

4 January 2023

Dear Sirs,

**CONNECTED TRANSACTION — EXTENSION OF VALIDITY PERIOD  
OF SHAREHOLDERS' RESOLUTIONS AND GRANT OF  
AUTHORISATION TO THE DESIGNATED DIRECTOR(S) OR  
COMPANY SECRETARY(IES) OF THE COMPANY TO HANDLE ALL  
MATTERS RELATING TO THE SUBSCRIPTION AND ISSUANCE OF  
SHARES UNDER SPECIFIC MANDATE**

**INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Extension Resolutions, details of which are contained in the letter from the Board (the “**Letter from the Board**”) in this circular of the Company dated 4 January 2023 (the “**Circular**”). Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

References are made to the Previous Disclosures. The Subscription shall take place on the Completion Date, subject to the conditions precedent under the Subscription Agreement. If any of the conditions precedent set out in the Previous Disclosures has not been fulfilled or waived (as applicable) by the relevant parties to the Subscription Agreement by the Original Long Stop Date, the Subscription Agreement shall lapse immediately thereafter and be of no further effect.

As additional time is required for the fulfillment of certain conditions precedent of the Subscription Agreement, the parties, after arm's length negotiation, have agreed to amend the Subscription Agreement by way of a supplemental agreement. On 8 December 2022, the Company and the Subscriber entered into a supplemental agreement to the Subscription Agreement to extend the Original Long Stop Date from 31 December 2022 to the New Long Stop Date. Save for the aforesaid extension of the Original Long Stop Date, all other terms and conditions of the Subscription Agreement remain unchanged and in full force and effect in all respects.

As at the Latest Practicable Date, the CSRC is still in the process of reviewing the Company's application for the Subscription Shares. Considering that the validity period of the Shareholders' resolutions relating to the Subscription (including the grant of Specific Mandate) and the issuance of Subscription Shares, which was approved by the then Independent Shareholders at the Adjourned EGM, the Adjourned Domestic Shareholders Class Meeting and the Adjourned H Shareholders Class Meeting, will expire on 16 January 2023, the Board proposed to convene the New EGM, the New Domestic Shareholders Class Meeting and the New H Shareholders Class Meeting for the Independent Shareholders to consider (i) the Share Issuance Extension Resolution; and (ii) the Board Authorisation Resolution, in order to authorise the designated Director(s) or company secretary(ies) of the Company to handle all matters relating to the Subscription (including the grant of Specific Mandate), the issuance of Subscription Shares and the Share Issuance Extension Resolution by way of special resolutions.

As at the Latest Practicable Date, the Subscriber holds 185,339,000 Domestic Shares, representing approximately 21.4% of the total number of issued Shares. As the Subscriber is a substantial shareholder of the Company and therefore a connected person of the Company, the Subscription constitutes a connected transaction for the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to the Listing Rules, the Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Wang Guanghua, Mr. Wang Jiheng, Mr. Xu Rong and Mr. Tan Chong Huat, has been formed to advise the Independent Shareholders on the Extension Resolutions.

As at the Latest Practicable Date, we, Octal Capital Limited, are not connected with the directors, chief executives and substantial shareholders of the Company or the Subscriber or any of their respective subsidiaries or associates or parties acting in concert with any of them and do not have any shareholding, directly or indirectly, in any members of the Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Company. During the last two years, other than the appointment of independent financial adviser concerning the Subscription and application of whitewash waiver, details of which can be referred to the 2021 EGM Circular, we have not entered into any other engagement with the Company, the Subscriber or any of their respective subsidiaries or associates. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we have or will receive any fees or benefits from the Group or any director, chief executive or substantial shareholders of the Company, the Subscriber or any of its subsidiaries, or their respective associates that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent to act as the Independent Financial Adviser pursuant to Rule 13.84 of the Listing Rules.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with



the Directors and the management of the Company on the terms of the Subscription, including the information and representations contained in the Circular. We consider that we have reviewed sufficient information, among other things, (i) the Subscription Agreement; (ii) the supplemental agreement to the Subscription Agreement; (iii) the annual reports of the Company for each of the two years ended 31 December 2020 and 2021 (“**2021 Annual Report**”); (iv) the interim report of the Company for the six months ended 30 June 2022 (“**2022 Interim Report**”); (v) other information as set out in the Circular; and (vi) relevant market data and information available from public sources, to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason neither to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Company, the Subscriber and their respective associates nor have we carried out any independent verification of the information supplied to us.

Should there be any subsequent material changes which occur during the period from the Latest Practicable Date up to the date of the EGM, we will notify the Independent Board Committee and the Independent Shareholders as soon as possible.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

### **1. Background of the Subscriber**

The Subscriber is a joint stock company established under the laws of the PRC with limited liability on 12 March 2010. As at the Latest Practicable Date, the Subscriber is a substantial shareholder of the Company that held 185,339,000 Domestic Shares representing approximately 21.4% of the total number of issued Shares. The Subscriber is an enterprise holding group focusing on industries investments.

The Subscriber is majority-owned as to approximately 56.2735% by Beijing Jiesi Weiye Holding Co., Ltd (北京傑思偉業控股股份有限公司) (formerly known as Beijing Jiesi Weiye Co., Ltd (北京傑思偉業控股有限公司)), which in turn is owned as to approximately 93.04% and 6.96% by Mr. Wang Guanran and two limited liability partnerships whose general partner is Mr. Wang Guanran, respectively. The Subscriber is also directly owned as to approximately 5.79% by Mr. Wang Guanran. The Subscriber will conduct the Subscription by the Final Subscriber Entity (as defined in the Previous Disclosures) or its designated person(s) or company so as to facilitate the settlement of the Subscription Shares.

