

29 November 2024

To: *The independent board committee of
China Boqi Environmental (Holding) Co., Ltd.*

Dear Sir/Madam,

**(1) CONDITIONAL VOLUNTARY CASH OFFER
BY CLSA LIMITED ON BEHALF OF
THE COMPANY TO BUY-BACK UP TO 150,858,120 SHARES
AT A PRICE OF HK\$1.20 PER SHARE;
AND
(2) APPLICATION FOR WHITEWASH WAIVER**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offer and the Whitewash Waiver, details of which are set out in the letter from the Board (the “Board Letter”) contained in the Offer Document dated 29 November 2024 issued by the Company to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Offer Document unless the context requires otherwise.

On 23 October 2024 (the “Announcement Date”), the Board announced that a conditional voluntary cash offer would be made by CLSA Limited on behalf of the Company to buy-back, subject to fulfilment of the Conditions, up to the Maximum Number, being 150,858,120 Shares, representing approximately 15.00% of the issued share capital of the Company as at the date of the Announcement at a cash consideration of HK\$1.20 per Share.

The Offer will be made in full compliance with the Codes. The consideration for the Offer, being (a) a minimum of approximately HK\$120.69 million assuming only the Minimum Number of Shares has been tendered for acceptance; or (b) a maximum of approximately HK\$181.03 million assuming the Maximum Number of Shares has been tendered for acceptance, will be paid in cash and will be funded by internal resources of the Group.

As at the Latest Practicable Date, Mr. Zeng Concert Parties are interested in 278,636,331 Shares, representing approximately 27.71% of the issued share capital of the Company. Pursuant to Rule 32.1 of the Takeovers Code and Rule 6 of the Share Buy-backs Code, if as a result of a share buy-back, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Subject to the level of acceptances received from the Accepting Shareholders pursuant to the Offer and assuming that no Options will be exercised by their holders prior to completion of the Offer, the aggregate interests of Mr. Zeng Concert Parties may increase from 27.71% to a maximum level of approximately 32.59% upon completion of the Offer. Accordingly, Mr. Zeng would be required to make a mandatory offer under Rule 26.1 of the Takeovers Code for all the Shares not already owned or agreed to be acquired by Mr. Zeng Concert Parties unless the Whitewash Waiver is granted.

An application has been made by Mr. Zeng, the Shareholder having control over approximately 27.71% of the total issued share capital of the Company, to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that, subject to, among others, the approval of the Independent Shareholders for the Offer and the Whitewash Waiver at the EGM by way of poll, the Executive will grant the Whitewash Waiver to waive any obligation of Mr. Zeng, Best Dawn and Asia Environment to make a general offer which might result from completion of the Offer.

The Offer is conditional upon approval of the Offer by more than 50% of the Independent Shareholders voting in person or by proxy by way of poll at the EGM and the Whitewash Waiver being granted by the Executive, which would also be subject to the approval of the Whitewash Waiver by at least 75% of the Independent Shareholders voting in person or by proxy by way of poll at the EGM. Under Note 15 to Rule 26.1 of the Takeovers Code, the Shareholder shall be deemed to have a lowest percentage holding equal to its percentage holding immediately after completion of the Offer and is free to acquire and dispose of further voting rights in the Company within a band of 2% above such lowest percentage holding of voting rights in the Company in the 12-month period ending on the date of completion of the relevant acquisition without incurring an obligation to make a general offer. Within this band, dispositions of voting rights may be netted off against acquisitions thereof.

The Independent Board Committee comprising the three non-executive Directors who are not interested in the Offer and the Whitewash Waiver, namely Mr. Zheng Tony Tuo, Mr. Zhu Weihang and Mr. Chen Xue (Mr. Cheng Liquan Richard, a non-executive Director, has given the Irrevocable Undertaking in relation to, among others, voting in favour of the Offer and the Whitewash Waiver at the EGM, and thus he is excluded from the Independent Board Committee), and all of the four independent non-executive Directors, namely Dr. Xie Guozhong, Mr. Li Tao, Prof. Yu Wayne W. and Ms. Zhang Fan, has been formed to advise the Independent Shareholders on whether the Offer and the Whitewash Waiver are fair and reasonable and as to the acceptance and voting respectively. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in this respect, and our opinion herein is solely for the assistance of the Independent Board Committee in connection with its consideration of the Offer and the Whitewash Waiver pursuant to Rule 2.1 of the Takeovers Code. The appointment of Gram Capital as the Independent Financial Adviser has been approved by the Independent Board Committee.

INDEPENDENCE

Gram Capital was engaged as the independent financial adviser to the independent board committee and independent shareholders of the Company in relation to discloseable and connected transaction and continuing connected transactions of the Company, details of which are set out in the Company's circular dated 12 December 2023 (the "Previous Acquisition and CCTs"). Save for the aforesaid engagement, there was no other service provided by Gram Capital to the Company during the past two years immediately preceding the Latest Practicable Date.

Notwithstanding the aforesaid engagement, we were not aware of any relationships or interests between Gram Capital and the Company, or any of the parties as prescribed under Rule 2.6 of the Takeovers Code during the past two years immediately preceding the commencement of the Offer Period up to and including the Latest Practicable Date that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser.

Besides, apart from the advisory fee payable to us in connection with this engagement as the Independent Financial Adviser and the aforesaid engagement in relation to the Previous Acquisition and CCTs, there is no arrangement whereby we shall be entitled to receive other fees or benefits from the Company, their subsidiaries and/or associates.

