. Background and principal terms of the EB Amendment

According to the Exchangeable Bonds Announcement, the Exchangeable Bonds, which were issued by Best Approach to Shanghai Industrial (with Ms. Loretta Lee as the guarantor), will entitle the holder thereof (i.e. Shanghai Industrial) to exchange for not more than 243,954,117 Shares (the "**Exchangeable Shares**") beneficially owned by Best Approach at the initial exchange price of HK$6.71 at the date of exercising the exchangeable right. The Exchangeable Shares represent approximately 10% of the total issued Shares as at the Latest Practicable Date. For detailed terms of the Exchangeable Bonds, please refer to the Exchangeable Bonds Announcement.

On 9 April 2025 (after trading hours), Best Approach, Shanghai Industrial and Ms. Loretta Lee entered into the Amendment Agreement to amend certain terms and conditions of the Exchangeable Bonds.

The principal terms of the Amendment Agreement, as extracted from the Board Letter, are set out below:

Date: 9 April 2025

Parties: Best Approach (as the issuer), Shanghai Industrial (as the subscriber) and Ms. Loretta Lee (as the guarantor)

Amendments: The parties agree to amend the Exchangeable Bonds Terms and Conditions to provide, among other things, new reciprocal voluntary early redemption rights as follows:

(1) The BA Voluntary Early Redemption

(a) Best Approach shall have a voluntary early redemption right pursuant to which it may, at any time prior to the maturity date of the Exchangeable Bonds as set out in the Exchangeable Bonds Announcement (the "**Maturity Date**"), redeem the outstanding Exchangeable Bonds (the "**BA Voluntary Early Redemption**") at an amount equal to the sum of (i) the principal amount of the Exchangeable Bonds (the "**Principal Amount**") (plus accrued but unpaid interest based on the then applicable interest rate of the Exchangeable Bonds), plus (ii) the Early Redemption Fee (as defined below) (together, the "**BA Early Redemption Price**").

(b) Upon Best Approach notifying Shanghai Industrial of a proposed BA Voluntary Early Redemption (the "**BA Early Redemption Notice**") and if, at such time, there is any matter which, if completed, will result in the occurrence of any event set out under paragraph (i) or (ii) of the paragraph headed "Early redemption at the option of Company" of the Exchangeable Bonds Announcement (each a "**BA Relevant Transaction**"), is ongoing or has been announced on the Stock Exchange website, then Best Approach shall, on the completion date of the BA Voluntary Early Redemption specified in the BA Early Redemption Notice, which shall be no sooner than 20, but no later than 60, business days after the date of the BA Early Redemption Notice (the "**BA Early Redemption Date**"), pay to Shanghai Industrial the BA Early Redemption Price.

(c) If, at the time of the BA Early Redemption Notice, no BA Relevant Transaction is ongoing or has been announced on the Stock Exchange website, Shanghai Industrial shall have the right to object to the proposed Best Approach Voluntary Early Redemption, which then shall not be consummated.

(d) The "**Early Redemption Fee**" in respect of the Exchangeable Bonds means the following:

A x B x C/D

Where:

A = the outstanding Principal Amount as at the BA Early Redemption Date

B = 3.4%

C = 180 (or, if lower, the number of days from the BA Early Redemption Date to the Maturity Date)

D = 360

(2) The SI Voluntary Early Redemption

(a) Conversely, Shanghai Industrial shall also have a voluntary early redemption right pursuant to which it may, at any time prior to the Maturity Date, redeem the outstanding Exchangeable Bonds (the "**SI Voluntary Early Redemption**"), at an amount equal to the Principal Amount (plus accrued but unpaid interest at the then applicable interest rate of the Exchangeable Bonds) (the "**SI Early Redemption Price**").

(b) Upon Shanghai Industrial notifying Best Approach of a proposed SI Voluntary Early Redemption (the "**SI Early Redemption Notice**") and if, at such time, any event set out under the paragraph headed "Early redemption at the option of Best Approach" of the Exchangeable Bonds Announcement has occurred (each, a "**SI Relevant Transaction**"), Best Approach shall pay to Shanghai Industrial the SI Early Redemption Price on the redemption date specified in the SI Early Redemption Notice.

(c) If, at the time of the SI Early Redemption Notice, no SI Relevant Transaction has occurred, Best Approach shall have the right to object to the proposed SI Voluntary Early Redemption, which then shall not be consummated.