### **2. Background of the Group**

The Company is a joint stock company established under the laws of the PRC with limited liability, the H Shares of which are listed on the Main Board of the Stock Exchange. The Group is principally engaged in the businesses of mining, processing, smelting and sales of gold and other metallic products in the PRC. The Group will continue to expand its mining operation as disclosed in the 2021 Annual Report.

The summary of the consolidated financial information of the Group for the years ended 31 December 2020 (“FY2020”) and 2021 (“FY2021”) and the six months ended 30 June 2021 (“1H2021”) and 30 June 2022 (“1H2022”) as extracted from the 2021 Annual Report and 2022 Interim Report respectively are set out as follows:

(a) *Financial Performance of the Group*

<i>RMB' million</i>	<b>FY2020</b> <i>(audited)</i>	<b>FY2021</b> <i>(audited)</i>	<b>1H2021</b> <i>(unaudited)</i>	<b>1H2022</b> <i>(unaudited)</i>
Sale of gold bullion	5,169	4,913	2,019	3,771
— Sales volume ( <i>kg</i> )	13,350	13,094	5,347	9,678
— Average unit price ( <i>RMB/kg</i> )	387,184	375,215	377,514	389,726
Sale of other metals and products	431	418	195	111
Total revenue	5,600	5,331	2,214	3,882
Gross profit	655	588	225	412
Gross profit margin	11.7%	11.0%	10.2%	10.5%
Other revenue	76	54	23	19
Other net loss and expenses	(444)	(336)	(148)	(128)
Finance costs	(165)	(139)	(38)	(59)
Share of profits of associates	—	6	4	(1)
Profit before taxation	122	173	66	243
Profit attributable to equity shareholders of the Company	90	130	52	179

(i) *Comparison between FY2020 and FY2021*

The Group’s revenue decreased from approximately RMB5,600 million for FY2020 to approximately RMB5,331 million for FY2021, representing a decrease of approximately RMB269 million or 4.8%. The reduction in revenue was mainly attributable to (i) the decrease in sales of copper products and gold concentrates; and (ii) the decrease in sales of gold bullion processed from compound gold purchased from the external suppliers as its gross profit margin was relatively lower. The gross profit margin decreased slightly from 11.7% in FY2020 to 11.0% in FY2021. The decrease in gross profit margin was mainly due to the fluctuations in the international gold price. Despite the decrease of gross profit for FY2021, the profit attributable to equity shareholders of the Company increased from approximately RMB90 million for FY2020 to approximately RMB130 million for FY2021. Such increase was mainly due to the decrease of impairment loss related to long-term assets for FY2021 compared to FY2020.



*(ii) Comparison between 1H2021 and 1H2022*

The Group's revenue increased from approximately RMB2,214 million for 1H2021 to approximately RMB3,882 million for 1H2022, representing an increase of approximately RMB1,668 million or 75.3%. The significant improvement in revenue was mainly attributable to the increase in sales volume of the gold bullion by 4,331 kg and buoyant international gold prices during 1H2022 as compared to 1H2021. The production volume of gold bullion has been improved to support the customers' demand. The increase in production volume was primarily due to (i) a year-on-year increase of approximately 139% in the overall production volume of the mining segment as a result of the Group's efforts to strengthen the management of mines by enabling major mines to organize production at full capacity, further releasing the production potential; and (ii) an overall increase in the production volume of gold bullion as a result of full operation of the Group's smelting plant.

The gross profit margin for 1H2022 was approximately 10.5% as compared to approximately 10.2% in 1H2021, which remained stable. The Group recorded net profit attributable to equity shareholders of the Company amounted to approximately RMB179 million for 1H2022, representing an increase of approximately RMB127 million or 244.2% as compared to 1H2021. The increase in profit attributable to equity shareholders of the Company was mainly due to the improvement in gross profit during the period.

(b) *Financial Position of the Group*

<i>RMB' million</i>	<b>As at 30 June 2022 (unaudited)</b>
<b>Non-current Assets</b>	3,760
— Property, plant and equipment	1,698
— Other non-current assets	2,062
<b>Current Assets</b>	4,040
— Inventories	1,590
— Pledged deposits	1,884
— Cash and cash equivalents	232
— Other current assets	334
<b>Total Assets</b>	<u>7,800</u>
<b>Current Liabilities</b>	5,343
— Bank and other borrowings	4,086
— Other current liabilities	1,257
<b>Non-current Liabilities</b>	573
<b>Total Liabilities</b>	<u>5,916</u>
<b>Net Current Liabilities</b>	(1,303)
<b>Total Equity</b>	1,884
<b>Equity attributable to the equity shareholders of the Company</b>	2,072
Gearing Ratio (Total bank and other borrowings/Total assets)	0.54
Current Ratio	0.76
Net asset value per Share <sup>Note</sup> (RMB/Share)	2.40

*Note:* being equity attributable to the equity shareholders of the Company divided by the aggregate number of H Shares and Domestic Shares

The total assets of the Group amounted to approximately RMB7,800 million as at 30 June 2022 in which the property, plant and equipment, inventories and pledged deposits in aggregate amounted to approximately RMB5,172 million, representing 66.3% of the total assets of the Group. The cash and cash equivalents of the Group was thin, amounted to approximately RMB232 million, representing approximately 3.0% of the total assets of the Group.

The total liabilities of the Group amounted to approximately RMB5,916 million as at 30 June 2022, in which bank and other borrowings amounted to approximately RMB4,086 million, representing 69.1% of the total liabilities of the Group. During 1H2022, the Group obtained additional bank borrowings of approximately RMB632 million.