Having considered the above, in particular (i) none of the circumstances as set out under Rule 13.84 of the Listing Rules existed as at the Latest Practicable Date; (ii) there were no relationships or interests between Gram Capital and the Company, or any of the parties as prescribed under Rule 2.6 of the Takeovers Code during the past two years immediately preceding the commencement of the Offer Period up to and including the Latest Practicable Date; and (iii) the aforesaid engagement in relation to the Previous Acquisition and CCTs was only independent financial advisory engagement, we are of the view that we are independent to act as the Independent Financial Adviser pursuant to Rule 13.84 of the Listing Rules and Rule 2.6 of the Takeovers Code.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee, we have relied on the statements, information, opinions and representations contained or referred to in the Offer Document and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Offer Document 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 Offer Document, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Offer and the Whitewash Waiver. 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 and Rule 2 of the Takeovers Code.

Your attention is drawn to the responsibility statements as set out in the section headed "1. RESPONSIBILITY STATEMENT" of Appendix IV to the Offer Document. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Offer Document, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Mr. Zeng or their respective subsidiaries or associates (if applicable), nor have we considered the taxation implication on the Group or the Shareholders as a result of the Offer and the Whitewash Waiver.

Our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Offer and the Whitewash Waiver, we have taken into consideration the following principal factors and reasons:

1. Background and terms of the Offer

On 23 October 2024, the Board announced that a conditional voluntary cash offer would be made by CLSA Limited on behalf of the Company to buy-back, subject to fulfilment of the Conditions up to the Maximum Number, being 150,858,120 Shares, representing approximately 15.00% of the issued share capital of the Company as at the Latest Practicable Date at a cash consideration of HK\$1.20 per Share.

The Offer will be made in full compliance with the Codes. The consideration for the Offer, being (a) a minimum of approximately HK\$120.69 million assuming only the Minimum Number of Shares has been tendered for acceptance; or (b) a maximum of approximately HK\$181.03 million assuming the Maximum Number of Shares has been tendered for acceptance, will be paid in cash and will be funded by internal resources of the Group.

Mr. Zeng has irrevocably undertaken to the Company that (i) he will not accept the Offer for all of the Shares in which he is the registered holder, beneficial owner or deemed to be interested in by virtue of the SFO (i.e. the Zeng Concert Shares) respectively as at the Announcement Date; (ii) he will or procure the holder of the Zeng Concert Shares to execute all documents and take all necessary and appropriate actions not to accept the Offer; (iii) if any of the Zeng Concert Shares is held by a trustee or custodian, he will procure the trustee or custodian to perform in accordance with terms of the irrevocable undertaking; (iv) he will not, and will procure any party acting in concert with him not to, acquire any Share or other securities of the Company; and (v) without the prior consent of the Company, he shall not prior to the earlier of the completion of the Offer or lapsing or being withdrawn, other than usual brokers' or bankers' liens or assurances provided to Hong Kong Securities Clearing Company Limited (HKSCC), directly or indirectly sell, transfer, charge, encumber, grant any option over or otherwise dispose of or permit any of the above actions over all or any of Zeng Concert Shares held or controlled by him, or enter into any arrangement to do any of the actions above.

Mr. Cheng has irrevocably undertaken to the Company that (i) he will accept the Offer for not less than 84,267,290 Shares in which he is the registered holder, beneficial owner or deemed to be interested in by virtue of the SFO (i.e. the Relevant Shares) as at the Announcement Date; (ii) he will or procure the holder of the Relevant Shares to execute all documents and take all necessary and appropriate actions to accept the Offer; (iii) he will exercise or procure the exercise of the voting rights attached to all of the Shares in which he is the registered holder, beneficial owner or deemed to be interested in by virtue of the SFO (i.e. the Cheng Concert Shares) to vote in person or by proxy in favour of any resolution (by way of poll) which is necessary to implement or otherwise relates to the Offer and the Whitewash waiver (including any resolution that may impact on the fulfilment of any condition of the Offer and the Whitewash Waiver) at the EGM; (iv) if any of the Relevant Shares or the Cheng Concert Shares (as the case may be) is held by a trustee or custodian, he will procure the trustee or custodian to perform in accordance with terms of the irrevocable undertaking; (v) he will not, and will procure any party acting in concert with him not to, acquire any Share or other securities of the Company; and (vi) without the prior consent of the Company, he shall not prior to the earlier of the completion of the Offer or lapsing or being withdrawn, other than usual brokers' or bankers' liens or assurances provided to Hong Kong Securities Clearing Company Limited (HKSCC), directly or indirectly sell, transfer, charge, encumber, grant any option over or otherwise dispose of or permit any of the above actions over all or any of Cheng Concert Shares held or controlled by him, or enter into any arrangement to do any of the actions above.

The Irrevocable Undertakings shall terminate immediately if the Offer close, lapse or are withdrawn.

Further details of the Offer are set out in Appendix I to the Offer Document.

2. Background of the Group

2.1 Financial information of the Group

With reference to the Board Letter, the Company is a company incorporated in the Cayman Islands with limited liability, the Shares of which were listed on the Stock Exchange (stock code: 2377) on 16 March 2018. The Group provides comprehensive one-stop environmental protection and new energy+ services to large-scale industrial customers in energy, chemical and manufacturing industries, by mainly engaging in the businesses of flue gas treatment, water treatment, hazardous and solid waste treatment/disposal, dual-carbon new energy+ in China.

