

AmCap

Ample Capital Limited

豐盛融資有限公司

28 February 2025

*To the Independent Board Committee and
the Independent Shareholders of
K.H. Group Holdings Limited*

Dear Sirs,

**MAJOR AND CONNECTED TRANSACTION
ACQUISITION OF THE ENTIRE EQUITY INTEREST
AND THE ASSIGNMENT OF SHAREHOLDER'S LOAN
IN THE TARGET COMPANY**

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of whether the terms of the Acquisition Agreement and the transactions contemplated thereunder are normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole, details of which are set out in the section headed "Letter from the Board" (the "**Letter from the Board**") contained in the circular (the "**Circular**") of the Company to the Shareholders dated 28 February 2025, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular, unless the context requires otherwise.

Room 903, 9/F., Far East Consortium Building, 121 Des Voeux Road Central, Central, Hong Kong.

香港中環德輔道中 121 號遠東發展大廈 9 樓 903 室

Phone 電話 : (852) 2545-3038 Fax 傳真 : (852) 2545-3098 Email 電郵 : ample1@amplecap.com Homepage 網址 : www.amplecap.com

Member of Ample Finance Group 豐盛金融集團成員

LISTING RULES IMPLICATION

Mr. Chen, a controlling shareholder of the Company, was indirectly interested in 51% of the equity interest of Haosheng Danyang, hence Haosheng Danyang is an associate of Mr. Chen and a connected person of the Company. Given that (i) the Vendors entered into a transaction with the Group through the Acquisition Agreement, and an agreement with Haosheng Danyang with respect to the Acquisition through the 2023 Agreement, and (ii) Haosheng Danyang, a connected person of the Company provided financial assistance to the Target Company through the Funds, Haosheng Danyang, is able to influence transaction(s) between the Company and the Vendors, hence the Vendors shall be deemed to be connected persons of the Company pursuant to Rule 14A.20 of the Listing Rules and the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Acquisition exceed 25%, but are all less than 100%, the Acquisition constitutes a major and connected transaction of the Company and is therefore subject to the reporting, announcement and independent shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, no Director had a material interest in the transactions contemplated under the Acquisition Agreement, hence none of them were required to abstain from voting on the Board resolutions approving the transactions contemplated under the Acquisition Agreement.

Mr. Chen and his associates have material interests in the Acquisition Agreement and the transactions contemplated thereunder and will therefore be required to abstain from voting on the resolutions at the EGM.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Feng Zhidong and Ms. Liu Yixing, has been established to advise the Independent Shareholders as to whether the terms of the Acquisition, Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole and to make recommendations to the Independent Shareholders on how to vote at the EGM.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were not connected with the Company or any of its respective substantial shareholders, directors or chief executives, or any of their respective associates and accordingly, are considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreement and the transactions contemplated thereunder. In the last two years, we have not acted in any financial adviser role to the Company.

With regards to our independence from the Company, it is noted that (i) apart from the normal professional fees paid to us in relation to the current appointment as the Independent Financial Adviser, no arrangements exist whereby we have received or will receive any fees or benefits from the Company or other parties that could reasonably be regarded as relevant to our independence; and (ii) the aggregate professional fees paid/to be paid to us do not make up a significant portion of our revenue during the relevant period which would affect our independence. Accordingly, we consider that we are independent to act as the Independent Financial Adviser in respect of the Acquisition pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the annual reports of the Company for the year ended 31 March 2024 (the “**2024 Annual Report**”); (iii) the interim report of the Company for the six months ended 30 September 2024 (the “**2024 Interim Report**”); (iv) other information provided by the Directors and/or the senior management of the Company (the “**Management**”); (v) the opinions expressed by and the representations of the Directors and the Management; (vi) the independent valuation report (“**Valuation Report**”) by the Valuer; and (vii) our review of the relevant public information. We have assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or the Directors, which have been provided to us.

We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter. We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made, or opinion expressed by the Directors and the Management, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group, or any of its respective substantial shareholders, subsidiaries or associates.

In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

1. Background information of the parties

1.1 Background information and financial overview of the Group

As stated in the Letter from the Board, the Group is principally engaged in the provision of foundation and construction services and sales of chemical products. Certain summary financial information of the Group as extracted from the 2024 Annual Report and the 2024 Interim Report is set out below:

	For the six months ended		For the year ended	
	30 September		31 March	
	2023	2024	2023	2024
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(audited)	(audited)
Revenue	75,549	75,068	245,349	175,174
Gross loss	(51,192)	(10,914)	(28,983)	(31,039)
Loss attributable to owners of the Company	(23,524)	(44,825)	(74,115)	(56,490)

For the six months ended 30 September 2024

The Group's condensed consolidated revenue decreased from approximately HK\$75.5 million for the six months ended 30 September 2023 to approximately HK\$75.1 million for the six months ended 30 September 2024, representing a decrease of approximately HK\$0.4 million or 0.6%. Such decrease in revenue is due to the decrease in workdone after the completion of certain large projects during the period. The Group recorded the loss attributable to the shareholders of approximately HK\$44.8 million for the six months ended 30 September 2024, representing an increase of loss of approximately HK\$21.3 million or approximately 47.5% as compared to the loss of approximately HK\$23.5 million for the six months ended 30 September 2023. The increase in loss was mainly attributed to the recognition of a compensation from the former ultimate holding company, New Grace Gain Limited of HK\$52.7 million for the six months ended 30 September 2023, while no such income was recognised for the six months ended 30 September 2024.