The gearing ratio and the current ratio of the Group were approximately 0.54 times and 0.76 times as at 30 June 2022 respectively.

*(c) Prospects of the Group*

The Group's total revenue in 1H2022 recorded a significant increment of approximately 75.3% as compared to 1H2021 mainly due to the full operation capacity of the smelting plant of the Group. With an improvement in the capital utilization efficiency, the smelting plant saw an increase in the production volume of gold bullion from gold concentrates supplied from the gold mines and the compound gold purchased from external suppliers. At the same time, besides strictly implementing the cost reduction and efficiency enhancement system, the Group tightened control over internal procurement, rationalized mining blend and optimized the output grade with new tailings disposal facilities to improve the recovery rate. Moreover, international gold prices continued to rise in 1H2022, resulting in an increase in revenue from the smelting segment.

Based on the figures of Thomson Reuters and the World Gold Council, the gold price has fluctuated during the outbreak of the pandemic, the gold price was US\$1,527 per troy ounce at the beginning of January 2020, and surged to US\$2,067 per troy ounce in August 2020 and dropped to US\$1,691 per troy ounce at the end of March 2021. It then rose and reached US\$2,040 per troy ounce in March 2022 and subsequently dropped to US\$1,631 per troy ounce in October 2022. As at the 2022 Last Trading Day (as defined below), the gold price was US\$1,790 per troy ounce.

Having witnessed the improvement in the Group's revenue and profitability, as disclosed in the 2022 Interim Report, the Group will continue to implement the cost reduction and efficiency enhancement system of the smelting plant with an objective to an increase in the number of gold bullion. As disclosed in the 2022 Interim Report, the Group is required to study and resolve various issues identified in mineral prospecting and reserve expansion, so as to ensure the key engineering projects continue to move forward efficiently.

**3. Reasons for and benefits of the Extension Resolutions**

*Progress of the CSRC approval*

As disclosed in the Previous Disclosures and the Letter from the Board, the Subscription shall take place on the Completion Date, subject to the conditions precedent under the Subscription Agreement. If any of the conditions precedent set out in the Previous Disclosures has not been fulfilled or waived (as applicable) by the relevant parties to the Subscription Agreement by the Original Long Stop Date, the Subscription Agreement shall lapse immediately thereafter and be of no further effect.

The Company has placed substantial manpower and financial resources to carry out the Subscription since November 2021. Before submission of application documents to the CSRC, the Company is required to conduct a comprehensive legal due diligence on the Company and its major domestic subsidiaries which were carried

out by the Company's legal advisers in the PRC. Due to the epidemic prevention measures in cities where some of the Company's major subsidiaries are located such as Henan, Xinjiang, Inner Mongolia and Shenzhen, the due diligence procedures were interrupted or impacted and extended time was required for preparation of documents, and thus the legal due diligence was not completed according to the original timetable, causing the delay in submitting the full set of documents for the CSRC's review. On the other hand, the estimated timeframe for the CSRC to complete the review of the application is beyond the control of the Company and the CSRC has not indicated the timeframe to review the Company's application documents.

The Group submitted the application package in relation to the Subscription to the CSRC and received the CSRC's receipt acknowledgement in November 2022. As at the Latest Practicable Date, the Company has received the first round of enquiries from the CSRC regarding the Company's application for the Subscription. Additional documents may be required to submit to the CSRC in due course. As advised by the Company, the Company is committed to make prompt responses to address the CSRC's enquiries.

After obtaining such approval, the Company expects that it takes approximately 3 to 4 months to complete the Subscription (including but not limited to obtaining of approval from the Stock Exchange for listing of relevant new H Shares) and complete the closing work of the Subscription.

Having considered that the CSRC's review process in relation to the Subscription and the time required for the Company to carry out the issue of new H Shares, we concur with the view of the Directors that a twelve-month extension for completing the whole process of the Subscription is reasonable.

#### *Use of proceeds*

As disclosed in the Previous Disclosures, the net proceeds from the Subscription (after deducting all applicable costs and expenses, including the legal fees) are expected to be approximately HK\$265.6 million and the Company intends to apply the net proceeds from the Subscription in the same ways as disclosed in the 2021 EGM Circular, including:

- (i) approximately HK\$139.2 million for financing of the deep exploration of Henan Lingjin No. 1 Mine (the "**Exploration Project**"). The total exploration cost is approximately HK\$278.3 million, of which approximately HK\$162.0 million has been paid through internal resources because of the delay in completion of the Subscription. The remaining exploration cost is expected to be fully settled by the end of 2023;
- (ii) approximately HK\$41.7 million for financing of the construction and setting up of cyanide-containing sewage desalination facilities (the "**Construction Project**"). The total investment cost of the project is approximately HK\$44.8



million, of which approximately HK\$31.3 million has been paid through the Company's internal resources because of the delay in completion of the Subscription; and

- (iii) approximately HK\$84.7 million as general working capital of the Group, mainly for purchases of gold concentrates for production of gold bullion.

As advised by the Directors, the Exploration Project has been commenced since 2014 and was operated by third party contractors. Since the relevant work of the Exploration Project had been completed earlier than the original schedule and the Group is consolidating its mining assets, the Company entered into a termination agreement with the third party contractors in May 2021 in relation to the deep exploration of Henan Lingjin No. 1 Mine. Based on the termination agreement, the settlement fee of approximately RMB230 million (equivalent to approximately HK\$278 million) would be payable by the Group to the third party contractors by three installments. The mining assets constructed by third party contractors in Henan Lingjin No. 1 Mine have been transferred to the Group and the Group would continue to operate the Henan Lingjin No. 1 Mine. Since the Subscription has yet to be completed, the progress payment of the Exploration Project is temporarily financed by the Company's internal resources, which will be restored upon completion of the Subscription.