As at the Latest Practicable Date, there are 1,005,720,799 Shares in issue. Save for the outstanding 6,538,500 share options granted under the Share Option Scheme, the Company does not have any outstanding derivatives, warrants or relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) which are convertible or exchangeable into Shares or other types of equity interest as at the Latest Practicable Date.

Set out below are the consolidated financial information of the Group for the two years ended 31 December 2023 and the six months ended 30 June 2024 (together with comparative figures) as extracted from the Company's annual report for the year ended 31 December 2023 (the "2023 Annual Report") and the Company's interim report for the six months ended 30 June 2024 (the "2024 Interim Report"):

	For the six months ended 30 June 2024 ("1H2024") RMB'000 (unaudited)	For the six months ended 30 June 2023 RMB'000 (unaudited)	Year-on- year change %	For the year ended 31 December 2023 ("FY2023") RMB'000 (audited)	For the year ended 31 December 2022 ("FY2022") RMB'000 (audited)	Year-on- year change %
Revenue	949,415	1,000,686	(5.12)	2,138,199	1,900,248	12.52
– Flue gas treatment	741,566	780,256	(4.96)	1,703,875	1,510,016	12.84
– Water treatment	89,849	162,432	(44.69)	317,583	270,878	17.24
– Hazardous and solid waste treatment/disposal	22,146	13,766	60.87	48,965	11,717	317.90
– Dual-carbon new energy ⁺	95,854	44,232	116.71	67,776	107,637	(37.03)
Gross profit	199,270	202,105	(1.40)	436,100	390,778	11.60
Profit for the period/year attributable to owners of the parent	113,665	133,733	(15.01)	240,184	151,749	58.28

FY2023

According to the table above, the Group recorded revenue of approximately RMB2.14 billion for FY2023, representing an increase of approximately 12.52% as compared with that for FY2022. With reference to the 2023 Annual Report, such increase was mainly due to (i) the increase in the number of newly operated projects in certain business sectors; and (ii) the year-on-year increase in power generation of certain operation and maintenance (“O&M”) projects.

In addition, the Group recorded increases in gross profit and profit attributable to owners of the parent for FY2023 of approximately 11.60% and 58.28% respectively, as compared to those for FY2022. With reference to the 2023 Annual Report:

- (i) the aforesaid increase in gross profit for FY2023 was mainly due to (a) additional contracts were signed for certain environmental protection facility engineering (“EPC”) projects; and (b) the increase in the number of EPC projects and O&M projects in operation during FY2023 resulted in the increase in gross profit as compared with FY2022; and
- (ii) the aforesaid increase in profit attributable to owners of the parent for FY2023 was mainly due to (a) the aforesaid increases in revenue and gross profit; and (b) the decrease in other expense and losses for FY2023.

1H2024

According to the table above, the Group’s revenue was approximately RMB949.42 million for 1H2024, representing a decrease of approximately 5.12% as compared to that for the corresponding period in 2023. With reference to the 2024 Interim Report, such decrease was mainly due to (i) certain existing projects were basically completed or entering the final stage of construction; and (ii) new projects were mostly concentrated in the power industry, which have long construction cycles and revenue recognition is relatively slow.

In addition, the Group also recorded decreases in gross profit and profit for 1H2024 attributable to owners of the parent of approximately 1.40% and 15.01% respectively, as compared to those for the corresponding period in 2023. With reference to the 2024 Interim Report:

- (i) the aforesaid decrease in gross profit for 1H2024 was mainly due to (a) certain existing projects were completed or entering the final stage of construction and revenue to be generated from final stage of construction normally represent a small portion to revenue generated for the whole project; (b) new projects were mostly concentrated in the power industry, which have long construction cycles and revenue and cost recognition is relatively slow; and (c) newly added O&M projects had lower gross profit margins with increased labor costs; and

- (ii) the aforesaid decrease in profit for the period attributable to owners of the parent for 1H2024 was mainly due to (a) the aforesaid decreases in revenue and gross profit; and (b) the decrease in other income and gains, which was mainly due to the decrease in government grants, foreign exchanges gains and investment income of financial assets at fair value through profit or loss.

2.2 Industry overview

As advised by the Directors, the Group's core business (i.e. flue gas treatment business, representing approximately 79.46%, 79.69% and 78.11% of the Group's revenue for FY2022, FY2023 and 1H2024 respectively) is closely related to the thermal power generation (in particular coal-fired power generation) industry in the PRC. Hence, we searched for certain relevant indicators regarding the power generation industry in the PRC.

Set out below are the total installed power generation capacity in the PRC (together with the installed capacity of thermal power) as at the end of 2019, 2020, 2021, 2022 and 2023, as published by the National Energy Administration of the PRC:

	2019	2020	2021	2022	2023
Total installed electric power generation capacity in the PRC (MW)	2,010,660	2,200,580	2,376,920	2,564,050	2,919,650
<i>Year-on-year change (%)</i>	5.84	9.45	8.01	7.87	13.87
– Installed capacity of thermal power in the PRC (MW)	1,190,550	1,245,170	1,296,780	1,332,390	1,390,320
<i>Year-on-year change (%)</i>	4.10	4.59	4.14	2.75	4.35

According to the table above, the national installed capacity for electric power generation of the PRC grew continuously during the last five full years from 2019 to 2023, and reached approximately 2,919,650 MW in 2023, representing a compound annual growth rate (“CAGR”) of approximately 9.77%. In line with the continuous growth of the national installed capacity for electric power generation of the PRC, the installed capacity of thermal power also recorded year-on-year increase for each of the years 2020, 2021, 2022 and 2023 and remained as the largest power generation units in terms of installed capacity.

