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If you have sold or transferred all your shares in Asia Resources Holdings Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of the Company.

# Asia Resources Holdings Limited 亞洲資源控股有限公司\*

(incorporated in Bermuda with limited liability)

(Stock Code: 899)

## MAJOR AND CONNECTED TRANSACTION FOURTH FURTHER SUPPLEMENTAL AGREEMENT IN RELATION TO TERMINATION OF THE ACQUISITION OF PROPERTIES AND NOTICE OF SPECIAL GENERAL MEETING

Independent Financial Adviser to  
the Independent Board Committee and the Independent Shareholders



A letter from the Board is set out on pages 6 to 24 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 25 to 26 of this circular. A letter from Pelican Financial Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 27 to 61 of this circular.

A notice convening a special general meeting of the Company to be held at Units 1302-03, 13/F, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong, on Thursday, 20 October 2022 at 11:00 a.m. or any adjournment thereof is set out on pages 117 to 119 of this circular. Whether or not you are able to attend the meeting, you are advised to read the notice and complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the special general meeting (i.e. not later than 11:00 a.m. on Tuesday, 18 October 2022 (Hong Kong Time)) or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

### PRECAUTIONARY MEASURES FOR THE SGM

Precautionary measures will be taken to try to minimise the risks of infection of novel coronavirus ("COVID-19") pandemic at the SGM. Details are set out on page ii.

Any person who does not comply with the precautionary measures may be denied entry into the venue of the SGM. The Company reminds Shareholders that they may appoint the chairman of the SGM as their proxy to vote on the relevant resolutions at the SGM as an alternative to attending the SGM in person.

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## PRECAUTIONARY MEASURES FOR THE SGM

In view of the ongoing COVID-19 pandemic and recent requirements for prevention and control of its spread (as per guidelines issued by the Hong Kong Government at <https://www.chp.gov.hk/en/features/102742.html>), the Company will implement necessary preventive measures at the SGM to protect attending Shareholders, proxy and other attendees from the risk of infection, including:

- (i) compulsory body temperature checks for all attendees at the entrance of the SGM venue. Any person with a body temperature of 37.3 degrees Celsius or above will not be allowed to attend the SGM;
- (ii) prohibition from attendance at the SGM if the attendee has a fever. Persons exhibiting flu-like symptoms may also be refused admittance to the venue of the SGM;
- (iii) each attendee may be asked whether (a) he/she travelled outside of Hong Kong within the 14-day period immediately before the SGM; and (b) he/she is subject to any Hong Kong Government prescribed quarantine. Anyone who responds positively to any of these questions may be denied entry into the meeting venue or be required to leave the meeting venue;
- (iv) all attendees will be required to wear surgical face masks before they are permitted to attend, and during their attendance of, the SGM;
- (v) appropriate distance between seats in line with the guidance from the Hong Kong Government will be maintained. Attendees are advised to maintain appropriate social distance with each other at all times when attending the SGM; and
- (vi) no refreshments will be served.

To the extent permitted under the laws, regulations and the Listing Rules, the Company reserves the right to deny entry into the SGM venue or require any person, who does not comply with the precautionary measures, to leave the SGM venue in order to ensure the safety of the attendees at the SGM.

In light of the continuing risks posed by COVID-19, the Company strongly advises Shareholders to appoint the Chairman of the SGM as their proxy to vote according to their indicated voting instructions as an alternative to attending the SGM in person.

## PRECAUTIONARY MEASURES FOR THE SGM

The proxy form is attached to the SGM circular for Shareholders who opt to receive physical circulars. Alternatively, the proxy form can also be downloaded from the Company's website at <http://www.asiaresources899.com.hk>. If you are not a registered Shareholder (if your Shares are held via banks, brokers, custodians or the Hong Kong Securities Clearing Company Limited), you should consult directly with your banks or brokers or custodians (as the case may be) to assist you in the appointment of proxy.

Shareholders are advised to read these precautionary measures carefully and monitor the development of COVID-19. Subject to the development of COVID-19, the Company may implement further changes to the arrangement of the SGM and precautionary measures and may issue further announcement on such measures as appropriate.

Health education materials and up-to-date development on COVID-19 can be found on the website of Centre for Health Protection ([www.chp.gov.hk](http://www.chp.gov.hk)) and the website of the Hong Kong Government on COVID-19 ([www.coronavirus.gov.hk](http://www.coronavirus.gov.hk)).

## DEFINITIONS

*In this circular, unless the context otherwise requires, the following words and expressions shall have the following meanings when used herein:*

“2011 Share Option Scheme”	the share option scheme adopted by the Company on 9 August 2011
“Acquisition”	the acquisition of the Properties by the Purchaser from the Vendor pursuant to the Sale and Purchase Agreement and the transactions contemplated thereunder
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Building T3”	the 35-storey building, under the Shenyang Commodity Housing Pre-sale Contract No. 16122, on 46 Nanjing North Street which is part of the land situated at Shifu Main Road, Heping District, Shenyang City, Liaoning Province, PRC (reference number of 011652204-2)
“Bye-laws”	the existing bye-laws of the Company
“close associates”	having the meaning as ascribed in the Listing Rules
“Company”	Asia Resources Holdings Limited, a company incorporated in Bermuda with limited liability and the Shares of which are listed on the Stock Exchange (Stock Code: 899)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Dalian Chuanghe”	大連創和置地有限公司 (Dalian Chuanghe Landmark Co. Ltd.), a company established in the PRC and a wholly-owned subsidiary of the Company
“Director(s)”	the director(s) of the Company

## DEFINITIONS

“Fourth Further Supplemental Agreement”	the fourth further supplemental agreement dated 19 August 2022 entered into between the Purchaser and Mr. Li Yuguo in relation to the Termination Agreement and the Subsequent Supplemental Agreements
“Further Supplemental Agreement”	the further supplemental agreement dated 3 July 2020 entered into between the Purchaser and Mr. Li Yuguo in relation to the Termination Agreement and the Supplemental Agreement
“Group”	the Company and its subsidiaries from time to time
“Guangxi Spring Water Ding Dong”	Guangxi Spring Water Ding Dong Beverages Company Limited (廣西泉水叮咚飲品有限公司), a company established in the PRC and a wholly-owned subsidiary of Spring Water Ding Dong
“HK\$”	the lawful currency for the time being of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company, comprising all the independent non-executive Directors, namely Mr. Ba Junyu, Mr. Zhu Xueyi and Mr. Wong Chung Man, formed to advise the Independent Shareholders as to the Fourth Further Supplemental Agreement
“Independent Financial Adviser” or “Pelican Financial”	Pelican Financial Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and is the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Fourth Further Supplemental Agreement and the transactions contemplated thereunder

## DEFINITIONS

“Independent Shareholders”	Shareholders other than Mr. Li Yuguo and his associates
“Latest Practicable Date”	26 September 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 October 2022 or such other date as the Purchaser and Mr. Li Yuguo may agree in writing
“Partial Release”	the conditional partial release of the charges over the shares in the Company and Future Bright Mining Holdings Ltd. (高鵬礦業控股有限公司) in favour of Mr. Li Yuguo, details of which are set out under the paragraph headed “Term” in the “Letter from the Board”
“Phase I”	Phase I of the development project of urban land for residential usage at Beibu District, Jishitan, Jinzhou New District, Dalian, the PRC by Dalian Chuanghe, comprising 21 buildings
“Phase II”	Phase II of the development project of urban land for residential usage at Beidu District, Jishitan, Jinzhou New District, Dalian, the PRC by Dalian Chuanghe, comprising 34 buildings
“PRC”	the People’s Republic of China, and for the sole purpose of this circular, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Properties”	the properties comprising Floors 7 to 35 of Building T3 under the Shenyang Commodity Housing Pre-sale Contract No. 16122
“Purchaser”	Asiaciti Investment Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company

## DEFINITIONS

“Refund Amount”	the full amount of RMB562,500,000 paid by the Purchaser to the Vendor according to the Sale and Purchase Agreement
“Remaining Securities”	the remaining Securities after the Partial Release
“RMB”	the lawful currency for the time being of the PRC
“Sale and Purchase Agreement”	the agreement dated 12 October 2017 entered into between the Vendor and the Purchaser in relation to the sale and purchase of the Properties
“Second Further Supplemental Agreement”	the second further supplemental agreement dated 26 August 2021 entered into between the Purchaser and Mr. Li Yuguo in relation to the Termination Agreement, the Supplemental Agreement and the Further Supplemental Agreement
“Securities”	collectively: <ul style="list-style-type: none"><li>a. a share charge over 80% shares in Spring Water Ding Dong; and</li><li>b. a debenture in respect of a floating charges over the shares of certain companies listed on the Stock Exchange held by Mr. Li Yuguo (or his corporate vehicles) in Hong Kong</li></ul>
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“SGM”	a special general meeting of the Company to be held on Thursday, 20 October 2022 for the Independent Shareholders to consider and, if thought fit, approve the Fourth Further Supplemental Agreement and the transactions contemplated thereunder
“Share(s)”	ordinary share(s) of par value of HK\$0.01 each in the share capital of the Company