As disclosed in 2022 Interim Report, the Group has been making efforts on increasing the output of gold bullion produced from the Group's own mines and the result in 1H2022 have been satisfactory. The Directors are of the view that operating the Henan Lingjin No. 1 Mine by the Group itself will further improve operation efficiency and whereby increasing the production volume of gold concentrate from the Group's mining segment and is in line with the corporate strategy of the Group.

In January 2021, a subsidiary of the Company entered into a construction agreement with a constructor for the Construction Project of approximately RMB35.8 million (equivalent to approximately HK\$43 million). Based on the construction agreement, the Construction Project was originally expected to be completed in November 2021. The construction fee would be payable by the Group based on the construction progress. Save for the final inspection in relation to safety and sustainability indicators, the Construction Project has been substantially completed. These new facilities will increase the overall recovery rates of gold at the Group's smelting facilities. Moreover, the new facilities will reduce the unit cost of production of gold bullion by reducing the wastage of materials during production process, the sewage treatment cost and utility cost. However, since the Subscription has yet to be completed, the progress payment of the Construction Project is temporarily financed by the Company's internal resources, which will be restored upon completion of the Subscription.

As at 30 June 2022, the cash and cash equivalents balance of the Group was approximately RMB232 million. The Group had total borrowings of approximately RMB4,186 million with gearing ratio and current ratio of approximately 0.54 times and 0.76 times as at 30 June 2022 respectively. Moreover, as at 30 June 2022, the Group was at net current liabilities position of approximately RMB1,303 million and 97.6% of the loans of the Group shall be repayable within one year. As at 30 June 2022, the Group had unutilized bank facilities of approximately RMB130 million. In view of the aforesaid financial position of the Group, the current cash and cash equivalents balance of the Group is insufficient to finance the outstanding payments for the Exploration Project and Construction Project. The net proceeds from the Subscription provide partial funding to fulfil such payment obligations and replenish the internal resources of the Company as the Company financed the payment obligations of the Exploration Project and Construction Project before completion of the Subscription.

The Company originally intended to apply approximately HK\$84.7 million of the net proceeds from the Subscription to purchase gold concentrates for production of gold bullion, which is an ordinary business activity of the Group. However, due to the delay of completion of the Subscription, the Company settled such purchase payment with its internal resources, which will be restored by the net proceeds of the Subscription upon completion of the Subscription. Gold concentrates, which are one of the major raw materials for the production of gold bullion, are either sourced from the Group's own mines or external suppliers. As advised by the Directors, the Group processes approximately 22,000 tonnes of gold concentrates per month. The estimated amount of gold concentrates to be purchased by using the net proceeds from the Subscription is approximately 2,470 tonnes, which accounts for approximately 11% of the monthly processing amount of gold concentrates.

As disclosed in 2022 Interim Report, the overall production volume of gold bullion by the Group's smelting plants has been increased by approximately 67.7% as a result of the Group's efforts to strengthen the management of mines by enabling major mines to organize production at full capacity, further releasing the production potential of the Group's mines. However, the Group still needs to purchase gold concentrates from external suppliers to achieve the orders of gold bullion from the customers. As disclosed in 2022 Interim Report, the Group produced 9,172 kg of gold bullion in 1H2022 (5,469 kg in 1H2021). In view of the substantial increase in the production volume of gold bullion, the amount of proceeds from the Subscription to be allocated for the purchases of gold concentrates could alleviate the funding pressure of the Group.



#### 4. Alternative financing methods

The Directors considered other financing alternatives to fulfill the Group's funding need. In respect of debt financing, the Directors are of the view that increasing use of the existing bank facilities will deteriorate the Group's financial position and gearing ratio and increase the interest burden of the Group. Moreover, the unutilized bank facilities serve as an immediate funding source for the Group to meet its short-term funding needs rather than to finance long term projects like the Construction Project and the Exploration Project. We concur with the Directors that such banking facilities is not considered a preferred alternative to meet the Group's current funding needs.

The Directors have considered the possibility of a rights issue or an open offer exercise as it is offered to all Shareholders on a pro-rata basis. However, the Directors are of the view that they are not the best fund-raising options for the Group at the moment, having taken into account that (i) the low liquidity of the H Shares (as demonstrated in the section headed "6. Analysis of the Subscription Price" below) may imply the lack of interests from potential investors in the H Shares; and (ii) if the rights issue or open offer is underwritten, an underwriting commission would be incurred. Moreover, amid uncertain economic atmosphere brought by the COVID-19 pandemic, it is uncertain as to whether the Company could identify an underwriter that is able and willing to fully underwrite the rights issue or open offer with acceptable terms. The Subscription, on the other hand, could provide a higher certainty to the Company to raise the amount of funds as required.

We concur with the Directors that allocating the net proceeds from the Subscription to the above-mentioned areas are in line with the corporate strategy and the recent development of the Group, and that the Subscription can provide the Group with new funding for its operation without further jeopardizing the Group's gearing level. Therefore, based on the foregoing, we are of the view that the Subscription remains the most preferred financing alternative to satisfy the Group's funding need and thus it is commercially justifiable to extend the validity period of the then Independent Shareholders' resolutions relating to the Subscription and the issuance of Subscription Shares.