Conditions precedent:

The EB Amendments shall be conditional upon (i) the Executive granting its consent to the special deal in relation to the EB Amendments Special Deal, (ii) the Independent Financial Adviser confirming that the terms of the EB Amendments are fair and reasonable so far as the EB Amendments Independent Shareholders are concerned; and (iii) the passing of an ordinary resolution by the Shareholders who are not involved in or interested in the EB Amendments at the EGM to approve the EB Amendments (together, the "**EB Amendments Conditions**").

2. **Information of the parties to the EB Amendment**

As set out in the Scheme Document, Shanghai Industrial is a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 363). Shanghai Industrial is an indirect substantial shareholder of the Company through its indirect wholly-owned subsidiary, True Victor, which holds 475,251,000 Shares, representing approximately 19.47% of the total issued share capital of the Company as at the Latest Practicable Date.

For the information regarding Best Approach and Ms. Loretta Lee, please refer to the sub-section headed "2. Information on Best Approach and its beneficial owners" of this letter above.

3. **Our view on the EB Amendments**

As part of our analysis, we have searched on the website of the Stock Exchange to identify transactions involving issue of convertible securities which were announced by companies listed on the Stock Exchange (the "**EB Comparable Transactions**") during the period from 1 January 2025 up to 9 April 2025, being a period of approximately three months prior to and including the date of the Amendment Agreement (excluding transactions which were terminated/lapsed and transactions involving convertible securities which are convertible into non-Stock Exchange listed securities). Based on the aforesaid criteria, we found 19 EB Comparable Transactions which met the said criteria, and they are exhaustive. We noted that for 10 out of 19 EB Comparable Transactions, the subject convertible securities include similar terms of voluntary redemption by the issuer/subscriber. Accordingly, we consider that the BA Voluntary Early Redemption and the SI Voluntary Early Redemption are not uncommon.

The EB Amendments is an arrangement among certain Shareholders (namely Best Approach, Shanghai Industrial and Ms. Loretta Lee), and has no direct impact on the Company. Under the EB Amendment, each of Best Approach and Shanghai Industrial was granted an early redemption right to redeem the outstanding Exchangeable Bonds at the relevant predetermined terms and conditions. There will be no change in the issued share capital of the Company as a result of the EB Amendment, nor will there be any cash flow impact of the Company as a result of the exercise of the BA Voluntary Early Redemption or SI Voluntary Early Redemption.

As mentioned in the sub-section headed "5. Our view on the Rollover Arrangement" of this letter above, considering the background of Best Approach and its beneficial owners (including Mr. KM Lai and Ms. Loretta), it is important for the Company to retain Best Approach as Shareholders after the Scheme becoming effective so that Best Approach and its beneficial owners will have incentives to continue to contribute to the future development and growth of the Group.

Under the EB Amendment, if the BA Voluntary Early Redemption or SI Voluntary Early Redemption is exercised, the outstanding Exchangeable Bonds would be redeemed, and no Exchangeable Shares will be transferred by Best Approach to Shanghai Industrial. We consider that the retention of Shares by Best Approach in such scenario aligns with the intention of the Rollover Arrangement as discussed earlier.

Having considered (i) our analysis of the EB Comparable Transactions, in particular that the BA Voluntary Early Redemption and the SI Voluntary Early Redemption are not uncommon; and (ii) the retention of Shares by Best Approach, if the BA Voluntary Early Redemption or the SI Voluntary Early Redemption is exercised, aligns with the intention of the Rollover Arrangement, we are of the view that the terms of the EB Amendments are fair and reasonable.

Independent Shareholders should note that satisfaction of the EB Amendment Conditions is not one of the Pre-Conditions or Conditions of the Proposal and the Scheme. Therefore, if all the Pre-Conditions and Conditions are satisfied (or waived, as the case may be), the implementation of the Proposal and the effectiveness of the Scheme will not be subject to whether the EB Amendments Conditions are satisfied or whether the Amendment Agreement will complete.

DISCUSSION

In reaching our recommendation as regards the Transactions, we have taken into account the factors and reasons set out above, and in particular the following:

(i) The Proposal and the Scheme

The Company recorded year-on-year decreases in revenue and net profit during FY2023 and FY2024 as compared to the corresponding periods in the previous year. As mentioned in the sub-section headed "2.1 Financial information of the Group" of this letter above, such decreases in revenue and net profit during FY2023 and FY2024 were mainly due to the decreases in construction revenue recognised during FY2023 and FY2024 since most of the Group's WTE projects are now in operation, and the WTE industry has reached a mature stage characterised by a reduction in new projects.