## DEFINITIONS

“Shareholder(s)”	holder(s) of the Share(s)
“Spring Water Ding Dong”	Hong Kong Spring Water Ding Dong Group Company Limited, a company incorporated in Hong Kong with limited liability
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsequent Supplemental Agreements”	collectively, the Supplemental Agreement, the Further Supplemental Agreement, the Second Further Supplemental Agreement and the Third Further Supplemental Agreement
“Substantial Shareholder”	has the meaning ascribed to it under the Listing Rules
“Supplemental Agreement”	the supplemental agreement dated 1 November 2019 entered into between the Purchaser and Mr. Li Yuguo in relation to the Termination Agreement
“Termination Agreement”	the termination agreement dated 24 April 2019 entered into between the Vendor, the Purchaser and Mr. Li Yuguo in relation to the termination of the Sale and Purchase Agreement
“Third Further Supplemental Agreement”	the third further supplemental agreement dated 1 September 2021 entered into between the Purchaser and Mr. Li Yuguo in relation to the Termination Agreement, the Supplemental Agreement, the Further Supplemental Agreement and the Second Further Supplemental Agreement
“Vendor”	遼寧京豐置業有限公司, a company incorporated in the PRC with limited liability
“%”	percentage

**Asia Resources Holdings Limited**  
**亞洲資源控股有限公司\***

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 899)**

*Executive Directors:*

Mr. Li Yuguo

Mr. Liu Yan Chee James

*Non-executive Directors:*

Mr. Yang Xiaoqiang

Mr. Huang Yilin

*Independent Non-executive Directors:*

Mr. Ba Junyu

Mr. Zhu Xueyi

Mr. Wong Chung Man

*Registered Office:*

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

*Head office and Principal Place  
of Business in Hong Kong:*

Room 2601, 26/F,

West Tower, Shun Tak Centre

168-200 Connaught Road Central

Sheung Wan, Hong Kong

30 September 2022

*To the shareholders*

Dear Sir/Madam,

**MAJOR AND CONNECTED TRANSACTION  
FOURTH FURTHER SUPPLEMENTAL AGREEMENT  
IN RELATION TO  
TERMINATION OF THE ACQUISITION OF PROPERTIES**

**INTRODUCTION**

Reference is made to the announcement of the Company dated 19 August 2022 in relation to the Fourth Further Supplemental Agreement (the “**Announcement**”).

\* For identification purpose only

## LETTER FROM THE BOARD

The purpose of this circular is to provide you with the information, among other things, (i) further details of the Fourth Further Supplemental Agreement; (ii) a letter from the Independent Board Committee to the Independent Shareholders in respect of the terms of the Fourth Further Supplemental Agreement and the transactions contemplated thereunder; (iii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Fourth Further Supplemental Agreement and the transactions contemplated thereunder; (iv) the notice of SGM, and other information as required under the Listing Rules.

On 12 October 2017, the Vendor and the Purchaser entered into the Sale and Purchase Agreement, pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the Properties. The Properties are a part of the Shengjing Financial Plaza Complex project named “One World 世界城” (the “**One World Project**”) that comprises office, commercial, service apartment and residential blocks. At the material time the Sale and Purchase Agreement was entered into, the One World Project, including the Properties, was still under construction. The consideration under the Sale and Purchase Agreement shall be paid by the Purchaser by instalments and the Purchaser has paid an aggregate sum of RMB562,500,000, representing 90% of the consideration, which was used for the settlement of the construction costs and operation expenses of the One World Project.

On 11 April 2019, the Purchaser received a notice from the Vendor that it was anticipated that the Vendor would not be able to complete the construction of the Properties and deliver the same to the Purchaser in accordance with the agreed terms of the Sale and Purchase Agreement. The Vendor also proposed to terminate the Sale and Purchase Agreement.

A Board meeting was held on 12 April 2019 to notify the Board with follow-up actions to communicate with the Vendor further and to assess the situation. The Board had considered a number of factors including, inter alia, that the local government of Shenyang City had implemented a series of policies in around 2018 to cool down its property market and caused a negative impact on the prospective sales of the Properties. Those policies include, inter alia, (i) strengthening the property purchase restrictions; (ii) increasing the land supply; and (iii) imposing a price ceiling on the sales price of properties. Further, the local government had also adjusted its policy and cancelled school net arrangement in the nearby area, and such cancellation had affected the development of surrounding commercial areas and caused the loss of target customers for the Properties.

The Company has sought legal advice in respect of the termination. Subsequently, a Board meeting was held on 23 April 2019 to approve the Termination Agreement after considering those unfavourable government policies at that time and after arm’s length negotiations between the Vendor and the Purchaser.

## LETTER FROM THE BOARD

On 24 April 2019, the parties entered into the Termination Agreement, pursuant to which, (i) the parties had mutually agreed to terminate the Sale and Purchase Agreement and no parties shall have claims against each other; and (ii) on or prior to 24 October 2019, the Vendor shall refund the Refund Amount and shall pay a lump sum of RMB11,250,000, being 2% of the Refund Amount, to the Purchaser as monetary compensation. Further details of the background are available in the Company's announcement dated 24 April 2019.

On 1 November 2019, the Purchaser and Mr. Li Yuguo entered into the Supplemental Agreement, pursuant to which, Mr. Li agreed to repay the Refund Amount and the related compensation and interests to the Purchaser. The Purchaser agreed to extend the repayment date to 24 April 2020, with an interest rate of 5.25% per annum. Further details of the background in relation to the Supplemental Agreement are disclosed in the announcement of the Company dated 1 November 2019 and the circular of the Company dated 6 February 2020.

Mr. Li failed to repay in full the Refund Amount and the related compensation interests up to the extended repayment deadline on 24 April 2020.

On 3 July 2020, the Purchaser and Mr. Li Yuguo entered into the Further Supplemental Agreement, pursuant to which, Mr. Li Yuguo agreed to repay the Purchaser the outstanding sum of RMB584,778,676.47 by two instalments with interest on the outstanding sum at an interest rate of 10% per annum on or before 2 July 2021. Further details of the background in relation to the Further Supplemental Agreement are disclosed in the announcement of the Company dated 7 July 2020 and the circular of the Company dated 24 August 2020.

Mr. Li had partially repaid but failed to repay in full the aforesaid outstanding sum with accrued interest by the extended repayment deadline on 2 July 2021.

The Purchaser and Mr. Li Yuguo entered into the Second Further Supplemental Agreement and the Third Further Supplemental Agreement on 26 August 2021 and 1 September 2021 respectively, pursuant to which, Mr. Li agreed to repay the Purchaser the outstanding sum of RMB559,538,859.19 on or before 2 July 2022 together with interest on the outstanding sum calculated on a daily basis at an interest rate of 10% per annum accrued from 26 August 2021 until payment. Further details of the background in relation to the Second Further Supplemental Agreement and the Third Further Supplemental Agreement are disclosed in the announcement of the Company dated 1 September 2021 and the circular of the Company dated 1 November 2021.

## LETTER FROM THE BOARD

On 2 July 2022, Mr. Li Yuguo had repaid (1) the entire Refund Amount, (2) the monetary compensation and (3) part of the accrued interests in the aggregate sum of RMB624,061,334.11. Breakdown of the repayment in the aggregate sum of RMB624,061,334.11 is set out as below:

Period	Principal <i>RMB</i>	Monetary Compensation <i>RMB</i>	Interest <i>RMB</i>	Total <i>RMB</i>
01/04/2020–31/03/2021	83,869,548.80	–	15,076,270.14	98,945,818.94
01/04/2021–31/03/2022	4,810,550.22	–	–	4,810,550.22
01/04/2022–02/07/2022	<u>473,819,900.98</u>	<u>11,250,000.00</u>	<u>35,235,063.97</u>	<u>520,304,964.95</u>
<b>Repayment</b>	<u><u>562,500,000.00</u></u>	<u><u>11,250,000.00</u></u>	<u><u>50,311,334.11</u></u>	<u><u>624,061,334.11</u></u>

Nevertheless, Mr. Li Yuguo has not yet fully repaid the interest accrued in the sum of RMB86,909,671.01 by 2 July 2022 (the “**Remaining Interest**”). Breakdown of the Remaining Interest is set out as below:

Period	Description	Interest rate	Notes	Outstanding accrued interest <i>RMB</i>
25/10/2019 – 24/04/2020	Interest	5.25% per annum	(1)	15,076,270.14
25/04/2020 – 02/07/2020	Interest	10.00% per annum	(1)	11,028,676.47
03/06/2020	Repayment	–		(15,076,270.14)
03/07/2020 – 02/07/2021	Interest	10.00% per annum	(2)	51,242,410.11
03/07/2021 – 25/08/2021	Damages	15.00% per annum	(2)	12,197,871.63
26/08/2021 – 02/07/2022	Interest	10.00% per annum	(3)	47,675,776.77
22/06/2022	Repayment	–		<u>(35,235,063.97)</u>
<b>Remaining Interest</b>				<u><u>86,909,671.01</u></u>

Notes:

- (1) Based on the Supplemental Agreement.
- (2) Based on the Further Supplemental Agreement.
- (3) Based on the Second Further Supplement Agreement and the Third Further Supplemental Agreement.

## LETTER FROM THE BOARD

Mr. Li Yuguo has requested for further extension of repayment deadline of the Remaining Interest on 5 July 2022. On 5 July 2022, the Company has set up the Special Committee again to handle the repayment and/or the recovery of the Remaining Interest.

Up to 18 August 2022, in the event of default, Mr. Li Yuguo shall pay to the Purchaser a damage of RMB1,678,666.25 for the period from 3 July 2022 to 18 August 2022 (calculated on a daily basis at the interest rate of 15% per annum on the Remaining Interest under the Second Further Supplemental Agreement and the Third Further Supplemental Agreement).