## 5. Principal terms of the Subscription Agreement

Save for the extension of the Original Long Stop Date to the New Long Stop Date, there is no other change to the terms of the Subscription Agreement previously disclosed by the Company.

The major terms of the Subscription Agreement are set out as follows:

Parties : D&R Asset Management Group Co. Ltd. (as subscriber);  
and  
the Company (as issuer).

Number of Subscription Shares to be issued : 319,772,164 H Shares will be issued at the Subscription Price of HK\$0.85 per H Share under the Subscription, which represents (i) approximately 107.6% of the existing number of issued H Shares and approximately 37.0% of the issued Shares as at the Latest Practicable Date; and (ii) approximately 51.8% of the enlarged number of issued H Shares and approximately 27.0% of the enlarged issued Shares immediately after completion of the Subscription.

Subject to the conditions precedent of the Subscription, the Subscription Shares will be issued and allotted to the Subscriber (or its designated person(s) as to facilitate settlement of the Subscription Shares) on the Completion Date.

Subscription Price : HK\$0.85 per H Share represents:

- (i) a discount of approximately 12.4% to the closing price of HK\$0.97 per H Share as quoted on the Stock Exchange on 10 November 2021, being the last trading day (the “**2021 Last Trading Day**”) immediately prior to the date of the Subscription Agreement as disclosed in the 2021 EGM Circular;
- (ii) a discount of approximately 10.9% to the average closing price of approximately HK\$0.954 per H Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the 2021 Last Trading Day;
- (iii) a discount of approximately 11.0% to the average closing price of approximately HK\$0.955 per H Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including the 2021 Last Trading Day;



- (iv) a discount of approximately 7.61% to the closing price of HK\$0.92 per H Share as quoted on the Stock Exchange on 8 December 2022 (the “2022 Last Trading Day”), the date of announcement made by the Company in relation to the Extension Resolutions (the “December 2022 Announcement”);
- (v) a discount of approximately 7.21% to the average closing price of approximately HK\$0.916 per H Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the 2022 Last Trading Day;
- (vi) a discount of approximately 7.51% to the average closing price of approximately HK\$0.919 per H Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including the 2022 Last Trading Day;
- (vii) a discount of approximately 5.06% to the average closing price of approximately HK\$0.895 per H Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the 2022 Last Trading Day;
- (viii) a discount of approximately 7.61% to the closing price of approximately HK\$0.92 per H Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (ix) a discount of approximately 70.49% to the unaudited net asset value per Share of approximately HK\$2.88 per Share based on the unaudited net asset value of the Company of approximately RMB2,072 million (equivalent to approximately HK\$2,486 million) as at 30 June 2022.

As disclosed in the 2021 EGM Circular, the Subscription Price was determined after arm’s length negotiation between the Company and the Subscriber which has taken into account, among others, (i) the prevailing market price of the H Shares; (ii) the current market condition; (iii) the low trading volume of the H Shares; and (iv) the amount of funds the Company intends to raise under the Subscription and the use of the net proceeds from the Subscription.

Expected proceeds : The gross proceeds from the Subscription will be from the approximately HK\$271.8 million and the net proceeds from the Subscription will be not less than approximately HK\$265.6 million (after deduction of expenses of the Subscription). The estimated net subscription price for each Subscription Share will be approximately HK\$0.83.

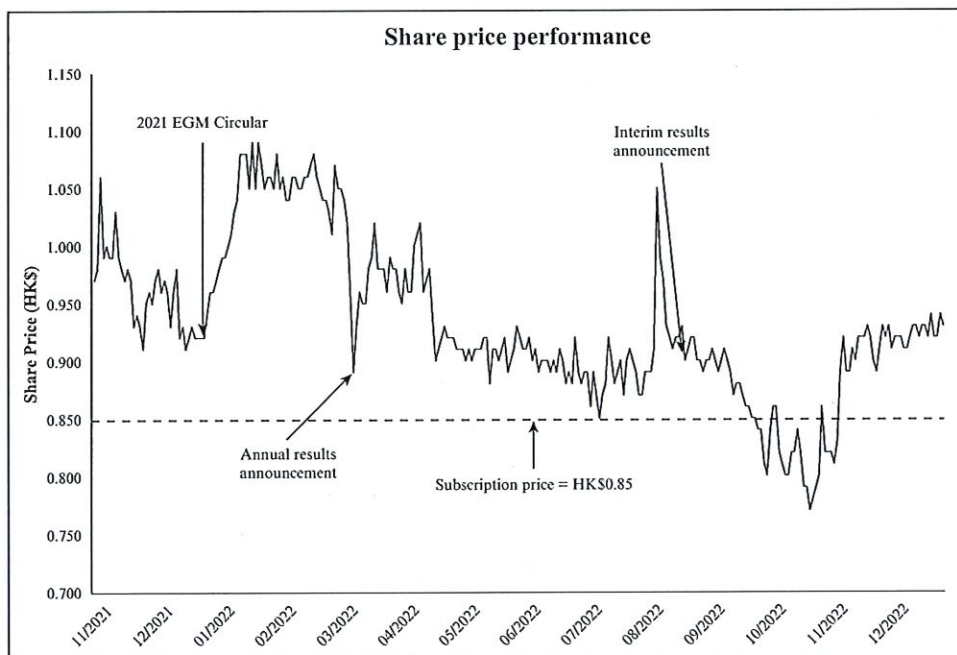
Further details of the Subscription Agreement are set out in the 2021 EGM Circular.