For the year ended 31 March 2024

The Group's consolidated revenue decreased from approximately HK\$245.3 million for the year ended 31 March 2023 to approximately HK\$175.2 million for the year ended 31 March 2024, representing a decrease of approximately HK\$70.1 million or approximately 28.6%. Such decrease in revenue is mainly due to decrease in workdone after completion of certain large projects during the year ended 31 March 2024. The Group recorded the loss attributable to the shareholders approximately HK\$56.5 million for the year ended 31 March 2024, representing a decrease of loss of approximately HK\$17.6 million or approximately 23.8% as compared to the loss of approximately HK\$74.1 million for the year ended 31 March 2023. The decrease of loss was mainly attributed to increase in other income of HK\$80.7 million due to the Group recognised the compensation from the former ultimate holding company, New Grace Gain Limited of HK\$90.0 million under the Project Performance Guarantee during the year ended 31 March 2024 while no such income was recognised during the year ended 31 March 2023; and offset by the substantially increase in the write-off of contract assets.

	As at 30 September 2024 HK\$'000 (unaudited)	As at 31 March 2024 HK\$'000 (audited)	2023 HK\$'000 (audited)
Total assets	136,956	201,989	440,035
Total liabilities	(207,108)	(227,753)	(439,009)
Total equity	(70,152)	(25,764)	1,026

30 September 2024 vs 31 March 2024

The Group recorded net liabilities of approximately HK\$70.2 million and HK\$25.8 million as at 30 September 2024 and 31 March 2024, respectively. Such increase in net liabilities of approximately HK\$44.6 million mainly attributable to (i) a decrease in contract asset of approximately HK\$21.6 million; (ii) a decrease in trade receivables of approximately HK\$19.6 million; (iii) a decrease in non-current asset of HK\$10.0 million mainly due to recorded an impairment loss on property, plant and equipment and right-of-use assets; and partially offset by a decrease in unsecured other borrowing of approximately HK\$5.0 million.

For the year ended 31 March 2024

1.2 Information on the Target Group

1.2.1 Business

The Target Company is a company established in the PRC with limited liability on 9 March 2023 with a registered capital of RMB20.0 million and a paid-up capital of RMB20.0 million as at the Latest Practicable Date. The Target Company is an investment holding company and special purpose vehicle established by the Vendors pursuant to Ms. Zhu's instruction as Jiangsu Yongmai's new shareholder after the reorganization proceedings. Further, it was preferable to have a new entity to have overall control over the Production Plant because Jiangsu Yongmai's reputation was not conducive to the resumption of production and operation due to the litigation record, and its history of being included in the List of Enterprises with Abnormal Operations. As at the date of this circular, the entire equity interest in the Target Company was held by Ningbo Huanlang and Mr. Zhang as to 99% and 1%, respectively. Details of the reorganization proceedings, please refer to the Letter of Board.

The Target Company holds the entire equity interest of Jiangsu Yongmai. Jiangsu Yongmai is a company established in the PRC with limited liability on 31 July 2017 with a registered capital of RMB100.0 million and a paid-up capital of RMB65.5 million as at the Latest Practicable Date.

Jiangsu Yongmai owns an NMP recycling and integrated utilization facilities with an annual capacity of 60,000 tons (the "**Production Plant**"). As at the Latest Practicable Date, the Production Plant has obtained all necessary licenses and permits required for it to carry out its principal business activities, including licenses required for the handling of the recycling of NMP, and officially commenced production since December 2024.

Jiangsu Yongmai obtained all necessary government approvals for the construction of the Production Plant in 2018. Jiangsu Yongmai was unable to settle its outstanding payment and construction of the Production Plant was suspended in June 2019. Before the suspension, construction and installation of the major equipment required for the Production Plant was substantially completed.

In September 2022, Jiangsu Kejia Construction Co. Ltd (江蘇科嘉建設有限公司) filed a bankruptcy and reorganization petition against Jiangsu Yongmai, in relation to the non-payment of overdue construction fees and other payments (the "**Bankruptcy Petition**"). The court ordered that Jiangsu Yongmai shall enter into bankruptcy and reorganization process in November 2022, and the liquidation department of Jiangsu Yongmai was appointed as Jiangsu Yongmai' administrator (the "**Administrator**"). Proofs of debt were then submitted by creditors of Jiangsu Yongmai, and the aggregate amount of outstanding claims against Jiangsu Yongmai, as adjudicated by the Administrator, was RMB85.7 million.