After several negotiations between the Special Committee and Mr. Li Yuguo, on 19 August 2022 (after trading hours), the Purchaser and Mr. Li Yuguo entered into the Fourth Further Supplemental Agreement, pursuant to which, Mr. Li Yuguo agreed to repay the Purchaser on or before 2 July 2023 the Outstanding Interest (as defined below) together with interest to be accrued thereon calculated on a daily basis at an interest rate of 8% per annum accrued from 19 August 2022 until payment.

### THE FOURTH FURTHER SUPPLEMENTAL AGREEMENT

Date of the Fourth Further Supplemental Agreement: 19 August 2022

Parties: (1) The Purchaser  
(2) Mr. Li Yuguo

The Purchaser is an indirect wholly-owned subsidiary of the Company.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Mr. Li Yuguo, the chairman and an executive Director of the Company, is a Substantial Shareholder holding approximately 26.34% of the issued share capital of the Company as at the date of the Fourth Further Supplemental Agreement. Accordingly, Mr. Li Yuguo is a connected person of the Company under Chapter 14A of the Listing Rules.

## LETTER FROM THE BOARD

### TERMS

1. In view of the termination of the Sale and Purchase Agreement and the Subsequent Supplemental Agreements, Mr. Li Yuguo agreed to repay the Purchaser a total sum of RMB712,649,671.37 comprising: (1) the Refund Amount of RMB562,500,000; (2) RMB11,250,000 as monetary compensation; (3) interest in the sum of RMB125,023,133.49 (calculated on a daily basis at the interest rate of 5.25% per annum for the period from 25 October 2019 to 24 April 2020, at the interest rate of 10% per annum for the period from 25 April 2020 to 2 July 2021, and from 26 August 2021 to 2 July 2022); and (4) damages in the sum of RMB13,876,537.88 (calculated on a daily basis at the interest rate of 15% per annum on the outstanding amount for the period between 3 July 2021 to 25 August 2021 and from 3 July 2022 to 18 August 2022). Up to the date of the Fourth Further Supplemental Agreement, Mr. Li Yuguo has already repaid (1) the entire Refund Amount, (2) the monetary compensation and (3) part of the accrued interests in the aggregate sum of RMB624,061,334.11. The Remaining Interest and the damages for the period from 3 July 2022 to 18 August 2022 in the aggregate sum of RMB88,588,337.26 (the “**Outstanding Interest**”) shall be repaid to the Purchaser by 2 July 2023 (the “**Further Extended Repayment Deadline**”) together with the interest to be accrued thereon from 19 August 2022 until payment calculated on a daily basis at an interest rate of 8% per annum.
2. Mr. Li Yuguo agrees and undertakes that if he fails to repay the Outstanding Interest and the interest accrued by the Further Extended Repayment Deadline, he shall pay the Purchaser damages to be calculated on a daily basis at an interest rate of 15% per annum on any outstanding amount and interest payable to the Purchaser as of the Further Extended Repayment Deadline, until all amounts due have been fully repaid.

## LETTER FROM THE BOARD

3. Considering that Mr. Li Yuguo has already repaid (1) the entire Refund Amount, (2) the monetary compensation and (3) part of the accrued interests in the aggregate sum of RMB624,061,334.11, the Purchaser and Mr. Li Yuguo agree that upon satisfaction of the conditions precedent under the Fourth Further Supplemental Agreement, (a) they will execute any necessary documents or deeds to release all the charges in respect of the shares in the Company and any related interest in such shares held by Mr. Li Yuguo being part of the Securities, and (b) (if Mr. Li Yuguo requests and the Purchaser agrees) they will also execute any necessary documents or deeds to release all or part of the charges in respect of the shares in Future Bright Mining Holdings Ltd. (高鵬礦業控股有限公司) (stock code: 2212) and any related interest in such shares held by Mr. Li Yuguo being part of the Securities, provided that there will be any third party purchaser(s) willing to purchase such shares at a reasonable price which shall be used to pay the Purchaser the Outstanding Interest together with any interest accrued thereon and any other amounts owed to the Purchaser, if any (collectively, the “**Partial Release**”).

The interest rate was determined based on arm’s length negotiations with reference to the prevailing market interest rate. Assuming there is no early repayment, the amount of interest will be RMB6,174,485.75 for the period from 19 August 2022 to 2 July 2023 (calculated on a daily basis at the interest rate of 8% per annum on the Outstanding Interest under the Fourth Further Supplemental Agreement).

### DETERMINATION OF TERMS

The terms of the Fourth Further Supplemental Agreement (including the interest rate) was determined after arm’s length negotiations between the Purchaser and Mr. Li Yuguo considering (i) the recent market conditions which remain challenging amid the uncertainties caused by the outbreak of COVID-19 pandemic; (ii) the prevailing market interest rate which ranges from 0.0% to 15.0% per annum, with an average of approximately 6.5% per annum and a median of approximately 5.4% per annum (based on the market research conducted by the Company on the financial assistances provided by other companies listed on the Main Board or GEM to connected persons); and (iii) the default interest rate under the Fourth Further Supplemental Agreement. Despite the recent increase in market interest rates, the Board considers that the increase will be at a gradual pace and is currently still far below 8% per annum (i.e. the interest rate of the interest for the period from 19 August 2022 to the Further Extended Repayment Deadline).

## LETTER FROM THE BOARD

The Board is of the view that the decrease in interest rate from 10% per annum under the Second Further Supplemental Agreement and the Third Further Supplemental Agreement to 8% per annum under the Fourth Further Supplemental Agreement is fair and reasonable, on the normal commercial terms and in the interest of the Company and its Shareholders as a whole considering the full repayment of the Refund Amount and the monetary compensation by Mr. Li Yuguo and the prevailing market interest rates as mentioned above. In the event of default, the default interest of 15% per annum (which was also the default interest rate under the Further Supplemental Agreement, Second Further Supplemental and the Third Further Supplemental Agreement) has been maintained under the Fourth Further Supplemental Agreement.

Based on the foregoing factors and the opinion given by the Independent Financial Adviser in respect of the appropriate interest rates, the Board considers that the terms (including the interest rates) under the Fourth Further Supplemental Agreement are fair and reasonable.

### **CONDITIONS PRECEDENT FOR THE FOURTH FURTHER SUPPLEMENTAL AGREEMENT**

The Fourth Further Supplemental Agreement shall be conditional upon the following conditions precedent:

1. the Company having complied with the requirements under the Listing Rules in respect of the Fourth Further Supplemental Agreement and the transactions contemplated thereunder; and
2. the Purchaser and the Company having obtained all approvals in respect of the Fourth Further Supplemental Agreement and the transactions contemplated thereunder (including but not limited to the approvals of the Board and the Independent Shareholders).

If any of the above conditions precedent have not been fulfilled or waived on or before the Long Stop Date, Mr. Li Yuguo shall repay the Purchaser forthwith all amounts due pursuant to the terms of the Termination Agreement and the Subsequent Supplemental Agreements.

## LETTER FROM THE BOARD

### INFORMATION OF THE COMPANY, THE GROUP AND THE PURCHASER

The Company is an investment holding company.

The Group is principally engaged in (i) water business and (ii) property development and investment.

The Purchaser is principally engaged in investment holding.

### REASONS FOR AND BENEFITS OF THE FOURTH FURTHER SUPPLEMENTAL AGREEMENT

The management of the Company and the Special Committee have taken several factors into account before entering into the Fourth Further Supplemental Agreement, which included: (1) the drop in the property value in the PRC; (2) the economic challenges attributable to the COVID-19 pandemic; (3) the continued trade dispute between the United States and the PRC; (4) the current cash flow of Mr. Li Yuguo which was affected by the aforesaid factors; (5) the partial repayment (including the entire Refund Amount, the monetary compensation and part of the accrued interests) made by, and the continued communication with, Mr. Li Yuguo indicating his sincerity to fulfill his obligations under the Termination Agreement and the Subsequent Supplemental Agreements; (6) the fact that Mr. Li Yuguo has already repaid a substantial portion of the outstanding sum and the amount of the outstanding sum has been substantially reduced; and (7) other potential options which the Company may pursue, such as taking legal actions against Mr. Li Yuguo or enforcing the Remaining Securities which Mr. Li Yuguo has provided.

For the reasons explained below and also considering the financial analysis of the Independent Financial Advisor as set out in the section "Letter From the Independent Financial Adviser", the management of the Company and the Special Committee are of the view that arranging a repayment schedule with the Further Extended Repayment Deadline is the best option among: (1) taking legal actions against Mr. Li Yuguo for the breach of the Termination Agreement and the Subsequent Supplemental Agreements; (2) enforcing the Securities which Mr. Li Yuguo has provided; and (3) allowing a further extension of the repayment deadline.

## LETTER FROM THE BOARD

The management of the Company and the Special Committee believe that the initiation of a court proceeding against Mr. Li Yuguo will bring certain side impacts to the Company including but not limited to: (1) resulting in a negative image on the Company; (2) additional costs would be incurred; (3) extra time and other resources would be expended for court proceedings; (4) the uncertainties involved in the outcome of the court proceedings; and (5) a potential disruption on the daily operation of the Company as Mr. Li Yuguo is the chairman and an executive Director of the Company.