The Company and Grandblue Environment are engaging in the environmental protection related business with a high degree of synergy in business area, business model, operation management and control capabilities, the Offeror believes that the Proposal will be able to create synergy and enhance competitive strengths and facilitate the Offeror to become a leading enterprise in solid waste treatment and WTE business through horizontal industrial integration after the completion of the Proposal. The implementation of the Proposal will also permit the Offeror and the Company to make strategic decisions focused on long-term growth and benefits, free from regulatory constraints from the perspective of managing a publicly listed company, the pressure of market expectations and share price fluctuations which arise from being a publicly listed company *(a) The Cancellation Price*

Cancellation Price compared to historical Share prices and NAV per Share

We have assessed the fairness of the Cancellation Price by reviewing the closing price of Shares during the Review Period. The Cancellation Price of HK$4.90 is higher than the closing prices of Shares in most of the trading days during the Review Period. The Cancellation price represents a premium in a range of approximately 11.62% to 23.50% over the closing prices of Shares for different periods up to and including the Last Trading Day prior to the publication of the Announcement; and represents premium of approximately 21.29% and 21.59% over the NAV per Share as at 31 December 2024 and the Adjusted NAV per Share respectively. As at the Latest Practicable Date, the Shares closed at HK$4.75, representing a premium of approximately 3.16% over the Cancellation Price.

Trading liquidity

The trading volume in the Shares was generally thin during the Review Period. If the Shareholders wish to sell a significant number of Shares within a short period in the market, it is possible that a downward pressure would be exerted on the market price of the Shares. The Proposal provides an opportunity for the Independent Shareholders (especially those with relatively sizeable shareholdings) to realise their investments in the Shares at a fixed cash price (at a premium over the average historical closing price of Share price for different periods up to and including the Last Trading Day) without disturbing the market price.

Comparison with peers

We have compared the Cancellation Price with Comparable Companies. The implied P/E Ratio and P/B Ratio of the Proposal (with the Cancellation Price) are higher than those of the Comparable Companies.

Comparison with other privatisation transactions

The premiums represented by the Cancellation Price over the last trading day, 5-day average, 10-day average, 30-day average and 60-day average fall within the range of the premiums/discounts of the Privatisation Precedents. Despite that the premiums represented by the Cancellation Price over the last trading day, 5-day average, 10-day average, 30-day average and 60-day are below the median premiums/discounts of the Privatisation Precedents, the premia represented by the Cancellation Price over the NAV per Share as at 31 December 2024 and the Adjusted NAV per Share are higher than the median premia/discounts of the Privatisation Precedents.

Having considered the above, we are of the view that the Cancellation Price is fair and reasonable.

(b) The Option Offer

The Option Offer Price is determined by the "see-through" price (being the Cancellation Price of HK$4.90 minus the exercise price of HK$4.39 of the Share Options).

Since the commencement of the Offer Period up to and including the Latest Practicable Date, the closing price of the Shares fluctuated between HK$4.28 and HK$4.79 (i.e. the Offer Period Closing Price Range). The exercise price of HK$4.39 of the Share Options fall within the aforesaid range of closing price of Shares. Based on the closing price of the Shares of HK$4.75 as at the Latest Practicable Date, all Share Options were in-the-money.

Taking into account that (i) Option Offer Price is based on the "see-through" price, being the Cancellation Price (which we consider to be fair and reasonable) minus the exercise price of the Share Options; (ii) if the Option Offer is not accepted, the unexercised Share Options will lapse upon the Scheme becoming effective and the Optionholder will enjoy no economic benefits; and (iii) the Cancellation Price is higher than the Offer Period Closing Price Range (which means accepting the Option Offer with a "see-through" price of HK$0.51 is potentially more attractive than exercising the Share Option and selling the Shares in the open market), we consider that the Option Offer Price is fair and reasonable.

Having considered the above, we are also of the opinion that the terms of the Option Offer, the Proposal and the Scheme are fair and reasonable.

(ii) The special deals in relation to the Rollover Arrangement, the Disposals and the EB Amendment

The approval of the Rollover Arrangement and the Disposals by the Independent Shareholders at the EGM are conditions precedent to the implementation of the Proposal. If the Rollover Arrangement and the Disposals are not approved by the Independent Shareholders, the Proposal will not be implemented and the Scheme will not take effect. In view of that the terms of the Proposal and the Scheme are considered fair and reasonable, we also consider that the approval of the Rollover Arrangement and the Disposals, which is a prerequisite for the implementation of the Proposal, is in the interests of the Company and the Shareholders as a whole, and is in the interests of the Independent Shareholders.