Immediately before the Bankruptcy Petition was filed, Jiangsu Yongmai was owned by Ms. Zhu, Zhang Kaiye (張開業), Zhongshengjia Asset Management Co., Ltd. (中晟嘉資產管理有限公司), Li Yugen (李玉根), Li Jianying (李建英), Bao Xiangdong (包向東) and Lu Haiming (盧海明) as to approximately 35.93%, 26.03%, 13.54%, 10%, 7.5%, 4% and 3% respectively, and each of the abovementioned shareholders are parties independent of the Company and its connected persons. There were no changes in Jiangsu Yongmai's shareholding interest since then till its entire equity interest was transferred to the Target Company.

In June and July 2023, on the basis that the creditor for the Bankruptcy Petition has fully received repayment of its debt, the Administrator applied to the local court to terminate enforcement actions against Jiangsu Yongmai, and to transfer the entire equity interest of Jiangsu Yongmai held by the Original Shareholders to the Target Company (the “**Transfer Petition**”), respectively. The Transfer Petition was granted on 13 July 2023 and the said transfer was completed on 24 July 2023. Mr. Zhang has been appointed as the general manager of Jiangsu Yongmai since 24 July 2023.

1.2.2 Financial overview of the Target Company

Set out below is the unaudited financial information of the Target Company for the period from 9 March 2023 (the date of incorporation of the Target Company) to 31 December 2023 and the nine months ended 30 September 2024:

	For the period from 9 March 2023 to 31 December 2023 RMB'000 (audited)	For the nine months ended 30 September 2024 HK\$'000 (audited)
Net loss before taxation	(4,272)	(1,036)
Net loss after taxation	(4,272)	(1,036)

The following analysis is based on our review of the financial statements of the Target Company as contained in Appendix IIA to the Circular and our discussion with the Management and the management of the Target Company.

For the nine months ended 30 September 2024

The Target Company did not record any revenue during the nine months ended 30 September 2024 and for the period from 9 March 2023 to 31 December 2023. The Target Company recorded provision for expected credit loss (“ECL”) on amount due from a subsidiary of approximately RMB0.7 million and administrative expense of approximately RMB0.2 million. The decreased in both expenses compared to for the period from 9 March 2023 to 31 December 2023 mainly due to decrease in staff cost and the fee related to the bankruptcy.

1.2.3 Financial overview of the Jiangsu Yongmai

Set out below is the audited financial information of the Jiangsu Yongmai for the years ended 31 December 2022 and 2023 and the nine months ended 30 September 2023 and 2024:

	For the year ended 31 December		For the nine months ended 30 September	
	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(unaudited)	(audited)
Net loss before taxation	(400)	(8,177)	(5,280)	(12,390)
Net loss after taxation	(400)	(8,177)	(5,280)	(12,390)

The following analysis is based on our review of the financial statements of the Jiangsu Yongmai as contained in Appendix IIB to the Circular and our discussion with the Management and the management of the Jiangsu Yongmai.

For the year months ended 31 December 2023

Jiangsu Yongmai recorded a net loss for the year ended 31 December 2022 and 2023. The increase in net loss of approximately RMB7.8 million mainly due to increase in administrative expenses.

For the nine months ended 30 September 2024

Jiangsu Yongmai recorded a net loss for the nine months ended 30 September 2023 and 2024. The increase in net loss of approximately RMB7.1 million mainly due to increase in administrative expenses.

2. Reasons for and benefits of the Acquisition

The Group is principally engaged in the provision of foundation and construction services and sales of chemical products. As set out in the Letter from the Board, the Group has been continuously identifying development opportunities in new energy materials and environmental recycling industries, particularly with the popularization of electric vehicles, there is significant potential for the application of clean energy, including battery component recycling and reuse. Upon completion of the Acquisition, the Group's business will extend into the fields of hazardous waste neutralisation and recycling of renewable.

As set out in the Letter from the Board, NMP is a solvent commonly used in a variety of industrial and commercial applications, such as the manufacture and production of lithium-ion batteries petrochemicals, electronics and plastic material and resin. As NMP has potential health and environmental risks, the handling of it is subject to regulatory scrutiny. NMP recycling offers an attractive business opportunity with good growth potential as more industries focus on sustainable practices and circular economy models, and the demand for recycled materials, including solvents like NMP, is growing as its recycling can help lowering the environmental impact of its manufacturing process. We are in the view that the Acquisition is in line with the industry development plan of the new energy materials and the Company's development strategy:

- According to the market research "Lithium Battery NMP Recycling Market by Application, Battery Type, Process Type, Recycling Component, End-User – Global Forecast 2025-2030"¹, the market size of the Lithium Battery NMP Recycling was valued at USD 56.89 million in 2023, expected to reach USD 61.35 million in 2024, and is projected to grow at a CAGR of 6.76%, to USD 89.94 million by 2030.
- As further mentioned in the "Lithium Battery NMP Recycling Market by Application, Battery Type, Process Type, Recycling Component, End-User – Global Forecast 2025-2030", the market driver of the NMP recycling market were (i) growing environmental regulations and policies favoring lithium battery recycling initiatives to reduce hazardous waste; (ii) increased demand for electric vehicles driving the need for efficient and sustainable battery recycling solutions; (iii) technological advancements enhancing the efficiency and cost-effectiveness of lithium battery NMP recycling processes; and (iv) rising consumption of consumer electronics resulting in an increased volume of end-of-life batteries requiring recycling.
- The increasing global demand for lithium-ion batteries in applications ranging from electric vehicles to portable electronics which can foresee that the demand for the NMP recycling will increase as the pressure on raw material supplies and environmental considerations.