The management of the Company and the Special Committee, upon consulting with external legal advisor, estimate that the initiation of a court proceeding against Mr. Li Yuguo to obtain a court judgement on the debt owed will take at least one year with legal costs of over HK\$1,000,000 assuming the court action is not heavily contested and considering the time required to seek legal advice, preparing court documents and the court hearing schedule. The additional time and costs for taking further enforcement actions upon obtaining the court judgement can be long and costly as it depends on the location and types of assets of Mr. Li Yuguo targeted for the enforcement purpose. Commencing bankruptcy action against Mr. Li Yuguo will inevitably affect the current business operation of the Company as Mr. Li Yuguo is the chairman and an executive Director of the Company. Immediate enforcement of the Securities under the current market condition is undesirable for the reasons as explained further below.

The management of the Company and the Special Committee consider that the aggregate value of the Remaining Securities provided by Mr. Li Yuguo is commercially comparable to the value of the Outstanding Interest and the interest to be accrued thereon. The Company has conducted an updated valuation as at 31 March 2022 on those Remaining Securities which are not listed shares for the purposes of compilation of its audited reports. For those Remaining Securities which are listed shares, the Company has monitored their market trading prices from time and time. For the purposes of the Fourth Further Supplemental Agreement, the Company has referred to their trading price as at 18 August 2022.

## LETTER FROM THE BOARD

Based on the valuation report obtained by the Company on those Remaining Securities which are not listed shares, the aggregate value of the Remaining Securities was approximately HK\$707 million as at 18 August 2022, details of which are as follows:

Name of company	Type of company	Stock Code	Value based on the closing price on 18 August 2022	Valuation by valuer as of 31 March 2022
Future Bright Mining Holdings Limited	Company listed on the Stock Exchange	2212	2,388,995,000 shares at HK\$0.05 per share: HK\$119,449,750	
Spring Water Ding Dong	Private company incorporated in Hong Kong			80% of all issued shares in Spring Water Ding Dong: HK\$588,000,000

*Notes:*

- (1) The Group holds 20% equity interests in Spring Water Ding Dong which has a wholly-owned subsidiary in Guangxi, Guangxi Spring Water Ding Dong. Guangxi Spring Water Ding Dong possesses a water procurement permit for production and sales of bottled water and is currently in operation in Guangxi. The remaining 80% equity interests is held by Mr. Li Yuguo.
- (2) As disclosed in the Company's annual report for the year ended 31 March 2022, the Group engaged AP Appraisal Limited, an independent qualified valuer, to carry out a valuation of the interests in Spring Water Ding Dong as at 31 March 2022 and 2021 based on the value-in-use calculations. This valuation uses cash flow projections based on financial estimates covering a ten-year period. For further details on the valuation basis, please refer to note 20 to the consolidated financial statements of the Company in its annual report for the year ended 31 March 2022. The Directors consider that the basis of valuation is reasonable.
- (3) It is assumed that there are no significant changes in the value of the shares in Spring Water Ding Dong since 31 March 2022 as the valuation date is fairly recent and the business operation of Spring Water Ding Dong has remained stable and no significant adverse circumstances have arisen since the valuation date. The Company is not aware of any factors that may cause a significant decrease in the value of the shares in Spring Water Ding Dong since 31 March 2022.

## LETTER FROM THE BOARD

If Mr. Li Yuguo fails to repay the Outstanding Interest with interest accrued by the Further Extended Repayment Deadline, the Company will be at its discretion to take control over the Remaining Securities and may resell it to the market for the recovery of the Outstanding Interest with interest accrued. Since some of the assets which are covered by the Remaining Securities are located in Hong Kong instead of the PRC, and the laws of Hong Kong are the applicable laws of the relevant security documents, it will be easier for the Company to enforce such securities as Hong Kong is the legal system which the Directors are more familiar and confident with.

The Board and the Special Committee have also considered the possibility of the enforcement of the Securities provided by Mr. Li Yuguo prior to entering into the Fourth Further Supplemental Agreement and have consulted certain financial advisors and intermediaries. However, despite the recent effort of the Company to seek for potential investors through its financial advisors and intermediaries, due to the recent uncertain and adverse market conditions, the unpredictability of how the situation of COVID-19 pandemic will develop and the significant value of the assets subject to the Securities involved, the outcome was negative and the Company has not received any feedback from the financial advisors or intermediaries on any interested potential buyer prior to entering into the Fourth Further Supplemental Agreement. The Board and the Special Committee expect that the selling price of the Securities may be higher if market conditions improve in the future.

The main business of Mr. Li Yuguo is property investment in the PRC which includes the sale and purchase and the leasing of properties. The property market in the PRC has not yet fully recovered from the outbreak of COVID-19 pandemic and the market sentiment remained low in the past year. In mid-2021, neither Mr. Li Yuguo nor the Company foresaw that the COVID-19 pandemic would last so long. The construction of some of the development projects of Mr. Li Yuguo has to be suspended. The lease of properties has also been affected due to increase in work from home arrangements which has reduced the demand in office space and tenants incline to rent premises with smaller areas. This has affected the cash flow of Mr. Li due to the delay in the property development projects and hence the sales of properties and the decrease in rentals received by Mr. Li in the past years.

## LETTER FROM THE BOARD

Recently, Mr. Li Yuguo has discussed with the Directors and the Special Committee in details on the updated status of his property leasing and development businesses in the PRC. Mr. Li has a commercial leasing business for a commercial office building in Beijing (“**Beijing Offices**”), the occupancy rate was approximately 50% at the beginning of 2022 and increased to approximately 60% in mid-2022. It is expected that the occupancy rate will gradually be increased to 85% in the second half of 2022 at a rental level similar to that prior to the COVID-19 pandemic outbreak. In determining the aforesaid growth in occupancy rates, Mr. Li Yuguo has taken into account the following actual approximate occupancy rates in the past:

As at 31 December 2019	85%
As at 31 December 2020	53%
As at 31 December 2021	50%

Based on the existing occupancy rate, the enquiries received, the general market environment and the current latest development of the COVID-19 pandemic, it is anticipated that the overall average occupancy rate for the year ending 31 December 2023 will resume to the pre-pandemic level and reach 85%.

As the Beijing Offices situate in a prime location in the central business district of Beijing, the Directors and the Special Committee consider that the above expected occupancy rates are reasonable and in line with the historical occupancy rates. Online researches on the rentals and occupancy rates of similar properties in Beijing were also conducted and the Directors and the Special Committee consider that the rentals of the Beijing Offices offered to potential tenants are generally competitive and reasonable and the expected occupancy rate is generally reasonable.

Mr. Li Yuguo also has certain property development projects for sale of residential and commercial properties, inter alia, Beijing, the PRC.

According to Mr. Li Yuguo, the expected rental income and expected property sale proceeds from such businesses for the period from July 2022 to June 2023 would be approximately RMB370 million (which is more than the Outstanding Interest) considering that the pandemic situation in Beijing is generally under control with gradual economic growth and assuming that the government policy on property purchase in the PRC will be gradually relaxed in the coming year.

## LETTER FROM THE BOARD

The said RMB370 million for the period from July 2022 to June 2023 was based on (i) the expected rental income in the aggregate sum of approximately RMB100 million received or to be received assuming the occupancy rate of 85% and the rental level before the outbreak of the pandemic, (ii) the expected property sale proceeds in the aggregate sum of approximately RMB270 million based on the remaining aggregate salable area of those properties developed by the companies of Mr. Li Yuguo of approximately 10,000 square metres and assuming the sold out rate of 90% (based on historical data and which is in line with the assessment of the Independent Financial Adviser) of the same.

Despite the challenges faced by the PRC property market since mid-2021, the PRC Government restated their goal to maintain a steady and healthy property sector. The PRC Government lowered the loan prime rate to maintain steady loan growth on 23 August 2022 in order to alleviate a worsening housing crisis. It is expected that the lowering of loan prime rates would boost demand for property and mortgages.

Given the above, the Company considers that there is concrete local demand in both residential and commercial properties in Beijing. This is also evidenced by the occupancy rate of the commercial properties owned by Mr. Li's companies. The high occupancy rate is also attractive to potential investors in commercial properties. Further, the properties developed by the companies of Mr. Li Yuguo are all located in central business district or prime locations of Beijing supported by well-developed infrastructure, which provide further confidence to the Company on the leasing and sales of these properties.

The Board and the Special Committee, after conducting market researches and considering (i) Mr. Li's extensive experience in the PRC property market; (ii) the gradual growth in occupancy rate during the six months ended 30 June 2022; (iii) the general market environment, consider that the expected rental income and expected property sale proceeds estimated by Mr. Li (the "**Expected Proceeds**") are fair and reasonable. The Expected Proceeds could reach approximately 4 times of the Outstanding Interest. Therefore, even given a discount on the estimated amount, the Expected Proceeds are still more than sufficient to cover the Outstanding Interest and the interest to be accrued thereon.

## LETTER FROM THE BOARD

The Board and the Special Committee are of the view that the spread of COVID-19 pandemic in the PRC has become more controllable as compared with the initial outbreak in 2020. Most travel restrictions in the PRC have been lifted in general and it is expected that most businesses will resume normal or will adapt to the pandemic development in the coming year. Therefore, it is expected that the business in the PRC in general will be resuming much faster in the coming year and the businesses of Mr. Li Yuguo will also be improving gradually. Mr. Li has discussed with the Directors and the Special Committee with supporting details on his expected rental income and expected sale proceeds from his property investment business in the coming year which are estimated to be more than the Outstanding Interest and the interest to be accrued thereon. Considering the projected market condition, the business and current financial status of Mr. Li and the value of the Remaining Securities, the Company believes that it is justifiable to give reasonable additional time for Mr. Li to recover his cash flow gradually and repay the Company the Outstanding Interest and the interest accrued. Mr. Li has also indicated to the Company that he will repay the Outstanding Interest as soon as possible (but not necessarily on 2 July 2023) in order to reduce the interest amount to be accrued.