In addition, the PRC government also issued various policies regarding the PRC environmental protection industry, as summarised below:

On 19 July 2023, an article titled Opinion of the State Council of the PRC on Promoting the Development and Growth of the Private Economy* (《中共中央國務院關於促進民營經濟發展壯大的意見》) was published on the official website of the State Council of the PRC, indicated that the state should support private enterprises to participate in promoting carbon peaking and carbon neutrality, provide carbon reduction technologies and services, increase investment in renewable energy power generation and energy storage, and participate in the trading of carbon emissions credits and energy consumption quota.

On 30 November 2023, the State Council of the PRC issued the Action Plan for Continuous Improvement of Air Quality* (《空氣質量持續改善行動計劃》), which stated that the PRC government need to strengthen multi-pollutant emission reduction, lower emission intensity effectively, steadily advance atmospheric ammonia pollution control, and enhance control of ammonia escape during industrial flue gas desulfurization and denitrification.

On 12 December 2023, the National Development and Reform Commission of the PRC, the Ministry of Housing and Urban-Rural Development of the PRC and the Ministry of Ecology and Environment of the PRC jointly issued the Implementation Opinions on Promoting Synergistic Efficiency in Pollution Reduction and Carbon Reduction in Sewage Treatment* (《關於推進污水處理減污降碳協同增效的實施意見》), which stated that the PRC government should strengthen energy-saving and carbon-reduction in sewage treatment, increase financial support for upgrading projects to reduce pollution and carbon emissions, and promote the construction of green low-carbon benchmark plants for efficient energy and resource recycling in sewage treatment.

On 9 February 2024, the General Office of the State Council of the PRC issued the Opinions of the General Office of the State Council on Accelerating the Establishment of Waste Recycling System* (《國務院辦公廳關於加快構建廢棄物循環利用體系的意見》), which stated that the PRC government should strengthen energy-saving and carbon-reduction efforts in sewage treatment, increase financial support for upgrading projects aimed at reducing pollution and carbon emissions in sewage treatment, and promote the construction of a series of green low-carbon benchmark plants for efficient energy and resource recycling.

On 18 March 2024, the National Energy Administration of the PRC issued the Guiding Opinions on Energy Work in 2024* (《2024年能源工作指導意見》), which indicated that the PRC government should deepen the implementation of carbon peaking and carbon neutrality goals, take multiple measures to increase the proportion of non-fossil energy, optimize industry development policies to support the construction of a beautiful China through green energy development, consolidate and expand the positive development trend of wind and solar power and steadily advance the construction of large wind and solar power bases, and orderly promote the completion and commissioning of relevant projects.

On 29 May 2024, the State Council of the PRC issued the 2024-2025 Energy Conservation and Carbon Reduction Action Plan* (《2024–2025年節能降碳行動方案》), which indicated that the PRC government should strictly and reasonably control coal consumption, strengthen clean and efficient coal use, promote low-carbon transformation and construction of coal power.

Having considered (i) the total installed power generation capacity in the PRC and the installed capacity of thermal power in the PRC grew continuously during the latest five years (2019 to 2023), which illustrated the demands for flue gas treatment; and (ii) the relevant PRC government-issued policies to stipulate and promote carbon reduction, low-carbon transformation and clean energy development, we are of the view that the prospects of the PRC environmental protection industry is generally positive.

3. Intention in relation to the Group and Mr. Zeng Concert Parties

With reference to the Offer Document, it is the intention of the Company and Mr. Zeng Concert Parties to continue with the existing businesses of the Group upon completion of the Offer. As at the Latest Practicable Date, the Company and Mr. Zeng Concert Parties do not intend to introduce any major changes to the existing operations and management structure of the Group, and the employment of the employees of the Group will be continued and the material fixed assets of the Group will not be redeployed.

4. Reasons for and the benefits of the Offer

With reference to the Offer Document, the Company considered that (i) the Offer will serve as a good opportunity to enhance the earnings per Share and the rate of return on capital of the Company; (ii) the Offer will result in an enhancement in the NAV per Share attributable to the owners of the Company; (iii) the Offer will demonstrate the Group's confidence in future development; and (iv) the Offer provides the Shareholders an opportunity to either exit from their investment or enjoy the benefits of enhanced Shareholder value.

The price of the Shares has historically been traded at significant discount ranged from approximately 58.09% to approximately 81.55% to the Group's net asset value attributable to owners of the Company per Share from 3 October 2022 (being approximately two years prior to the Last Trading Day) up to the Latest Practicable Date. During the period from 3 October 2023 (being approximately one year prior to the Last Trading Day) up to and including the Latest Practicable Date (the "Shares Review Period"), the highest closing price per Share as quoted on the Stock Exchange was HK\$1.03 on 3 October 2024 and 4 October 2024 (i.e. the date immediately prior to the Last Trading Day and the Last Trading Day) and the lowest closing price per Share as quoted on the Stock Exchange was HK\$0.61 on 2 July 2024 and 5 July 2024. The closing price of HK\$1.03 per Share on the Last Trading Day (being the highest closing price per Share during the Shares Review Period) represents a discount of approximately 69.97% to the Group's net asset value attributable to owners of the parent of the Company of approximately RMB3.14 (equivalent to HK\$3.43) per Share as at 30 June 2024. Please refer to the section headed "5. The Offer Price" below for our further analysis.