As set out in the Letter from the Board, the Company also performed its own due diligence steps for the Acquisition Agreement are fair and reasonable, and believes that the Acquisition will enhance the long term interests of the Group and its Shareholders as a whole.

Having considered the benefits and the due diligence that the Company performed for the Acquisition as mentioned above and that the Acquisition is in line with the industry development plan of the new energy materials and the Company's development strategy, we consider that the Acquisition is in the ordinary and usual course of business of the Group and it is in the interests of the Company and the Shareholders as a whole.

¹ Source: *Lithium Battery NMP Recycling Market by Application, Battery Type, Process Type, Recycling Component, End-User – Global Forecast 2025-2030*

3. Principal terms of the Acquisition Agreement

The principal terms of the Acquisition Agreements are summarised and set out below:

Date:	5 November 2024
Parties:	(i) the Vendors, as vendors; and (ii) the Company and AiXun (a wholly-owned subsidiary of the Company), as purchasers
Subject matter	AiXun and the Company has conditionally agreed to acquire 75% and 25% of the Equity Interest from the Vendors, respectively; and AiXun has agreed to take assignment of the Shareholder's Loan.
Consideration	<p>The consideration for the acquisition of the Equity Interest and the assignment of the Shareholder's Loan (which was subsequently amended pursuant to the Supplemental Agreement) is RMB20.0 million (amongst which RMB15.0 million and RMB5.0 million shall be paid by AiXun and the Company, respectively) and RMB44.0 million (which shall be solely borne by AiXun), respectively.</p> <p>The consideration will be funded by internal resources and external borrowings of the Group in the following manner:</p> <p>(i) approximately RMB32.0 million (representing 50% of the consideration) shall be payable on the Completion Date; and</p> <p>(ii) approximately RMB32.0 million (representing 50% of the consideration) shall be payable within 3 months from the Completion Date.</p>
Conditions Precedent	<p>Completion is conditional upon:</p> <p>(i) the due diligence on the Target Company having been completed to the satisfaction of the Purchasers;</p> <p>(ii) the Purchasers and the Vendors having obtained the approvals and the Target Company having provided all notifications required to execute, deliver, and perform the Acquisition Agreement and complete the transaction contemplated under the Acquisition Agreement;</p>

- (iii) there are no material adverse change in the business, financial, assets, technology, or management aspects of the Target Group, as well as the relevant regulatory laws and regulations in the industry where the Target Group operates; and
- (iv) each of the Vendors and the Target Company having complied with the obligations as set out in the Acquisition Agreement, and each of the representations and warranties under the Acquisition Agreement being true, complete and accurate and not misleading.

None of the conditions are waivable by the Vendors, and all conditions can be waived by the Purchasers. As at the Latest Practicable Date, condition (i) has been fulfilled; and for condition (ii), save for the Independent Shareholders' approval which will be sought at the EGM, all requisite approvals from the Purchaser and Vendors have been obtained.

Completion

Completion shall take place on the date when the conditions precedent have been fully satisfied or waived, and the Vendors having received the first instalment of the Consideration from the Purchasers.

The Target Company shall complete the industrial and commercial registration procedures for this equity transfer and obtain a new business license within 15 working days from the Completion Date.

4. Assessment of the consideration of the Acquisition

4.1 Valuation of the Market Value of the Target Group

As set out in the Letter from the Board, the consideration for the acquisition of the Equity Interest was based on the valuation results in the (the "**Valuation Report**") issued by the Valuer, namely Valor Appraisal & Advisory Limited, with 30 September 2024 as the valuation reference date (the "**Valuation Date**").

According to the Valuation Report, the market value (the "**Market Value**") of 100% equity interest (the "**Equity Interest**") in the Target Company as at the Valuation Date, amounted to RMB51.4 million. In preparing the Valuation Report, the Valuer selected the market approach to conclude the Market Value.

For due diligence purpose, we have reviewed the Valuation Report prepared by the Valuer and have discussed with the Valuer regarding the valuation of the Target Company with details set out below. In the course of our review, we have discussed with the Valuer 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 V to the Circular.

(a) Scope of work and qualifications of the Valuer

The Valuer was engaged to prepare the Valuation Report which sets out an independent valuation on 100% equity interest in the Target Group as at the Valuation Date (the “**Independent Valuation**”). We have discussed with the Valuer regarding the expertise of the Valuer and the relevant engagement team members. The responsible signing person of the Valuation Report has over 16 years’ industry experience in conducting valuation exercises, respectively. We have also enquired with the Valuer as to their independence, and were given to understand that the Valuer is independent from the Vendors, the Company and AiXun to perform the Independent Valuation under the relevant professional standards.