The management of the Company and the Special Committee do not consider that the Fourth Further Supplemental Agreement would pose negative impact on its financial position considering its current bank balances, accounts receivables and the cash flow needed for its businesses in the coming year.

The management of the Company and the Special Committee are confident that Mr. Li Yuguo would be able to duly repay in accordance with the aforesaid repayment schedule under the Fourth Further Supplemental Agreement as the management of the Company and the Special Committee are persuaded by Mr. Li that the business of Mr. Li has been resuming as a result of the loosening of the COVID-19 restriction in the PRC. The recent partial repayment of Mr. Li also indicates his willingness to repay the Outstanding Interest and the interest to be accrued thereon.

Further, the management of the Company considers that the interest derived from the Fourth Further Supplemental Agreement is an attractive opportunity for the Company to generate an interest income for the Group under the prevailing adverse market condition.

## LETTER FROM THE BOARD

In view of the factors and circumstances as set out above, the Board (including the independent non-executive Directors) considers that the Fourth Further Supplemental Agreement has been entered into on normal commercial terms and the terms thereto are fair and reasonable and the Fourth Further Supplemental Agreement is in the interests of the Company and the Shareholders as a whole.

Mr. Li Yuguo, the chairman and an executive Director of the Company, who has a material interest in the Fourth Further Supplemental Agreement by virtue of his shareholding interests in the Company, has abstained from voting on the board resolutions approving the Fourth Further Supplemental Agreement and the transactions contemplated thereunder.

### IMPLICATIONS OF THE LISTING RULES

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Mr. Li Yuguo, the chairman and an executive Director of the Company, is a Substantial Shareholder holding approximately 26.34% of the issued share capital of the Company as at the date of the Fourth Further Supplemental Agreement. Accordingly, Mr. Li Yuguo is a connected person of the Company under Chapter 14A of the Listing Rules and the Fourth Further Supplemental Agreement constitutes a connected transaction, and is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio under Chapter 14 of the Listing Rules in respect of the Fourth Further Supplemental Agreement exceeds 25% but is lower than 100%, the Fourth Further Supplemental Agreement constitutes a major transaction of the Company, and is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The voting in respect of the Fourth Further Supplemental Agreement and the transactions contemplated thereunder at the SGM will be conducted by way of poll. Mr. Li Yuguo and his associates are required to abstain from voting in respect of the resolution(s) approving the Fourth Further Supplemental Agreement and the transactions contemplated thereunder at the SGM.

Save for the aforesaid and to the Directors' best knowledge, information and belief and having made all reasonable enquiries, as at the Latest Practicable Date, no other Shareholder has a material interest in the Fourth Further Supplemental Agreement and therefore no other Shareholder is required to abstain from voting on the proposed resolution(s) approving the Fourth Further Supplemental Agreement and the transactions contemplated thereunder at the SGM.

## LETTER FROM THE BOARD

### SPECIAL GENERAL MEETING AND PROXY ARRANGEMENT

A notice of an SGM to be held at Units 1302-03, 13/F, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong at 11:00 a.m. on Thursday, 20 October 2022 is set out on pages 117 to 119 of this circular, for the purpose of considering and, if thought fit, passing the resolution in respect of the Fourth Further Supplemental Agreement and the transactions contemplated thereunder.

For determining the entitlement to attend and vote at the SGM, the Register of Members of the Company will be closed from Monday, 17 October 2022 to Thursday, 20 October 2022 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the SGM (or at any adjournment thereof), all transfers of shares of the Company accompanied by the relevant share certificates and the appropriate transfer forms must be lodged with the Company's branch registrar in Hong Kong, Tricor Secretaries Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. (Hong Kong Time) on Friday, 14 October 2022.

A form of proxy for use at the SGM is enclosed with this circular and such form of proxy is also published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company (<http://www.asiaresources899.com.hk>). Whether or not you propose to attend the SGM, you are requested to complete the accompanying form of proxy for use at the SGM in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so desire and, in such event, the form of proxy shall be deemed to be revoked.

The Independent Board Committee comprising Mr. Ba Junyu, Mr. Zhu Xueyi and Mr. Wong Chung Man (all being Independent Non-executive Directors) has been formed to advise the Independent Shareholders as to whether the terms of the Fourth Further Supplemental Agreement and the transactions contemplated thereunder are (i) fair and reasonable; (ii) on normal commercial terms or better and in the ordinary and usual course of business of the Group; (iii) in the interests of the Company and the Independent Shareholders as a whole; and (iv) on how to vote.

The Company has appointed the Independent Financial Adviser, Pelican Financial Limited, to advise the Independent Board Committee and the Independent Shareholders in the same regard.

## LETTER FROM THE BOARD

As at the Latest Practicable Date, so far as the Directors were aware and based on publicly available information, Mr. Li Yuguo, who has a material interest in the transactions contemplated under the Fourth Further Supplemental Agreement, and his associates will be required to abstain from voting on the resolution(s) approving the Fourth Further Supplemental Agreement and the transactions contemplated thereunder.

Save for the aforesaid and to the best knowledge, information and belief of the Board, as at the Latest Practicable Date, no other shareholder of Mr. Li Yuguo has a material interest in the Fourth Further Supplemental Agreement is required to abstain from voting at the SGM.

Pursuant to Rule 13.39(4) of the Listing Rules, the resolution at the SGM will be voted on by way of poll and the Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) and (5A) of the Listing Rules.

### RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 25 to 26 of this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders regarding the proposed resolutions to approve the Fourth Further Supplemental Agreement and the transactions contemplated thereunder; and (ii) the letter from the Independent Financial Adviser set out on pages 27 to 61 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the fairness and reasonableness of the terms of the Fourth Further Supplemental Agreement and the transactions contemplated thereunder.

The Independent Board Committee, having taken into account the advice of Pelican Financial, the Independent Financial Adviser, considers that the terms and conditions of the Fourth Further Supplemental Agreement and the transactions thereunder are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Fourth Further Supplemental Agreement and the transactions contemplated thereunder.

Having considered the aforesaid benefits to the Group and the advice of Pelican Financial, the Board (excluding Mr. Li Yuguo, who is also the chairman and executive Director of the Company, and therefore abstained from voting in the respective board resolutions approving the Fourth Further Supplemental Agreement and the transactions contemplated thereunder) considers that the terms and conditions of the Fourth Further Supplemental Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Group and the Shareholders as a whole.

## LETTER FROM THE BOARD

Accordingly, the Board (excluding Mr. Li Yuguo, who is also the chairman and executive Director of the Company, and has abstained from voting in the respective board resolutions approving the Fourth Further Supplemental Agreement and the transactions contemplated thereunder) recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Fourth Further Supplemental Agreement and the transactions contemplated thereunder.

### ADDITIONAL INFORMATION

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

By order of the Board  
**Asia Resources Holdings Limited**  
**Liu Yan Chee James**  
*Executive Director*

**Asia Resources Holdings Limited**  
**亞洲資源控股有限公司\***

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 899)**

30 September 2022

*To the Independent Shareholders of Asia Resources Holdings Limited*

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION  
FOURTH FURTHER SUPPLEMENTAL AGREEMENT  
IN RELATION TO  
TERMINATION OF THE ACQUISITION OF PROPERTIES**

We refer to the circular dated 30 September 2022 issued by the Company (the “**Circular**”), of which this letter forms part. Capitalised terms defined in this letter shall bear the same meanings as those defined in the Circular unless the context requires otherwise.

We have been appointed by the Board as the Independent Board Committee to advise you on the Fourth Further Supplemental Agreement and to advise you as to whether, in our opinion, the terms of the Fourth Further Supplemental Agreement are fair and reasonable so far as the Independent Shareholders are concerned. Details of the Fourth Further Supplemental Agreement are set out in the letter from the Board contained in the Circular. Pelican Financial Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Fourth Further Supplemental Agreement.