Based on the unaudited pro forma financial information of the Group as set out in Appendix III to the Offer Document and assuming that the Offer had been completed on 30 June 2024, 1 January 2024 or at any future date and the Maximum Number of Shares have been bought-back, as a result of the completion of the Offer:

- (i) the net asset value attributable to owners of the Company per Share as at 30 June 2024 would increase by approximately 11.21% from approximately HK\$3.48 per Share to approximately HK\$3.87 per Share;

- (ii) the basic earnings per Share for 1H2024 would increase by approximately 17.85% from approximately HK12.55 cents to approximately HK14.79 cents and the diluted earnings per Share for 1H2024 would increase by approximately 17.75% from approximately HK12.51 cents to approximately HK14.73 cents;
- (iii) the consolidated total liabilities of the Group as at 30 June 2024 will remain unchanged at approximately HK\$2,096.51 million; and
- (iv) the working capital (expressed as net current assets) of the Group as at 30 June 2024 will decrease by approximately 16.26% from approximately HK\$1,154.23 million to approximately HK\$966.51 million and the current ratio (computed from current assets divided by current liabilities) of the Group will decrease by approximately 6.24% from approximately 1.62 times to approximately 1.52 times.

Details of the calculation and the underlying assumptions are set out in Appendix III to the Offer Document.

In light of the above, we concur with the Directors that the Offer will:

- (i) provide an opportunity for the Shareholders either to tender Shares to realise their investments in the Company at a premium to recent market prices, or to increase their proportionate equity interests in the Company by retaining their shareholdings and participating in the future prospects of the Group; and
- (ii) have the effect of increasing the earning per Share, the rate of return on capital of the Company and the NAV per Share attributable to the owners of the Company upon completion of the Offer.

Although the Shareholders can increase their proportionate equity interests in the Company by retaining their shareholdings and participating in the future prospects of the Group with enhanced Shareholder value, the Offer Price of HK\$1.20 represents a premium over the closing price of the Shares on the Last Trading Day and a substantial premium over the average closing price of the Shares for the five, 10, 30, 60, 90 consecutive trading days up to and including the Last Trading Day, indicating that the Offer provides an excellent opportunity for the Shareholders to realize their investments in the Company.

5. Offer Price

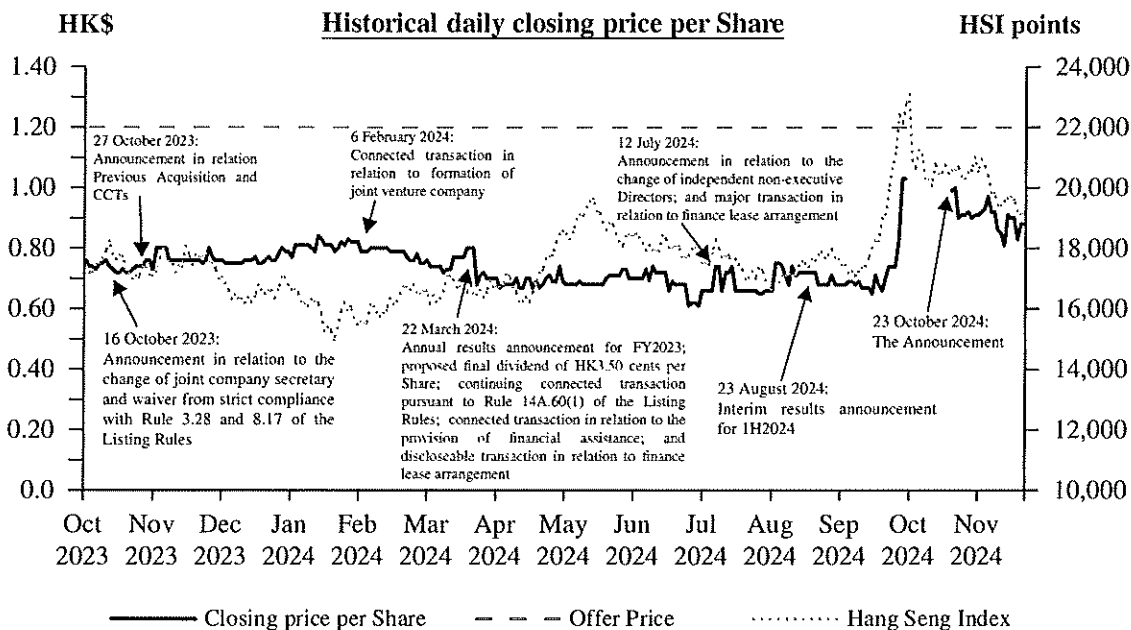
5.1 Offer Price comparison

The Offer Price of HK\$1.20 in cash per Share represents:

- (a) a premium of approximately 36.36% over the closing price of HK\$0.88 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a premium of approximately 16.50% over the closing price of HK\$1.03 per Share as quoted on the Stock Exchange on 4 October 2024 (being the Last Trading Day) (the “**LTD Premium**”);
- (c) a premium of approximately 37.30% over HK\$0.87 which is the average closing price per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day;
- (d) a premium of approximately 52.67% over HK\$0.79 which is the average closing price per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day;
- (e) a premium of approximately 66.82% over HK\$0.72 which is the average closing price per Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day (the “**30 Days Premium**”);
- (f) a premium of approximately 69.97% over HK\$0.71 which is the average closing price per Share as quoted on the Stock Exchange for the 60 consecutive trading days up to and including the Last Trading Day (the “**60 Days Premium**”);
- (g) a premium of approximately 71.28% over HK\$0.70 which is the average closing price per Share as quoted on the Stock Exchange for the 90 consecutive trading days up to and including the Last Trading Day (the “**90 Days Premium**”); and
- (h) a discount of approximately 65.01% to the unaudited consolidated net asset value attributable to owners of the parent of the Company as at 30 June 2024 of approximately RMB3.14 per Share (equivalent to approximately HK\$3.43 per Share based on the exchange rate of HK\$1:RMB0.9166) pursuant to the latest consolidated and unaudited financial statements of the Company (the “**NAV Discount**”).