We have also reviewed the terms of the Valuer’s engagement letter and noted that the purpose of the valuation is to perform a valuation of the market value of the equity interest of the Target Group. The Valuer’s engagement letter also contains standard valuation scopes that are typical of company valuations carried out by independent valuers. Based on the above, we are satisfied with the qualification, experience and independence of the Valuer required to perform the Valuation.

(b) Basis of the Valuation

As set out in the Valuation Report, it was compiled with International Valuation Standards 2022 (“**IVS 2022**”) issued by International Valuation Standards Council (“**IVSC**”)

According to the Valuation Report, the market value is defined as:

“the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.”

On this basis, the Market Value of the Equity Interest in Valuation Report refers to “*the value of a business to all of its equity shareholders*” in accordance with International Valuation Standard 200 Businesses and Business Interests in IVS 2022.

(c) *Valuation methodologies*

Based on our discussion with the Valuer and review of the Valuation Report, it is noted that the Valuer has concluded the Market Value based on the Market approach. As set out in the Valuation Report, the Valuer has conducted the valuation in accordance with the IVS 2022. We understand that the Valuer has considered the three commonly used valuation approaches for valuation of a company, namely the Cost Approach, Income approach and Market Approach.

Cost approach: Based on our understanding from the Valuer, the cost approach fails to capture the appreciation in the value of the land of the Target Group. Since the Production Plant has been completed, as noted during the site visit of the Valuer, and received all necessary approvals, income generation is anticipated once operations commence. Cost Approach is deemed inadequate for capturing the future earning potential of the Target Group's business.

Income approach: The Income Approach was deemed inappropriate for valuation because the Production Plant is currently in the trial production stage and has not yet commenced formal production. Additionally, significant changes in the economic landscape, market structure, industry lifecycle, and other relevant factors have made it difficult to forecast future operations and income reliably. Consequently, the Valuer opted not to use this approach for the Independent Valuation.

Market Approach: The Valuer considered that the Market approach to be the most suitable method for valuation. This approach is widely employed to value various property assets with uncertain cash flows and fluctuating expenditures. It involves appraising a company's value by comparing it to similar companies and transactions. The Market Approach assesses a business by referencing prices at which comparable entities have been sold in arm's-length transactions. However, the Valuer faced challenges in obtaining data on comparable transactions with similar corporate market capitalizations. As a result, the Independent Valuation is performed through applying the market approach technique known as guideline transactions method, which utilizes information on transactions involving assets that are the same or similar to the subject asset to arrive at an indication of value. Under guideline transactions method, the valuation metrics adopted is price-to-book ratio ("**PB Ratio**").

To adopt the Market Approach effectively, an appropriate valuation metrics for comparable transactions has to be determined. We evaluated several metrics, including Price-to-Sales (P/S), Price-to-Earnings (P/E), Price-to-Book (P/B), Enterprise Value-to-EBIT (EV/EBIT), and Enterprise Value-to-EBITDA (EV/EBITDA). The P/E, EV/EBIT and EV/EBITDA multiples were not applied due to the Target Group's current losses, while the P/S ratio was excluded because the Jiangsu Yongmai is not currently operational. We are of the view that the P/B ratio is an appropriate multiple applying in the Market Approach as the Target Company operates in a heavily asset-based industry.

Our view

Based on our analysis and work performed, we considered that the Market Value as set out in the Valuation Report, which was compiled in accordance with IVS 2022, determined by the Valuer after their work performed, is an appropriate reference point to assess the fairness and reasonableness of the Consideration under the Acquisition Agreement.

(d) Valuation assumptions

We have reviewed the Valuation Report and discussed with the Valuer in respect of the key assumptions adopted for performing the valuation. We understand from the Valuer that the assumptions are commonly adopted in other valuations of similar assets and there is no unusual assumption which has been adopted during the Independent 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 the Valuer.

(e) Analysis of the Comparable Companies

Selection Criteria

For the purpose of valuing the Target Group, the Valuer has identified 6 comparable transactions in PRC to perform Independent Valuation through the guideline transactions method under market approach. We have discussed with the Valuer concerning its selection criteria of these comparable transactions as disclosed in the Valuation Report and assessed the appropriateness of these comparable transactions.

We have reviewed the list of the comparable transactions and based on our independent research; we noted that each of the comparable transactions in Valuation Report meets the selection criteria outlined in Valuation Report, which are as follows:

1. Transactions of companies engaged in wastewater treatment in the PRC undertaken by listed companies in Hong Kong and the PRC;
2. Transactions involved equity interests that are less than 50% are excluded;
3. Connected transactions and sale and leaseback transactions are excluded;
4. Transactions that were not completed as at 1 November 2024 are excluded; and

5. The announcement dates of transactions are within the period from 1 January 2023 to 30 September 2024.

Considering that (i) the Target Group is an investment holding company in PRC and the Target Company holds the entire equity interest of Jiangsu Yongmai, which owns an recycling and integrated utilization facilities with an annual capacity of 60,000 tons; (ii) Jiangsu Yongmai had not commenced its operation and no profits generated as of the Valuation Date; (iii) Jiangsu Yongmai has obtained all licenses required to commence production and operation; and (iv) IVS 2022 suggests that Market Value is reflecting “*the value of a business to all of its equity shareholders*”, we are of the view that the above selection criteria adopted by the Valuer in identifying the comparable transactions under the Market Approach are appropriate.