We wish to draw your attention to the letter from the Board, as set out on pages 6 to 24 of the Circular, and letter from the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders as set out on pages 27 to 61 of the Circular which contains its advice to us in respect of whether the terms and conditions of the Fourth Further Supplemental Agreement and the transactions contemplated thereunder are on normal commercial terms which are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

\* *For identification purpose only*

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

Having taken into account the reasons relating to the terms and conditions of the Fourth Further Supplemental Agreement, the information contained in the Circular and the advice of the Independent Financial Adviser, we are of the opinion that although the entering into of the Fourth Further Supplemental Agreement is not in the ordinary and usual course of business of the Group, the terms and conditions of the Fourth Further Supplemental Agreement and the transactions thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Fourth Further Supplemental Agreement and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of

Independent Board Committee of  
**Asia Resources Holding Limited**

**Mr. Ba Junyu**

**Mr. Zhu Xueyi**

**Mr. Wong Chung Man**

*Independent Non-Executive Directors*



## PELICAN FINANCIAL LIMITED

21/F, Lee Garden Three, 1 Sunning Road, Causeway Bay, Hong Kong

30 September 2022

*To the Independent Board Committee and the Independent Shareholders of  
Asia Resources Holdings Limited*

Dear Sirs,

### MAJOR AND CONNECTED TRANSACTION FOURTH FURTHER SUPPLEMENTAL AGREEMENT IN RELATION TO TERMINATION OF THE ACQUISITION OF PROPERTIES

#### INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Fourth Further Supplemental Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular of the Company dated 30 September 2022 (the “**Circular**”), of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

Reference is made to the announcement of the Company dated 19 August 2022 in relation to the Fourth Further Supplemental Agreement and the transactions contemplated thereunder (the “**Announcement**”). On 19 August 2022 (after trading hours), the Purchaser and Mr. Li Yuguo (“**Mr. Li**”) entered into the Fourth Further Supplemental Agreement, pursuant to which, Mr. Li agreed to repay the Purchaser on or before 2 July 2023 the Outstanding Interest (defined hereafter) together with the interest to be accrued thereon calculated on a daily basis at an interest rate of 8% per annum accrued from 19 August 2022 until payment.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As the highest applicable percentage ratio under Chapter 14 of the Listing Rules in respect of the Fourth Further Supplemental Agreement exceeds 25% but is lower than 100%, the Fourth Further Supplemental Agreement constitutes a major transaction of the Company, and is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Furthermore, to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Mr. Li is a substantial Shareholder holding approximately 26.34% of the issued share capital of the Company as at the date of this letter, the chairman and an executive Director of the Company. Accordingly, Mr. Li is a connected person of the Company under Chapter 14A of the Listing Rules and the Fourth Further Supplemental Agreement constitutes a connected transaction, and is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Board currently comprises two executive Directors, two non-executive Directors and three independent non-executive Directors. The Independent Board Committee, which currently comprises all the independent non-executive Directors, namely Mr. Ba Junyu, Mr. Zhu Xueyi and Mr. Wong Chung Man, has been established to advise the Independent Shareholders regarding the Fourth Further Supplemental Agreement and the transactions contemplated thereunder. We have been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect and such appointment has been approved by the Independent Board Committee.

Pelican Financial Limited ("**Pelican**") is not connected with the Directors, chief executive or substantial Shareholders of the Company or any of their respective associates and therefore is considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. As at the Latest Practicable Date, we were not aware of any relationships or interest between Pelican and the Company nor any other parties that could be reasonably be regarded as a hindrance to Pelican's independence to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Fourth Further Supplemental Agreement and the transactions contemplated thereunder. In the last two years, except for acting as the independent financial adviser to the Company's Independent Board Committee and Independent Shareholders in respect of the Second Further Supplemental Agreement as disclosed in the Company's circular dated 1 November 2021, there was no other engagement between the Company and us.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We also confirm that, no circumstances as set out in Rule 13.84 have arisen because of these previous engagements. In particular, in the last two years, other than having been engaged as the Company's independent financial adviser in respect of the Subsequent Supplemental Agreements, we haven't had any relationship with the Company or any parties to the Subsequent Supplemental Agreements. In addition, despite having been appointed as the Company's independent financial adviser on the Subsequent Supplemental Agreements, our role was to advise the Independent Board Committee and the Independent Shareholders but not the Company on the relevant transactions. Accordingly, there were no circumstances where we were directly engaged to provide advice to the Company or act as its financial adviser, and hence we have remained independence from the Company pursuant to Rule 13.84.

Apart from normal professional fees payable to us in connection with our current appointment, no arrangement exists whereby Pelican will receive any fees or benefits from the Company or the Directors, chief executive or substantial Shareholders of the Company or any of their respective associates, and we are not aware of the existence of or change in any circumstances that would affect our independence. Accordingly, we consider that we are eligible to give independent advice on the Fourth Further Supplemental Agreement and the transactions contemplated thereunder.

Our role is to provide you with our independent opinion and recommendation as to (i) whether the entering into of the Fourth Further Supplemental Agreement and the transactions contemplated thereunder is in the ordinary and usual course of business of the Group; (ii) whether the terms of the Fourth Further Supplemental Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolutions regarding the Fourth Further Supplemental Agreement and the transactions contemplated thereunder at the SGM.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have performed relevant procedures and those steps which we deemed necessary in forming our opinions which include, among other things, review of relevant agreements, documents as well as information provided by the Company and verified them, to an extent, to the relevant public information, statistics and market data, the relevant industry guidelines and rules and regulations as well as information, facts and representations provided, and the opinions expressed, by the Company and/or the Directors and/or the management of the Group. The documents reviewed include, but are not limited to, the Fourth Further Supplemental Agreement, the valuation report dated 31 March 2022 prepared by AP Appraisal Limited (the “**Valuer**”) on those Remaining Securities which are not listed shares, the Announcements, the Circulars, the annual report of the Company for the financial year ended 31 March 2022 (the “**2022 Annual Report**”) and the Circular. We have assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or the Directors, which have been provided to us.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

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 verification of the information included in the Circular and provided to us by the Directors and the management of the Group nor have we conducted any form of in-depth investigation into the business and affairs or the prospects of the Group.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### PRINCIPAL FACTORS TAKEN INTO CONSIDERATION

In formulating our opinion in respect of the Fourth Further Supplemental Agreement and the transactions contemplated thereunder, we have considered the following principal factors and reasons.

#### 1. Information of the Group

The Company is an investment holding company. The Group is principally engaged in (i) water business; and (ii) property investment.

Set out below is a summary of the audited financial information of the Group for the two years ended 31 March 2022 as extracted from the 2022 Annual Report.

	<b>For the financial year</b>	
	<b>ended 31 March</b>	
	<b>2022</b>	<b>2021</b>
	(audited)	(audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Revenue</i>		
Water business	–	1
Property development and investment	21,200	32,919
<b>Total Revenue</b>	<b>21,200</b>	<b>32,920</b>
<b>Gross profit/(loss)</b>	<b>17,064</b>	<b>16,449</b>
<b>Profit/(loss) for the year</b>	<b>(376,132)</b>	<b>90,694</b>

According to the 2022 Annual Report, the revenue of the Group for the year ended 31 March 2022 had decreased from approximately HK\$32.9 million to approximately HK\$21.2 million. The decrease was mainly due to the fact that (i) most of the revenue from completed properties in Dalian had been recognised in previous financial years and hence the remaining saleable area had decreased; (ii) the debt crisis of some of the property developers in the PRC had an adverse impact on the property market; and (iii) the sales and handover of the remaining completed properties held for sale had been slowed down during the year due to the continuation of the COVID-19 pandemic.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Despite the decrease in revenue, the gross profit of the Group increased from approximately HK\$16.4 million for the year ended 31 March 2021 to approximately HK\$17.1 million for the year ended 31 March 2022, which was mainly attributable to the rental income generated from its investment properties in Zhejiang. For the year ended 31 March 2022, the Group recorded a loss of approximately HK\$376.1 million compared with a profit of approximately HK\$90.7 million for the previous financial year. The change was mainly attributable to (i) the aggregate impairment losses on different assets of approximately HK\$473.8 million and the fair value loss of investment properties of approximately HK\$37.1 million, both due to the aforementioned debt crisis of certain property developers in the PRC; and (ii) the share of losses of associates in Guangxi of approximately HK\$14.4 million. The increase in losses in associates was adversely affected by the continuation of the COVID-19 pandemic and the increased transportation costs caused by varying degrees of movement controls in the PRC.

Meanwhile, the consolidated assets and liabilities of the Group as at 31 March 2021 and 31 March 2022 as extracted from the 2022 Annual Report are summarised as follows:

	<b>As at 31 March 2022 (audited) HK\$'000</b>	<b>As at 31 March 2021 (audited) HK\$'000</b>
Total assets		
– non-current assets	993,397	1,227,717
– current assets	918,275	1,047,861
 Total liabilities		
– non-current liabilities	15,498	33,720
– current liabilities	163,001	165,214
 <b>Net current assets</b>	 <b>755,274</b>	 <b>882,647</b>
 <b>Net assets</b>	 <b>1,733,173</b>	 <b>2,076,644</b>
 <b>Equity attributable to owners of the Company</b>	 <b>1,645,363</b>	 <b>1,974,578</b>

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at 31 March 2022, the non-current assets of the Group amounted to approximately HK\$993.4 million, representing a decrease of approximately 19.1% compared with that as at 31 March 2021. The decrease was mainly due to (i) the decrease in deposits paid of approximately HK\$130.9 million; (ii) the decrease in interests in associates of approximately HK\$43.8 million; (iii) the decrease in intangible assets of approximately HK\$40.1 million; and (iv) the decrease in investment properties of approximately HK\$27.2 million.

As at 31 March 2022, the Group's current assets amounted to approximately HK\$918.3 million, representing a decrease of approximately 12.4% compared with that of approximately HK\$1,047.9 million as at 31 March 2021. The decrease was mainly attributable to the absence of properties under development as at 31 March 2022, given that as at 31 March 2021, properties under development amounted to approximately HK\$236.6 million, which was offset by the increase in prepayments, deposits and other receivables of approximately HK\$94.2 million.

On the other hand, the non-current liabilities of the Group, which were mainly deferred tax liabilities, amounted to approximately HK\$15.5 million, representing a decrease of approximately 54.0% compared with that as at 31 March 2021. Meanwhile, the Group's current liabilities amounted to approximately HK\$163.0 million, which remained at a similar level as that as at 31 March 2021.