In addition, Best Approach is familiar with the Group's business (in particular, Best Approach is beneficially owned by Mr. KM Lai and Ms. Loretta Lee who are each a controlling Shareholder, executive Director and a senior management of the Company). Given the background of Best Approach and its beneficial owners, it is important for the Company to retain Best Approach as Shareholders after the Scheme becoming effective so that Best Approach and its beneficial owners will have incentives to continue to contribute to the future development and growth of the Group. Accordingly, we are of the opinion that the terms of the Rollover Arrangement are fair and reasonable.

The Land Disposal, the Smart Parking Disposal and the Office Building Disposal are part of the arrangement under the proposal for the privatisation of the Company by the Offeror. The consideration for the Disposals were determined with reference to the valuation results of the underlying assets by the independent valuers. We have reviewed the Valuation Reports and discussed with the independent valuers regarding the details of the Land Valuation, the Canvest Technology Valuation and the Properties Valuation. Based on our review, we are of the opinion that the chosen valuation methodologies, bases and assumptions in establishing the Land Valuation, the Canvest Technology Valuation and the Properties Valuation as at 28 February 2025 are in line with the industry practice, and it is appropriate to refer to the Land Valuation, the Canvest Technology Valuation and the Properties Valuation in assessing the fairness of the consideration of the Disposals. The consideration of the Land Disposal is close to the Land Valuation as at 28 February 2025 (representing a slight discount of approximately 0.21%), while the considerations of the Smart Parking Disposal and the Office Building Disposal represent a premium of approximately 19.23% and a premium of approximately 5.10% over the Canvest Technology Valuation and the Properties Valuation respectively as at 28 February 2025, being the latest valuation. We are of the view that the terms of the Disposals are fair and reasonable.

Under the EB Amendment, if the BA Voluntary Early Redemption or SI Voluntary Early Redemption is exercised, the outstanding Exchangeable Bonds would be redeemed, and no Exchangeable Shares will be transferred by Best Approach to Shanghai Industrial. We consider that the retention of Shares by Best Approach in such scenario aligns with the intention of the Rollover Arrangement. Having considered (i) our analysis of the EB Comparable Transactions, in particular that the BA Voluntary Early Redemption and the SI Voluntary Early Redemption are not uncommon; and (ii) the retention of Shares by Best Approach, if the BA Voluntary Early Redemption or the SI Voluntary Early Redemption is exercised, aligns with the intention of the Rollover Arrangement, we are of the view that the terms of the EB Amendments are fair and reasonable.

OPINION AND RECOMMENDATION

Based on the above principal factors and reasons, we consider that the terms of the Proposal, the Scheme, the Option Offer, the Rollover Arrangement, the Disposals and the EB Amendments are fair and reasonable. Accordingly, we advise the Independent Board Committee (a) to recommend the Independent Shareholders to vote in favour of (i) the Scheme at the Court Meeting and (ii) the Rollover Arrangement, the Disposals and all resolutions necessary to implement the Proposal at the EGM, (b) to recommend the EB Amendment Independent Shareholders to vote in favour of the EB Amendments at the EGM, and (c) to recommend the Optionholder to accept the Option Offer.

Shareholders are reminded to monitor the trading price and liquidity of the Shares during the Offer Period and, having regard to their own circumstances, consider selling their Shares in the open market instead of tendering their Shares under the Scheme, if the net proceeds from such sales exceed the net amount receivable under the Scheme.

Optionholder is reminded to monitor the trading price and liquidity of the Shares during the Offer Period and, having regard to their own circumstances, consider exercising the Share Options prior to the Latest Option Exercise Date and selling their Shares in the open market, instead of accepting the Option Offer, if the net proceeds from such sales exceed the net amount receivable under the Option Offer.

As different Shareholders and/or Optionholder would have different investment criteria, objectives and/or circumstances, we recommend Shareholders and/or Optionholder who may require advice in relation to any aspect of the Scheme Document, or as to any action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

Clifford Cheng
Director

Mr. Clifford Cheng is a licensed person registered with the Securities and Futures Commission and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over ten years of experience in the corporate finance industry.

* *For identification purpose only*