The wastewater treatment companies’ transactions is relevant and applicable comparison due to treatment and recycling of NMP is a kind of industrial wastewater in the PRC that both sectors handling organic solvents and contaminants to reduce pollution through their plant operations. Therefore, we concur with the Valuer’s view that it is fair and representative to use wastewater treatment’s transactions as comparable.

Valuation Metrics

As stated in the Valuation Report, the median of the PB Ratio of the comparable transactions is used as the multiples. We considered median is a better representation of the middle point of a dataset than average, as it is less influenced by biases towards large and small values than average for small sample sizes. Based on our calculation, we noted that the average of the PB multiples of the comparable transactions is approximately 1.17, which is even higher than the median of the P/E multiples of approximately 1.08, as the average of the P/E multiples is affected by the higher P/E multiples of one transaction, namely Jiangsu Dagang Co, Ltd., with PB multiples of approximately 2.55. Therefore, we are of the view that the application of median of the PB ratio is appropriate and consider it to be more conservative.

Furthermore, the Valuer considered that (i) the Bankruptcy Petition against Jiangsu Yongmai has been settled, with creditors fully repaid in June and July 2023, and as at the date of the Acquisition Agreement and the Latest Practicable Date, there were no outstanding litigations or arbitration proceedings against Jiangsu Yongmai or the Target Company which would have a material adverse impact on Jiangsu Yongmai and the Target Company’s financial position, and operating condition; and (ii) according to the Management, all liabilities related to the bankruptcy and reorganization proceedings against Jiangsu Yongmai and the Target Company have been booked in the consolidated statement of financial position of the Target Group as at 30 September 2024 and no contingent liabilities were recognized by the Target Group, we concur with the Valuer’s view that by using PB Ratio in this valuation exercise, the Valuation Report has taken into account this bankruptcy and reorganization proceedings.

Taking into account that as at the Latest Practicable Date, the Production Plant has obtained all necessary licenses and permits required for it to carry out its principal business activities, including licenses required for the handling of the recycling of NMP, and officially commenced production since December 2024. Meanwhile, Jiangsu Yongmai was still in the trial production stage as at the Valuation Date, while the comparable transactions were already in production stage. We are of the view that no discount has to be applied to the Market Value of the Target Group given its marketability and readiness to generate revenue. We concur with the Valuer's assessment that the Target Group is considered inferior to the average comparable transactions given production stage of the Target Group; and Target Group is considered superior given the business nature of the Target Group. Therefore, considering the abovementioned factors, adopting a lower PB Ratio, specifically the median PB Ratio of 1.08, which is close to the lower end of the range observed in comparable transactions, was deemed appropriate in Valuation Report.

Cross-checking approach

We conducted an independent search and, on a best effort basis, reviewed the circulars published on the website of the Stock Exchange using selection criteria, including but not limited to (i) transactions of companies engaged in wastewater treatment or waste treatment in the PRC, which is comparable to the Acquisition as Jiangsu Yongmai specializes in the treatment and recycling of NMP, which is a kind of industrial wastewater in the PRC. Both Jiangsu Yongmai and the wastewater treatment or waste treatment companies handle organic solvents and contaminants to reduce pollution through their plant operations; (ii) transactions of companies are listed on stock exchanges of Hong Kong; (iii) transactions involved equity interests that are less than 50% are excluded; and (iv) the circular date of transactions is within the period from 1 January 2023 to 30 September 2024, being the Valuation Date, and representing a 21-month period which we consider to be a recent and reasonable period to capture a significant timeframe that includes various market conditions, allowing for a comprehensive analysis of trends and fluctuations, aligning with prevailing market practices. In our cross-checking approach, we have used a similar selection criterion as Valuer but with a slightly broader timeframe and fewer exclusions. Our focus remained on the same industry as identified by the Valuer, and we excluded transactions with equity acquisitions of less than 50%, as a majority stake typically yields greater value. Therefore, we believe the list of comparable transactions is fair, representative for the comparison purpose.