5.2 Historical price performance of the Shares

Set out below is a chart showing the movement of the closing prices of the Shares during the Shares Review Period, to illustrate the general trend and level of movement of the closing prices of the Shares.



Source: the Stock Exchange's website

Note: Trading in Shares was halted with effect from 9:00 a.m. on 7 October 2024 and resumed at 9:00 a.m. on 24 October 2024.

During the Shares Review Period, the lowest and highest closing prices of the Shares as quoted on the Stock Exchange were HK\$0.61 recorded on 2 July 2024 and 5 July 2024 and HK\$1.03 recorded on 3 October 2024 and 4 October 2024 respectively. The Offer Price of HK\$1.20 is above the range of the lowest and highest closing prices of the Shares during the Shares Review Period.

From the start of the Shares Review Period, the closing price of Shares followed an upward trend, increasing from HK\$0.76 as recorded on 3 October 2023 to HK\$0.80 as recorded on 22 March 2024. Subsequently, the closing price of the Shares followed a downward trend and hit the lowest at HK\$0.61 on 2 July 2024 and 5 July 2024. Since then, the closing price of the Shares rebounded and recorded HK\$0.74 on 30 September 2024 (being the last trading day before the surge of the closing price of the Shares). Thereafter, the closing price of the Shares increased sharply and reached the highest at HK\$1.03 on 3 October 2024 and 4 October 2024.

Following the publication of the Announcement and up to the Latest Practicable Date, the closing price of Shares fluctuated between HK\$0.81 and HK\$1.00.

Save as the recent boost in the PRC stock market due to favourable policies promulgated by the PRC regulators/government and except for the surge in closing prices of Shares prior to the Last Trading Day which are in line with the movement of Hang Seng Index, we did not identify any specific reason which caused the aforesaid fluctuation of the closing price of the Shares.

5.3 Historical trading liquidity of the Shares

Set out below is a table showing the average daily number of the Shares traded per month, and the respective percentages of the Shares' monthly trading volume as compared to (i) the total number of issued Shares held by the public; and (ii) the total number of issued Shares as at the Latest Practicable Date, to illustrate the trading liquidity of Shares during the Shares Review Period:

Month	Number of trading days in each month	Average daily trading volume <i>Number of Shares</i>	% of the Average Volume to total number of issued Shares held by the public Shareholders <i>(Note 1)</i> %	% of the Average Volume to total number of issued Shares <i>(Note 2)</i> %
2023				
October	20	36,100	0.013	0.004
November	22	52,591	0.018	0.005
December	19	41,895	0.015	0.004
2024				
January	22	36,955	0.013	0.004
February	19	9,737	0.003	0.001
March	20	22,450	0.008	0.002
April	20	62,100	0.022	0.006
May	21	12,429	0.004	0.001
June	19	21,368	0.007	0.002
July	22	2,207,045	0.769	0.219
August	22	24,955	0.009	0.002
September	19	763,985	0.266	0.076
October <i>(Note 3)</i>	9	445,183	0.155	0.044
- 2 October 2024 to the Last Trading Day	3	828,548	0.289	0.082
- 24 October 2024 to 31 October 2024	6	253,500	0.088	0.025
November (up to and including the Latest Practicable Date)	18	51,278	0.018	0.005

Source: the Stock Exchange website

Notes:

1. Based on 287,033,741 Shares held by the public Shareholders as at the Latest Practicable Date.
2. Based on 1,005,720,799 Shares in issue as at the Latest Practicable Date.
3. Trading in Shares was halted with effect from 9:00 a.m. on 7 October 2024 and resumed at 9:00 a.m. on 24 October 2024.

We noted from the above table that the average daily trading volume of the Shares was thin during the Shares Review Period. During the Shares Review Period, the average daily trading volume of the Shares was below 1% of the total number of issued Shares held by the public and the total number of issued Shares as at the Latest Practicable Date.

Given the thin liquidity in the Shares, it is uncertain as to whether there would be sufficient liquidity in the Shares for the Shareholders to dispose of a significant number of Shares in the open market without causing an adverse impact on the market price level of the Shares.

5.4 Comparison with other comparable companies

To assess the fairness and reasonableness of the Offer Price, we attempted to perform trading multiple analysis (including price-to-earnings ratio (“PER”) and price-to-book ratio (“PBR”)), which we considered to be a commonly adopted method for valuation of companies. In this regard, we searched for listed companies in Hong Kong which are principally engaged in similar line of business as the Group, being primarily engaged in flue gas treatment business (including EPC engineering and O&M service for desulfurization and denitrification facilities and dust removal facilities) in the PRC, and derived more than 50% of their revenue from such business in aggregate, based on their respective latest published financial information, for comparison. However, we could only identify two listed companies which met the aforesaid criteria and they are exhaustive (the “Comparable Companies”). Given the insufficient number of Comparable Companies identified based on the aforesaid criteria, we consider the trading multiple analysis is impracticable in this case.