## 6. Analysis of the Subscription Price

For the purpose of assessing the fairness and reasonableness of the Subscription Price, we have compared the Subscription Price with reference to the historical price performance and the liquidity of the H Shares as follows:

### (a) Historical H Share price performance

Set out below is a chart showing the daily closing prices of the H Shares as quoted on the Stock Exchange during the period from 10 November 2021 (i.e. the date of the Subscription Agreement) up to the Latest Practicable Date (the “Review Period”). We consider that the duration of the Review Period would be a reasonable and sufficient period to illustrate the price movement of the Shares.



Source: Infocast



As illustrated in the chart above, the H Shares were generally traded above the Subscription Price for most of the trading days during the Review Period, which accounted for 254 trading days out of a total of 281 trading days (approximately 90.4%) during the Review Period. During the Review Period, H Shares closing price ranged from HK\$0.77 per Share (the “**Lowest Closing Price**”) recorded on 24 October 2022 to HK\$1.09 (the “**Highest Closing Price**”) recorded on 24 January 2022 and 26 January 2022. The average closing price of H Shares during the Review Period was approximately HK\$0.93 per H Share (the “**Average Closing Price**”).

The H Shares closing price declined steadily from HK\$0.97 on the 2021 Last Trading Day to HK\$0.91 near the end of December 2021. Subsequently, it demonstrated a sharp increase in January 2022, reaching the Highest Closing Price on 24 January 2022 and 26 January 2022. After the interim results announcement of the Company published on 10 August 2022, the H Shares closing price spiked from HK\$0.91 to HK\$1.05 on the following trading day. Immediately afterwards, the H Shares closing price continued its downward trend until it reached the Lowest Closing Price on 24 October 2022, after which the H Shares closing price rebounded to around HK\$0.90 approaching the end of the Review Period. As advised by the Directors, they were not aware of any specific potential reasons, other than the publication of interim result, for the price movements.

During the Review Period, the Subscription Price represented (i) a discount of approximately 22.0% to the Highest Closing Price; (ii) a premium of approximately 10.4% to the Lowest Closing Price; and (iii) a discount of approximately 8.6% to the Average Closing Price.

As compared with the net asset value (“NAV”) per Share as at 31 December 2021 and 30 June 2022 of HK\$2.68 and HK\$2.88, respectively, the closing prices of H Shares during the Review Period had been traded below the NAV per Share.

*(b) Liquidity of the H Shares*

The table below sets out the monthly statistics of the average daily volume of the Shares per month and the respective percentages of the average daily trading volume as compared to the total number of issued H Shares during the Review Period:

Month	Total trading volume of H Shares (Shares)	Number of trading days in the month (days)	Average daily trading volume of H Shares (Shares) (Note 1)	Percentage of average daily trading volume over total number of issued H Shares held by public H Shareholders % (Note 2)
<b>2021</b>				
November	7,554,987	15	503,666	0.169%
December	5,252,000	22	238,727	0.080%
<b>2022</b>				
January	10,114,000	21	481,619	0.162%
February	6,280,000	17	369,412	0.124%
March	10,188,000	23	442,957	0.149%
April	3,366,005	18	187,000	0.063%
May	942,000	20	47,100	0.016%
June	3,464,000	21	164,952	0.055%
July	2,812,000	20	140,600	0.047%
August	7,315,868	23	318,081	0.107%
September	1,821,000	21	86,714	0.029%
October	2,778,000	20	138,900	0.047%
November	5,706,000	22	259,364	0.087%
December (up to the Latest Practicable Date)	9,254,300	18	514,128	0.173%

Source: The website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk))

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days in the respective month/period.
2. The calculation is based on the average daily trading volume of H Shares divided by the total number of H Shares in issue at the end of each month/period.



As illustrated in the above table, the average daily trading volume of H Shares during the Review Period was generally low with a range from approximately 47,100 H Shares to approximately 514,128 H Shares, representing 0.016% to approximately 0.173% of the total number of the H Shares in issue as at the end of the relevant month/period, demonstrating a thin liquidity and an inactive trading throughout the Review Period. The thin liquidity of the H Shares may imply the lack of interest from potential investors in the H Shares and as such, it may be difficult for the Company to conduct other equity financing alternatives when considering fund raising exercises in the market such as rights issue or open offer.

As mentioned in the above sub-section that the closing share prices during the Review Period were all traded below the net asset value attributable to the equity shareholders of the Company with the average closing Share prices representing a deep discount thereto, the Directors considered that it is not commercially sound to make reference to the net asset value attributable to the equity shareholders of the Company when determining the Subscription Price and instead the market condition was the key factor considered, such as prevailing market prices, trading performance of the H Shares and market sentiment of the Group's businesses.

*(c) Comparison with recent share subscription transactions*

In order to further assess the fairness and reasonableness of the terms of the Subscription, we have identified a list of transactions which are (i) share subscription and placing of shares under specific mandates; (ii) conducted by the listed companies which are not subject to prolonged suspension of trading; and (iii) are announced during the period from 1 September 2022 to the 2022 Last Trading Day (the “**Comparables Review Period**”). Based on these criteria, a list of 12 transactions (the “**Comparables**”) have been identified.

Although the Comparables include subscription or placing of shares with different purposes and the listed companies are engaged in different businesses or have different financial performances and funding needs as compared with the Company, having considered that (i) all of the Comparables and the Company are listed on the Stock Exchange; (ii) our analysis is mainly concerned with the principal terms of the Subscription Agreement; and (iii) a three-month period for the selection of the Comparables is adequate to capture the prevailing market conditions of companies listed on the Stock Exchange, the Comparables represent an exhaustive list with reasonable sample size, we consider that the Comparables represent a true and fair view of the recent market trend for similar subscription or placing of shares conducted by other issuers listed on the Stock Exchange, and are fair and representative samples.