The following table sets forth an exhaustive list of the comparable transactions identified in our cross-checking approach, as at the Valuation Date:

	Company name	stock code	Target Company	Date of circular	Consideration (RMB)	Net Asset Value (RMB)	PB Ratio	Equity interest	Principal business of the target company
1	Kunming Dianchi Water Treatment Co., Ltd.	3768.HK	Zhaotong Dianchi Water Treatment Co., Ltd.	7-Feb-2024	202,606,800	182,955,500	1.38	80%	Zhaotong Dianchi Water Treatment Co., Ltd. principally engaged in the business relating to wastewater treatment and sludge treatment and disposal.
2	Kunming Dianchi Water Treatment Co., Ltd.	3768.HK	Yiliang Dianchi Water Treatment Co., Ltd.	7-Feb-2024	19,588,400	25,662,300	0.95	80%	Yiliang Dianchi Water Treatment Co., Ltd. principally engaged in the business relating to wastewater treatment and sludge treatment and disposal.
3	Kunming Dianchi Water Treatment Co., Ltd.	3768.HK	Suijiang Dianchi Water Treatment Co., Ltd.	7-Feb-2024	22,979,400	25,678,000	1.12	80%	Suijiang Dianchi Water Treatment Co., Ltd. principally engaged in the business relating to wastewater treatment and sludge treatment and disposal.
4	China Water Industry Group Limited	1129.HK	Onfar International Limited	26-Apr-2023	270,000,000	151,491,000	1.78	100%	Yichun Water, subsidiary of Onfar is principally engaged in the provision of water supply and installation of water supply facilities, and its subsidiaries principally engaged in the installation of water supply facilities, information services, exploitation, production and sale of purified and drinking system and sewage treatment.
5	Yunnan Water Investment Co., Limited	6839.HK	Honghe Water Industry Investment Co., Ltd.	25-Apr-2023	155,400,000	165,900,000	0.94	100%	Honghe Water is principally engaged in the investment, construction, operation and management of urban water supply and drainage infrastructure, wastewater treatment facilities and waste innocuous treatment facilities.
6	Yunnan Water Investment Co., Limited	6839.HK	Shuifu Water Industry Investment Co., Ltd.	25-Apr-2023	28,300,000	30,600,000	0.92	100%	Shuifu Water is principally engaged in the investment, construction, operation and management of urban water drainage infrastructure and waste innocuous treatment facilities.
7	CR Construction Group Holdings Limited	1582.HK	Zhejiang Construction Investment Environment Engineering Company Limited	31-Mar-2023	201,000,000	216,700,000	0.93	100%	Zhejiang Construction Investment Environment Engineering Company Limited principally engaged in construction, rehabilitation and operation of sewage and reclaimed water treatment plants as well as water distribution plants and other environmental related facilities and infrastructure in the PRC.
8	Yunnan Water Investment Co., Limited	6839.HK	Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd	24-Feb-2023	96,523,000	62,100,000	1.55	100%	Hyflux Waste Water's construction and operation of wastewater and recycled water treatment plants and the provision of technical consultancy and services for the membrane process.
9	Yunnan Water Investment Co., Limited	6839.HK	Lu'an Yeji Yunshui Water Investment Co., Ltd.	24-Feb-2023	87,295,900	44,100,000	1.98	100%	Yeji Yunshui Water invest business projects including urban water supply and drainage, reclaimed water use, industrial wastewater, solid waste treatment and utilization, air pollution and prevention, river basin treatment, soil remediation and other environmental treatment projects.
						Median	1.12		

Under our cross-checking approach, the median PB ratio for the above comparable is 1.12, which is 3.7% higher than the median PB ratio of 1.08 for the six comparable transactions outlined in the Valuation Report. We believe that this difference still falls within a reasonable range. Based on this cross-checking approach, the estimated Market Value of the Target Group would be approximately RMB53.2 million, considering the net asset value of the Target Group of RMB47.5 million as at Valuation Date.

Also, we considered the winding up and restructuring proceeding against Jiangsu Yongmai and the Target Company in our cross-checking approach. Reference to the Letter from Board that the Bankruptcy Petition against Jiangsu Yongmai has been settled, with creditors fully repaid in June and July 2023, and as at the date of the Acquisition Agreement and the Latest Practicable Date, there were no outstanding litigations or arbitration proceedings against Jiangsu Yongmai or the Target Company which would have a material adverse impact on Jiangsu Yongmai and the Target Company's financial position, and operating condition; and according to the Management, Target Group have been booked all the liabilities related to the bankruptcy and reorganization proceedings against Jiangsu Yongmai and the Target Company in the consolidated statement of financial position as at 30 September 2024 and no contingent liabilities were recognized by the Target Group.

Furthermore, as at the Latest Practicable Date, the Production Plant has obtained all necessary licenses and permits required for it to carry out its principal business activities, including licenses required for the handling of the recycling of NMP, and officially commenced production since December 2024. Meanwhile, Jiangsu Yongmai was still in the trial production stage as at the Valuation Date, while the comparable transactions were already in production stage. We are of the view that no discount has to be applied to the Market Value of the Target Group regarding to the winding up and restructuring proceeding against Jiangsu Yongmai and the Target Company and the production stage of the Production Plant.

Based on the above valuation methodologies and calculation, Valuation of the Target Group of approximately RMB51.4 million has been concluded, assuming equity interest of Jiangsu Yongmai has been combined to the Target Company as at 30 September 2024.