Nevertheless, we set out the PER and PBR of the Comparable Companies based on their closing prices and their latest published financial information as at the Announcement Date, for Shareholders’ information:

Company name (Stock code)	Principal activities	Market capitalisation as at the Announcement Date HK\$ million	PER (Note 1)	PBR (Note 1)
Datang Environment Industry Group Co., Ltd (1272)	Environmental protection facility concession operation, denitrification catalysts, environmental protection facilities engineering, water treatment business, energy conservation business and renewable energy engineering business	2,492.7	4.37	0.30

Company name (Stock code)	Principal activities	Market capitalisation as at the		
		Announcement Date HK\$ million	PER (Note 1)	PBR (Note 1)
Zhejiang Tengy Environmental Technology Co., Ltd (1527)	Design, development, manufacturing, installation and sale of environmental pollution prevention equipment and electronic products	241.7	5.19	0.25
Average			4.78	0.27
The Company		1,035.9 (Note 2)	4.61 (Note 3)	0.35 (Note 4)

Source: the Stock Exchange's website

Notes:

1. The PER and the PBR of the Comparable Companies were calculated based on their respective latest published financial information and their respective closing prices as quoted on the Stock Exchange and total issued shares as at the Announcement Date.
2. The market capitalisation of the Company was calculated based on the closing price of Shares and the number of Shares as at the Last Trading Day.
3. The implied PER of the Company was calculated based on the Offer Price, the profit attributable to owners of the parent for FY2023 and the number of Shares in issue as at the Latest Practicable Date.
4. The implied PBR of the Company was calculated based on the Offer Price, the equity attributable to owners of the Company as at 30 June 2024 and the number of Shares in issue as at the Latest Practicable Date.

5.5 Comparison with other share buy-back cases

To assess the fairness and reasonableness of the Offer Price, we also searched for comparable share buy-back transactions by way of a partial offer conducted by other listed companies in Hong Kong which involved the application for whitewash waiver, announced on the Stock Exchange from 1 October 2021 (being approximately three years prior to and up to the Announcement Date), that were not lapsed up to the Latest Practicable Date (the "Buy-back Cases"). We consider the review period covering approximately three years prior to the Announcement Date is appropriate as it would allow us to identify sufficient number of Buy-back Cases to assess the market practice of share buy-back transactions that involves application of whitewash waiver. To the best of our knowledge and as far as we are aware of, we found five Buy-back Cases which meet the aforesaid criteria for comparison and they are exhaustive. Although the business and operation of the Group are not the same as those of the companies of the Buy-back Cases, the Buy-back Cases can demonstrate the market practices of share buy-back by way of partial offer conducted by other Hong Kong listed companies.

Company name (stock code)	Date of initial announcement	Premium of the offer price over the average closing price of shares for 30 consecutive trading days up to and including the last full trading day %	Premium of the offer price over the average closing price of shares for 60 consecutive trading days up to and including the last full trading day %	Premium/ (discount) of the offer price over/(to) the average closing price of shares for 60 consecutive trading days up to and including the last full trading day %	Premium/ (discount) of the offer price over/(to) the average closing price of shares for 90 consecutive trading days up to and including the last full trading day %	Premium/ (discount) of offer price over/to the respective then net asset value per share attributable to owners of the company (Note 1) %
Skyworth Group Limited (751)	23 December 2022	39.28 (Note 2)	19.77 (Note 2)	12.13 (Note 2)	25.79 (Note 2)	(35.40) (Note 2)
SciClone Pharmaceuticals (Holdings) Limited (6600)	6 January 2023	13.93	25.05	39.96	43.54	131.26
Shougang Fushan Resources Group Limited (639)	11 July 2023	17.65	9.59	(1.04)	(2.53)	(27.71)
Hong Kong Technology Venture Company Limited (1137)	22 May 2024	20.79	33.21	23.69	17.28	(10.79)
Zhihu Inc. (2390 & NYSE: ZH)	19 July 2024	7.18 (Note 3)	14.90 (Note 3)	3.17 (Note 3)	(4.88) (Note 3)	(43.56)
	Maximum:	39.28	33.21	39.96	43.54	131.26
	Minimum:	7.18	9.59	(1.04)	(4.88)	(43.56)
	Average:	19.76	20.50	15.58	15.84	2.76
	Median:	17.65	19.77	12.13	17.28	(27.71)
The Company	23 October 2024	16.50	66.82	69.97	71.28	(65.02)

Source: the Stock Exchange's website

Notes:

1. Based on the then latest net asset value per share attributable to shareholders of the subject companies as disclosed in the relevant offer documents.
2. The offer price of the relevant transaction was subsequently revised on 28 March 2023 and thus the last full trading day of 28 March 2023 was adopted in the calculation of the premium/(discount) of the revised offer price.
3. Calculated based on the share price as quoted on the Stock Exchange.

As depicted in the above table, (i) the LTD Premium is within the relevant range of the Buy-back Cases; (ii) the 30 Days Premium, the 60 Days Premium and the 90 Days Premium are above the relevant ranges of the Buy-back Cases; and (iii) the NAV Discount is below the relevant range of the Buy-back Cases.