Set out below are the details of the Comparables:

Date of announcement	Company Name	Stock Code	Premium/ (discount) of the subscription price over/(to) the average closing price of last 5 consecutive trading days prior to/ on the date of the relevant announcement or agreement %	Premium/ (discount) of the subscription price over/(to) the average closing price of last 10 consecutive trading days prior to/ including the date of the relevant announcement or agreement %	Premium/ (discount) of the subscription price over/(to) the average closing price of last 30 consecutive trading days prior to/ including the date of the relevant announcement or agreement %	
8 December 2022	China Ecotourism Group Limited	1371	(28.57)	(4.76)	(1.96)	0.25
7 December 2022	Cornerstone Technologies Holdings Limited	8391	(55.80)	(34.25)	(27.59)	3.22
25 November 2022	Value Convergence Holdings Limited	821	(0.43)	(0.18)	0.00	(4.15)
21 November 2022	First Service Holding Limited	2107	7.94	3.98	2.56	0.54
18 November 2022	Anchorstone Holdings Limited	1592	(1.50)	(5.00)	(7.80)	(5.57)
18 October 2022	China Titans Energy Technology Group Co., Limited	2188	3.03	5.92	4.62	6.97
30 September 2022	China CBM Group Company Limited	8270	0.48	0.00	0.00	6.22
29 September 2022	HG Semiconductor Limited	6908	(22.28)	(23.47)	(22.58)	(24.66)
27 September 2022	Oriental Payment Group Holdings Limited	8613	(18.18)	(18.18)	(20.28)	(23.21)
26 September 2022	Beijing Gas Blue Sky Holdings Limited	6828	(23.81)	(28.19)	(30.97)	(30.35)
2 September 2022	Cornerstone Technologies Holdings Limited	8391	5.08	(2.82)	(5.05)	(10.53)



Date of announcement	Company Name	Stock Code	Premium/ (discount) of the subscription price over/(to) the average closing price per share on the last trading day prior to/on the date of the relevant announcement or agreement %	Premium/ (discount) of the subscription price over/(to) the average closing price of last 5 consecutive trading days prior to/ including the date of the relevant announcement or agreement %	Premium/ (discount) of the subscription price over/(to) the average closing price of last 10 consecutive trading days prior to/ including the date of the relevant announcement or agreement %	Premium/ (discount) of the subscription price over/(to) the average closing price of last 30 consecutive trading days prior to/ including the date of the relevant announcement or agreement %
1 September 2022	BOE Varitronix Limited	710	(7.20)	(11.85)	(14.10)	(15.27)
1 September 2022	Suoxinda Holdings Limited	3680	(19.60)	(6.00)	(0.38)	(8.39)
	Maximum		7.94	5.92	4.62	6.97
	Minimum		(55.83)	(34.25)	(30.97)	(30.35)
	Median		(7.20)	(5.00)	(5.05)	(5.57)
	Average		(12.37)	(9.53)	(9.50)	(8.43)
	Company		(7.61)	(7.21)	(7.51)	(5.06)
<i>Outlier:</i>						
13 September 2022	Link-Asia International MedTech Group Limited	1143	78.40	79.75	78.19	85.19

Source: Infocast

Based on the table above, we noted that there is one outlier out of the Comparables that had a subscription price representing an extremely high premium over (i) its closing price per share on the last trading day prior to/on the date of the relevant announcement or agreement; and (ii) average closing prices of last five/ten/thirty consecutive trading days prior to/including the date of the relevant agreement as compared to the rest of the Comparables and it is considered to skew the overall result. The subscription prices of the Comparables (excluding the outlier):

- (i) ranged from a discount of approximately 55.80% to a premium of approximately 7.94%, with a median of a discount of approximately 7.20% and an average of a discount of approximately 12.37%, over/to their respective closing prices prior to/including the date of the relevant announcement or agreement;

- (ii) ranged from a discount of approximately 34.25% to a premium of approximately 5.92%, with a median of a discount of approximately 5.00% and an average of a discount of approximately 9.53%, over/to their respective average closing prices of last five consecutive trading days prior to the date of the relevant announcement or agreement;
- (iii) ranged from a discount of approximately 30.97% to a premium of approximately 4.62%, with a median of a discount of approximately 5.05% and an average of a discount of approximately 9.50% over/to their respective average closing prices of last ten consecutive trading days prior to the date of the relevant announcement or agreement; and
- (iv) ranged from a discount of approximately 30.35% to a premium of approximately 6.97%, with a median of a discount of approximately 5.57% and an average of a discount of approximately 8.43% over/to their respective average closing prices of last thirty consecutive trading days prior to the date of the relevant announcement or agreement.

Given (i) the closing price of H Shares has been fluctuating and is in a downward trend during the Review Period; (ii) the closing prices of the H Shares were traded below the net asset value attributable to equity shareholders of the Company during the Review Period; (iii) the daily trading volume of H Shares is considered as thin; (iv) the discounts of the Subscription Price to/over the closing price per Share on the 2022 Last Trading Day and the average closing prices per Share for the five, ten, thirty consecutive trading days prior to the date of the relevant announcement are lower than the average of those of the Comparables (excluding the outlier); and (v) the Subscription Price should be in line with market sentiment under the prevailing condition, which is indicated by recent trading price of the Shares, we are of the view that the Subscription Price is reasonable.