Given the above, the net current assets and net assets of the Group amounted to approximately HK\$755.3 million and HK\$1,733.2 million as at 31 March 2022, representing a decrease of approximately HK\$127.4 million and HK\$343.5 million from the previous year respectively. The decrease in the Group's net current assets and net assets was a result of the larger extent of decrease in the Group's assets than that in liabilities during the financial year as mentioned above.

The Group's current ratio, which is calculated by dividing its current assets by current liabilities, was approximately 5.63 as at 31 March 2022, representing a slight drop from that of approximately 6.34 as at 31 March 2021. Nonetheless, such current ratio is considered relatively high and reflects the Group's ability to meet its short-term liabilities. Moreover, the Group's gearing ratio, which is calculated by dividing its total borrowings by total equity, was approximately 0.006 as at 31 March 2022, indicating that the Group had a relatively low debt level.

**2. Background of the Fourth Further Supplemental Agreement**

Reference is made to the Announcements and the Circulars in relation to the Refund Amount arising from the termination of the acquisition of Properties.

On 12 October 2017, the Vendor and the Purchaser entered into the Sale and Purchase Agreement, pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the Properties. The Properties are a part of the Shengjing Financial Plaza Complex project named “OneWorld 世界城” (the “**OneWorld Project**”) that comprises office, commercial, service apartment and residential blocks. At the material time the Sale and Purchase Agreement was entered into, the One World Project, including the Properties, was still under construction. The consideration under the Sale and Purchase Agreement shall be paid by the Purchaser by instalments and the Purchaser has paid an aggregate sum of RMB562.5 million, representing 90% of the consideration, which was used for the settlement of the construction costs and operation expenses of the One World Project.

On 11 April 2019, the Purchaser received a notice from the Vendor that it was anticipated that the Vendor would not be able to complete the construction of the Properties and deliver the same to the Purchaser in accordance with the agreed terms of the Sale and Purchase Agreement. The Vendor also proposed to terminate the Sale and Purchase Agreement.

A Board meeting was held on 12 April 2019 to notify the Board with follow-up actions to communicate with the Vendor further and to assess the situation. The Board had considered a number of factors including, inter alia, that the local government of Shenyang City had implemented a series of policies in around 2018 to cool down its property market and that has caused a negative impact on the prospective sales of the Properties. Those policies include, inter alia, (i) strengthening the property purchase restrictions; (ii) increasing the land supply; and (iii) imposing a price ceiling on the sales price of properties. Further, the local government had adjusted its policy and cancelled school net arrangement in the nearby area, and such cancellation had affected the development of surrounding commercial areas and caused the loss of target customers for the Properties.

The Company has sought legal advice in respect of the termination of the Sale and Purchase Agreement. Subsequently, a Board meeting was held on 23 April 2019 to approve the Termination Agreement after considering those unfavourable government policies at that time and after arm’s length negotiations between the Vendor and the Purchaser.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On 24 April 2019, the parties entered into the Termination Agreement, pursuant to which, (i) the parties had mutually agreed to terminate the Sale and Purchase Agreement and no parties shall have claims against each other; and (ii) on or prior to 24 October 2019, the Vendor shall refund the Refund Amount and shall pay a lump sum of RMB11,250,000, being 2% of the Refund Amount, to the Purchaser as monetary compensation. Further details of the background are available in the Company's announcement dated 24 April 2019.

On 1 November 2019, the Purchaser and Mr. Li entered into the Supplemental Agreement, pursuant to which, Mr. Li agreed to repay the Refund Amount and the related compensation and interests to the Purchaser. The Purchaser agreed to extend the repayment date to 24 April 2020, with an interest rate of 5.25% per annum. Further details of the background in relation to the Supplemental Agreement are disclosed in the announcement of the Company dated 1 November 2019 and the circular of the Company dated 6 February 2020.

Mr. Li failed to repay in full the Refund Amount and the related compensation interests up to the extended repayment deadline on 24 April 2020.

On 3 July 2020, the Purchaser and Mr. Li entered into the Further Supplemental Agreement, pursuant to which, Mr. Li agreed to repay the Purchaser the outstanding sum of approximately RMB584.8 million by two instalments with interest on the outstanding sum at an interest rate of 10% per annum on or before 2 July 2021. Further details of the background in relation to the Further Supplemental Agreement are disclosed in the announcement of the Company dated 7 July 2020 and the circular of the Company dated 24 August 2020.

Mr. Li had partially repaid but failed to repay in full the aforesaid outstanding sum with accrued interest by the extended repayment deadline on 2 July 2021.

The Purchaser and Mr. Li entered into the Second Further Supplemental Agreement and the Third Further Supplemental Agreement on 26 August 2021 and 1 September 2021 respectively, pursuant to which, Mr. Li agreed to repay the Purchaser the outstanding sum of approximately RMB559.5 million on or before 2 July 2022 together with interest on the outstanding sum calculated on a daily basis at an interest rate of 10% per annum accrued from 26 August 2021 until payment. Further details of the background in relation to the Second Further Supplemental Agreement and the Third Further Supplemental Agreement are disclosed in the announcement of the Company dated 1 September 2021 and the circular of the Company dated 1 November 2021.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On 2 July 2022, Mr. Li had repaid (1) the entire Refund Amount, (2) the monetary compensation and (3) part of the accrued interests in the aggregate sum of approximately RMB624.1 million. Nevertheless, Mr. Li has not yet fully repaid the interest accrued in the sum of approximately RMB86.9 million by 2 July 2022 (the “**Remaining Interest**”). The breakdowns of the repayment and Remaining Interest are disclosed in the Board Letter.

Mr. Li has requested for further extension of the repayment deadline of the Remaining Interest on 5 July 2022. On 5 July 2022, the Company has set up the Special Committee again to handle the repayment and/or the recovery of the Remaining Interest.

Up to 18 August 2022, in the event of default, Mr. Li shall pay to the Purchaser a damage of approximately RMB1.7 million for the period from 3 July 2022 to 18 August 2022 (calculated on a daily basis at the interest rate of 15% per annum on the Remaining Interest under the Second Further Supplemental Agreement and the Third Further Supplemental Agreement).

After several negotiations between the Special Committee and Mr. Li, on 19 August 2022 (after trading hours), the Purchaser and Mr. Li entered into the Fourth Further Supplemental Agreement, pursuant to which, Mr. Li agreed to repay the Purchaser on or before 2 July 2023 the aggregate outstanding interest in the amount of approximately RMB88.6 million (the “**Outstanding Interest**”) together with interest to be accrued thereon calculated on a daily basis at an interest rate of 8% per annum accrued from 19 August 2022 until payment.

The principal terms of the Fourth Further Supplemental Agreement are set out in the Board Letter and the Fourth Further Supplemental Agreement shall be conditional upon the following conditions precedent:

- a) *the Company having complied with the requirements under the Listing Rules in respect of the Fourth Further Supplemental Agreement and the transactions contemplated thereunder; and*
- b) *the Purchaser and the Company having obtained all approvals in respect of the Fourth Further Supplemental Agreement and the transactions contemplated thereunder (including but not limited to the approvals of the Board and the Independent Shareholders).*

If any of the above conditions precedent have not been fulfilled or waived on or before the Long Stop Date, Mr. Li shall repay the Purchaser forthwith all amounts due pursuant to the terms of the Termination Agreement and the Subsequent Supplemental Agreements.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Also, considered that Mr. Li has already repaid (1) the entire Refund Amount, (2) the monetary compensation and (3) part of the accrued interests in the aggregate sum of RMB624,061,334.11, the Purchaser and Mr. Li agree that upon satisfaction of the conditions precedent under the Fourth Further Supplemental Agreement (as aforementioned), (a) they will execute any necessary documents or deeds to release all the charges in respect of the shares in the Company and any related interest in such shares held by Mr. Li being part of the Securities, and (b) (if Mr. Li requests and the Purchaser agrees) they will also execute any necessary documents or deeds to release all or part of the shares in Future Bright Mining Holdings Ltd. (高鵬礦業控股有限公司) (stock code: 2212) (“**Future Bright**”) and any related interest in such shares held by Mr. Li being part of the Securities, provided that there will be any third party purchaser(s) willing to purchase such shares at a reasonable price which shall be used to pay the Purchaser the Outstanding Interest together with any interest accrued thereon and any other amounts owed to the Purchaser, if any (collectively, the “**Partial Release**”).

The terms of the Fourth Further Supplemental Agreement (including the interest rate) was determined after arm’s length negotiations between the Purchaser and Mr. Li considering (i) the recent market conditions which remain challenging amid the uncertainties caused by the outbreak of COVID-19 pandemic; (ii) the prevailing market interest rate which ranges from 0.0% to 15.0% per annum, with an average of approximately 6.5% per annum and a median of approximately 5.4% per annum (based on the market research conducted by the Company on the financial assistances provided by other companies listed on the Main Board or GEM to connected persons); and (iii) the default interest rate under the Fourth Further Supplemental Agreement. Despite the recent increase in market interest rates, the Board considers that the increase will be at a gradual pace and is currently still far below 8.0% per annum (i.e. the interest rate of the interest for the period from 19 August 2022 to the Further Extended Repayment Deadline).

Assuming there is no early repayment, the amount of interest will be approximately RMB6.2 million for the period from 19 August 2022 to 2 July 2023 (calculated on a daily basis at the interest rate of 8% per annum on the Outstanding Interest under the Fourth Further Supplemental Agreement).