Taking into account that:

- (i) the Offer Price of HK\$1.20 is above the closing prices of the Shares as quoted on the Stock Exchange during the entire Shares Review Period;
- (ii) it is uncertain as to whether there would be sufficient liquidity in the Shares for the Shareholders to dispose of a significant number of Shares in the open market without causing an adverse impact on the market price level of the Shares given the thin trading liquidity of Shares during the Shares Review Period;
- (iii) the LTD Premium is within the relevant range of the Buy-back Cases, but below the relevant average and median of the Buy-back Cases;
- (iv) the 30 Days Premium, the 60 Days Premium and the 90 Days Premium are above the relevant ranges of the Buy-back Cases; and
- (v) although the NAV Discount is below relevant range of the Buy-back Cases, the closing prices of Shares have been traded at prices substantially lower than the then prevailing NAV per Share attributable to the owners of the Company from 3 October 2022 to the Latest Practicable Date,

we consider the Offer Price to be fair and reasonable and we are of the view that the Offer provides an exit alternative for the Independent Shareholders who would like to realise their investments in the Shares.

6. Whitewash Waiver

As at the Latest Practicable Date, Mr. Zeng Concert Parties are interested in 278,636,331 Shares, representing approximately 27.71% of the issued share capital of the Company.

Pursuant to Rule 32.1 of the Takeovers Code and Rule 6 of the Share Buy-backs Code, if as a result of a share buy-back, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code.



Subject to the level of acceptances received from the Accepting Shareholders pursuant to the Offer and assuming that no Options will be exercised by their holders prior to completion of the Offer, the aggregate interests of Mr. Zeng Concert Parties may increase from 27.71% to a maximum level of approximately 32.59% upon completion of the Offer. Accordingly, Mr. Zeng would be required to make a mandatory offer under Rule 26.1 of the Takeovers Code for all the Shares not already owned or agreed to be acquired by Mr. Zeng Concert Parties unless the Whitewash Waiver is granted.

An application has been made by Mr. Zeng, the Shareholder having control over approximately 27.71% of the total issued share capital of the Company, to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that, subject to, among others, the approval of the Independent Shareholders for the Offer and the Whitewash Waiver at the EGM by way of poll, the Executive will grant the Whitewash Waiver to waive any obligation of Mr. Zeng, Best Dawn and Asia Environment to make a general offer which might result from completion of the Offer.

The Offer will be conditional upon fulfilment of, among others, the grant of the Whitewash Waiver by the Executive and the approval of the Whitewash Waiver by the Independent Shareholders at the EGM, both of which are not waivable. Accordingly, if, among others, the Whitewash Waiver is not granted by the Executive and the Whitewash Waiver is not approved by the Independent Shareholders at the EGM, the Offer will not proceed.

RECOMMENDATION

In respect of the Offer

Having considered the principal factors and reasons as discussed above, in particular:

- (i) the Offer will return part of the Company's funds to the Shareholders;
- (ii) the Offer will provide an opportunity for the Shareholders either to tender Shares to realise part of their investments in the Company at a premium to recent market prices, or to increase their proportionate equity interests in the Company by retaining their shareholdings and participating in the future prospects of the Group;
- (iii) have the effect of increasing the earning per Share, the rate of return on capital of the Company and the NAV per Share attributable to the owners of the Company upon completion of the Offer;

- (iv) although the Shareholders can increase their proportionate equity interests in the Company by retaining their shareholdings and participating in the future prospects of the Group with enhanced Shareholder value, the Offer Price of HK\$1.20 represents a premium over the closing price of the Shares on the Last Trading Day and a substantial premium over the average closing price of the Shares for each of the five, 10, 30, 60, 90 consecutive trading days up to and including the Last Trading Day, indicating that the Offer provides an excellent opportunity for the Shareholders to realize their investments in the Company;
- (v) the Offer Price of HK\$1.20 is above the closing prices of the Shares as quoted on the Stock Exchange during the entire Review Period;
- (vi) it is uncertain as to whether there would be sufficient liquidity in the Shares for the Shareholders to dispose of a significant number of Shares in the open market without causing an adverse impact on the market price level of the Shares given the thin trading liquidity of Shares during the Shares Review Period;
- (vii) the LTD Premium is within the relevant range as represented by the Buy-back Cases;
- (viii) the 30 Days Premium, the 60 Days Premium and the 90 Days Premium are above the relevant ranges of the Buy-back Cases; and
- (ix) although the NAV Discount is below the relevant range of the Buy-back Cases, the closing prices of Shares have been traded at prices substantially lower than the then prevailing NAV per Share attributable to the owners of the Company from 3 October 2022 to the Latest Practicable Date,

we consider that the terms of the Offer (including the Offer Price) are fair and reasonable and in the interest of the Independent Shareholders. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution with respect to the approval of the Offer and to accept the Offer.

In respect of the Whitewash Waiver

As aforementioned, the Offer will not proceed if the Whitewash Waiver are not granted by the Executive or the Offer as well as the Whitewash Waiver is not approved by the Independent Shareholders at the EGM.

In view of (i) the aforesaid reasons for and benefits of the Offer; and (ii) that the terms of the Offer are fair and reasonable, we are of the opinion that the approval of the Whitewash Waiver, which is a prerequisite for proceeding with the Offer, is (a) in the interests of the Company and the Shareholders (including the Independent Shareholders); and (b) is fair and reasonable for the purpose of proceeding with the Offer.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Whitewash Waiver.

As different Shareholders would have different investment criteria, objectives and/or circumstances, we would recommend any Shareholders who may require advice in relation to any aspect of the Offer Document, or as to the 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
Gram Capital Limited



Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has around 30 years of experience in investment banking industry.

* *For identification purpose only*