## **7. Financial effects of the Subscription on the Group**

### **(i) Cash flow**

According to the 2022 Interim Report, the Group had cash and bank balances as at 30 June 2022 of approximately RMB232 million. Upon the Completion Date, the cash position of the Group will be improved by the amount of net proceeds of approximately HK\$265.6 million (equivalent to approximately RMB221.3 million).

### **(ii) Earnings**

Save for the expenses in relation to the Subscription, the Subscription will not have any material negative impact on the earnings of the Company. Upon the Completion Date, the number of issued Shares will be increased, thus the earning per Share (based on the net profit attributable to equity shareholders of the Company for FY2021) will be reduced.



**(iii) Net asset value**

According to the 2022 Interim Report, the NAV attributable to the equity shareholders of the Company as at 30 June 2022 was approximately RMB2,071 million and the NAV per Share as at 30 June 2022 was approximately RMB2.40. Upon the Completion Date and save for the expenses in relation to the Subscription, the total assets of the Company will increase as a result of the receipt of the net proceeds from the Subscription by approximately RMB221.3 million (equivalent to approximately HK\$265.6 million). Accordingly, it is expected to be a positive impact on the NAV attributable to the equity shareholders of the Company.

Given the net proceeds per Subscription Share is approximately HK\$0.83 (equivalent to approximately RMB0.69), which is lower than the NAV per Share of approximately HK\$2.88 (equivalent to approximately RMB2.40) as at 30 June 2022, it is expected that the NAV per Share will be diluted to approximately HK\$2.32 (equivalent to approximately RMB1.94) upon the Completion Date (based on the estimated NAV of the Group of approximately RMB2,292 million divided by the enlarged number of issued Shares of 1,184,021,255).

Having considered (i) the Shares has been trading below the NAV per Share during the Review Period; (ii) the use of proceeds from the Subscription is in line with the corporate strategy of the Group and may further support the recent financial improvement of the Group; (iii) the Subscription will not increase the finance cost and the gearing ratio of the Group; and (iv) the Subscription Price is fair and reasonable as mentioned above, we considered that the dilution effect on the NAV per Share as a result of the Subscription upon the Completion Date is justifiable.

**8. Potential dilution effect of the Subscription**

Upon completion of the Subscription, the shareholding percentage of Subscriber in the Company will increase from approximately 21.4% to approximately 42.7%. Assuming there are no other changes to the total issued share capital of the Company other than the Subscription from the Latest Practicable Date to completion of the Subscription, (i) the shareholdings of the existing public H Shareholders will be diluted from approximately 34.4% to approximately 25.1%; and the shareholdings of the Domestic Shareholders (other than the Subscriber and parties acting in concert with it) will be diluted from approximately 44.2% to approximately 32.2%.

We noted that the shareholding interest of the existing Independent Shareholders is subject to dilution of the aforementioned extents as a result of the Subscription. However, having considered (i) the reasons and benefits of the Subscription; and (ii) the terms of the Subscription Agreement including the issuance of H Shares under Specific Mandate and transaction contemplated thereunder being fair and reasonable so far as the Independent Shareholders are concerned, we are of the opinion that the possible shareholding dilution to the Independent Shareholders is acceptable.

## OPINION AND RECOMMENDATIONS

Having considered the above principal factors and reasons, in particular,

- i. there is no change to the use of proceeds as disclosed in the 2021 EGM Circular and such usage are in line with the corporate strategy and recent development of the Group;
- ii. given the net current liabilities, high gearing ratio and interest burden of the Group, the debt financing is not the most preferred fund-raising solution;
- iii. the low liquidity of the H Shares may imply the lack of interest from potential investors in the H Shares and as such, it may be difficult for the Company to conduct other equity financing alternatives;
- iv. save for the Extension Resolutions, the terms of the Subscription Agreement remain unchanged;
- v. the Company has placed a substantial manpower and financial resources to carry out the Subscription since November 2021;
- vi. the CSRC is in the process of reviewing the application documents in relation to the Subscription and the Company is committed to provide immediate responses to the CSRC's enquires with an objective of obtaining CSRC's approval as soon as possible;
- vii. the closing price of the H Shares has been in a downward trend over the Review Period, as a result, the discount represented by the Subscription Price to the closing price of the H Shares prior to the 2022 Last Trading Day is smaller than the discount to the closing price of H Shares prior to the 2021 Last Trading Day;
- viii. the discounts of the Subscription Price to the closing price per Share on the 2022 Last Trading Day and the average closing prices per Share for the five, ten, thirty consecutive trading days prior to the date of the relevant announcement are lower than the average of those of the Comparables (excluding the outlier); and
- ix. the Subscription is still in the interest of the Company and the Shareholders as a whole;

we are of the view that the Extension Resolutions and the terms of the Subscription Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. We consider that although the Extension Resolutions and the Subscription are not in the ordinary and usual course of business of the Group, the terms of the Extension Resolutions and the Subscription (including the grant of the Specific Mandate) are on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Independent Shareholders as a whole.



Accordingly, we advise the Independent Board Committee to advise the Independent Shareholders, and recommend the Independent Shareholders, to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Extension Resolutions.

Yours faithfully,  
For and on behalf of  
**Octal Capital Limited**



**Alan Fung**  
*Managing Director*



**Wong Wai Leung**  
*Executive Director*

*Note:* Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 28 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.

Mr. Wong Wai Leung has been a responsible officer of Type 1 (dealing in securities), Type 6 (advising on corporate finance) regulated activities since 2008 and is also a responsible officer Type 9 (asset management) regulated activities. Mr. Wong has accumulated decade of experience in corporate finance and investment banking and has participated in and completed various advisory transactions of listed companies in Hong Kong in respect of the Listing Rules and the Takeovers Code.