We have reviewed the above calculations with respect to the valuation of the Target Group. We have also reviewed and discussed with the Valuer the other key bases and assumptions adopted for the valuation of the Target Group. During our discussions with the Valuer, we did not identify any major factors which cause us to doubt the reasonableness of such assumptions adopted in the Valuation Report. Therefore, we concur with the view of the Valuer that the methodologies, bases and assumptions adopted in the Valuation Report are fair and reasonable.

When compared to the Market value of the Target Group in the amount of approximately RMB51.4 million as at 30 September 2024, as appraised by the Valuer, the Consideration attributable to the Equity Interest of the Target Group, represented a discount of approximately 61.8% to the Market value of the Target Group.

As for the Consideration attributable to the Shareholder's Loan amounting to approximately RMB44.0 million pursuant to the terms and conditions of the Agreement and the Supplemental Agreement., such amount shall be the entire amount of the principal, accrued interest (if any) and all other sums and indebtedness due, owing or payable to Ningbo Huanlang, the shareholder and ultimate holding company of the Target Company.

Taking into consideration of the fact that (i) the Consideration attributable to the Equity interest of the Target Company; (ii) the Consideration attributable to the Shareholder's Loan was determined with reference to the Target Company's indebtedness position on a dollar for dollar basis; and (iii) the Production Plant which has officially commenced production since December 2024, the potential economic benefit would be able to generate revenue through the Acquisition after the Completion,; and (iv) the Target Group's business activities aligns with the Group's strategic goals and objectives, and the Group will be able to satisfy projected costs and expenses after payment of the consideration, the Management are of the view and we concur that the Acquisition is in the interests of the Company and the Consideration to be fair and reasonable.

4.2 Conclusion on the terms of the Acquisition Agreement

Based on our evaluation of the qualification of the Valuer and the valuation methodology as discussed above, and taking into account that (i) the Consideration for the acquisition of the Equity Interest of RMB20.0 million, represents a discount of approximately 61.1% to the Market Value of the Target Group of approximately RMB51.4 million; and (ii) the Market Value of the Target Group aligns closely with the valuation under the Cross-Checking Approach of approximately RMB53.2 million, we consider the Consideration and hence the terms of the Acquisition Agreement are determined on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

5. Financial effects of the Acquisition

Upon completion of the Acquisition, the Target Company will be owned by the Company and AiXun as to 25% and 75%, respectively, and become an indirect wholly-owned subsidiary of the Company and the financial results of the Target Company will be consolidated into the Group's financial statements. The unaudited pro forma financial information of the Enlarged Group, as if the Acquisition had been completed on 30 September 2024, is set out in Appendix IV to the Circular. Set out below is the analysis on the financial effects of the Acquisition on the Group based on the unaudited pro forma financial information of the Enlarged Group.

(i) Assets and liabilities

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV of the Circular, which is prepared to illustrate the effect of the Acquisition on the Group's financial position as of 30 September 2024 (as if the Acquisition had taken place on 30 September 2024), having taken into account (i) the total assets and total liabilities of the Target Company of approximately HK\$70.0 million and HK\$46.6 million as at 30 September 2024, respectively; (ii) the total assets and total liabilities of Jiangsu Yongmai of approximately HK\$158.3 million and HK\$125.1 million as at 30 September 2024, respectively; (iii) the face value of the Shareholder Loan in the amount of approximately HK\$46.5 million to be assigned in favour of the Purchasers as at 30 September 2024; and (iv) the estimated net fair value adjustment on property, plant and equipment and right-of-use assets and deferred tax assets of approximately HK\$8.0 million; (v) the settlement of the Consideration of approximately HK\$71.0 million, of which approximately HK\$35.5 million payable on the Completion Date and approximately HK\$35.5 million payable within three months from Completion Date; and (vi) the transaction costs directly attributable to the Acquisition of approximately HK\$1.6 million, the total assets of the Group will increase by approximately HK\$142.4 million and the total liabilities of the Group will increase by approximately HK\$107.8 million. Accordingly, the net assets of the Group will increase by approximately HK\$34.6 million, being the net effect of the changes of the total assets and total liabilities of the Group.

(ii) Earnings

Upon Completion, the Target Company and Jiangsu Yongmai will become indirect wholly owned subsidiaries of the Company and their financial information will be consolidated into the financial statements of the Group. As set out in the Accountants' Reports in Appendix IIA and Appendix IIB of the Circular, the Target Company recorded a loss of approximately RMB1.0 million and RMB12.4 million for the nine months ended 30 September 2024, respectively.


RECOMMENDATION

Having taken into account the above principal factors and reasons, we are of the view that the terms of the Acquisition are on normal commercial terms and are fair and reasonable, and the entering into of the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolution(s) in relation to the Acquisition to be proposed at the EGM.

Yours faithfully,
for and on behalf of
Ample Capital Limited



H.W. Tang
President



Matthew Wong
Vice President

Mr. H.W. Tang is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Ample Capital Limited, which is licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activity. Mr. Tang has over 20 years' experience in the corporate finance industry.

Mr. Matthew Wong is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Ample Capital Limited, which is licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activity. Mr. Wong has over 13 years' experience in the corporate finance industry.