### 3. Principal terms of the Fourth Further Supplemental Agreement

#### I. *Comparable analysis*

In view that interests are payable to the Group pursuant to the Fourth Further Supplemental Agreement by Mr. Li, a connected person, we consider such arrangement being similar to a loan/financial assistance arrangement, given that the Group is providing a form of loan/financial assistance to Mr. Li instead of requiring Mr. Li to repay the Outstanding Interest immediately or enforcing the Remaining Securities.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Hence, in assessing the fairness and reasonableness of the terms of the Fourth Further Supplemental Agreement, we have reviewed similar transactions involving the provision of loan/financial assistance to a connected person with a fixed interest rate by companies listed on the Stock Exchange over the past six months immediately preceding and up to the date of the Announcement. To the best of our knowledge, we found 28 transactions (the “**Market Comparables**”) which meet the said criteria and such list is exhaustive as far as we are aware. We consider the Market Comparables as fair and representative samples and are directly comparable to the subject transaction given that (i) they all involved the provision of capital by a listed issuer on the Stock Exchange to a connected person; and (ii) their principal terms, including but not limited to, the arrangement regarding collateral/guarantee, the term to maturity, and interest rate per annum, are very similar to, and in fact directly comparable to, those of the Fourth Further Supplemental Agreement. On the other hand, given that whether a company is listed on the Main Board or GEM of the Stock Exchange would unlikely have any material impact on the terms of its loan/financial assistance arrangements as these terms are in general determined based on market conditions, we consider it appropriate to include comparable transactions conducted by listed issuers on both the Main Board and GEM of the Stock Exchange.

We also consider the six-month review period as fair and reasonable as there had been a sufficient number of Market Comparables conducted during such period to reflect the prevailing market practice in respect of the provision of loans/financial assistance for our analysis.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Independent Shareholders should note that the businesses, operations and prospects of the Group may not be the same as those of the Market Comparables. However, we consider that the loan/financial assistance arrangements of the Market Comparables were determined under similar market conditions and sentiment and hence reflect the general market trend of the loan/financial assistance arrangements in the open market. Therefore, we are of the view that the Market Comparables provide a general reference in assessing the fairness and reasonableness of the terms of the Fourth Further Supplemental Agreement.

Date of Announcement	Stock Code	Company Name	Collateral/ Guarantee (Y/N) <i>(Note 1)</i>	Term (years)	Interest rate per annum (%)
2-Aug-22	308	China Travel International Investment Hong Kong Limited	N	1.0	4.4
29-Jul-22	3818	China Dongxiang (Group) Company Limited	Y	5.0	1.0
26-Jul-22	230	Minmetals Land Limited	N	4.0	0.0 <i>(Note 3)</i>
30-Jun-22	755	Shanghai Zendai Property Limited	Y	2.5	11.9
29-Jun-22	2280	HC Group Inc.	N	1.0	8.0
28-Jun-22	1277	Kinetic Development Group Limited	N	2.0	5.2
6-Jun-22	2633	Jacobson Pharma Corporation Limited	N	3.0	5.1

**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

Date of Announcement	Stock Code	Company Name	Collateral/ Guarantee (Y/N) <i>(Note 1)</i>	Term (years)	Interest rate per annum (%)
27-May-22	8525	Baiying Holdings Group Limited	N	0.5	5.0
24-May-22	3306	JNBY Design Limited	Y	2.0	4.9
20-May-22	604	Shenzhen Investment Limited	N	1.0	3.5
16-May-22	6966	China Wan Tong Yuan (Holdings) Limited	Y	2.0	12.0
3-May-22	897	Wai Yuen Tong Medicine Holdings Limited	Y	5.0	10.0
3-May-22	1222	Wang On Group Limited	Y	5.0	10.0
3-May-22	8181	Shi Shi Services Limited	Y	1.0	10.0
28-Apr-22	956	China Suntien Green Energy Corporation Limited	N	3.0	3.7
28-Apr-22	2166	Smart-Core Holdings Limited	Y	1.0	8.0
28-Apr-22	2051	51 Credit Card Inc.	N	3.0	5.8
27-Apr-22	8083	China Youzan Limited	N	3.0	7.0

<b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISER</b>
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Date of Announcement	Stock Code	Company Name	Collateral/ Guarantee (Y/N) <i>(Note 1)</i>	Term (years)	Interest rate per annum (%)
22-Apr-22	380	China Pipe Group Limited	Y	3.0	5.5
22-Apr-22	8621	Metropolis Capital Holdings Limited	N	1.0	12.0
6-Apr-22	73	Asian Citrus Holdings Limited	Y	1.0	6.0
4-Apr-22	1647	Grandshores Technology Group Limited	N	0.5	8.0
31-Mar-22	8211	Zhejiang Yongan Rongtong Holdings Company Limited	N	1.3	3.7
9-Mar-22	6808	Sun Art Retail Group Limited	N	1.0	3.7
6-Mar-22	2126	JW (Cayman) Therapeutics Company Limited	Y	1.0	3.6
3-Mar-22	1611	Huobi Technology Holdings Limited	N	1.5	15.0

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Date of Announcement	Stock Code	Company Name	Collateral/ Guarantee (Y/N) <i>(Note 1)</i>	Term (years)	Interest rate per annum (%)
11-Feb-22	326	China Star Entertainment Limited	Y	5.8	5.0
9-Feb-22	9939	Kintor Pharmaceutical Limited	N	0.4	4.3
			<b>Maximum</b>	5.8	15.0
			<b>Average</b>	2.2	6.5
			<b>Median</b>	1.7	5.4
			<b>Minimum</b>	0.4	0.0
19-Aug-22	899	Asia Resources Holdings Limited	Y	0.9 <i>(Note 2)</i>	8.0

*Source: the website of the Stock Exchange*

*Notes:*

1. We consider the provision of collateral or guarantee as a principal term of a loan/financial assistance arrangement. We also consider that it is reasonable to assume there was no collateral or guarantee provided in the Market Comparables if there was no disclosure on the same in the respective announcement.
2. The term of the Fourth Further Supplemental Agreement is assumed to be from 19 August 2022 to 2 July 2023.
3. According to the announcement of Minmetals Land Limited (“**Minmetals**”) dated 26 July 2022, the relevant loan was provided by a subsidiary of Minmetals to its two shareholders, with one of them being a connected person as the subsidiary level of Minmetals. Hence, we consider the nature of such transaction as similar to, if not the same as, that under the Fourth Further Supplemental Agreement, in that the latter involves the provision of a loan/financial assistance by the Group to Mr. Li, who is a substantial Shareholder and hence a connected person of the Company as at the date of this letter.

Meanwhile, the relevant interest rate in Minmetals’s transaction was determined by Minmetal’s board after considering the borrower’s financial strength and the previous practice of Minmetals and its subsidiaries in distributing the group’s idle cash to Minmetals’s shareholders by way of loan advances. Considered that the interest rate under the Fourth Further Supplemental Agreement is higher than that of Minmetals’s transaction, the Fourth Further Supplemental Agreement would provide extra income to the Group. As such, we consider that the terms of the Fourth Further Supplemental Agreement are better and in the interests of the Company and the Shareholders as a whole.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(a) *Interest rate*

As illustrated in the above table, the interest rate of the Market Comparables ranged from 0.0% to 15.0% per annum, with an average of approximately 6.5% per annum and a median of approximately 5.4% per annum. The comparison shows that the interest rate of 8.0% per annum under the Fourth Further Supplemental Agreement falls within the range of the interest rates of the Market Comparables and is higher than the average interest rate thereof, suggesting that the interest rate under the Fourth Further Supplemental Agreement is not only in line with but also better than the market rates. Accordingly, we consider such interest rate as fair and reasonable.

Although the interest rate of 8.0% per annum under the Fourth Further Supplemental Agreement is lower than the previous interest rate of 10.0% per annum under the Second Further Supplemental Agreement and the Third Further Supplemental Agreement, considering that Mr. Li has already repaid more than 87.6% of the total repayment sum of approximately RMB712.6 million up to 2 July 2022 and the portion of the total repayment sum has been significantly reduced, it is not unreasonable for the Group to lower the interest rate this time. It should also be noted that, while the interest rate has been lowered, it is still above the market average, showing that the arrangement is still better than the market in general.

Meanwhile, in the event of a default, the default interest of 15.0% per annum (which was also the default interest rate under the Further Supplemental Agreement, the Second Further Supplemental and the Third Further Supplemental Agreement) shall be maintained under the Fourth Further Supplemental Agreement.

(b) *Term to maturity/Further Extended Repayment Deadline*

As illustrated in the above table, the term to maturity of the Market Comparables ranged from approximately five months to six years with an average of approximately two years and two months, and a median of one year and eight months. The duration of the Fourth Further Supplemental Agreement of approximately 11 months is not only within the aforesaid range of the Market Comparables but is also below the average thereof, suggesting that the Purchaser is expected to recover its capital in a shorter period. Accordingly, we consider the duration of the Fourth Further Supplemental Agreement is fair and reasonable.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(c) *Collateral/guarantee/undertaking*

As illustrated in the table above, 12 out of the 28 Market Comparables were secured by a collateral or guarantee while the remaining 16 of them were unsecured. Although less than half of the Market Comparables were secured, it is not uncommon in the market that a loan/financial assistance arrangement between connected persons is secured by a collateral or guarantee similar to the Remaining Securities (as defined in section II below) provided by Mr. Li under the Fourth Further Supplemental Agreement. In any case, all collaterals or guarantees from our review of the Market Comparables were given in favour of the lender (i.e. the listed company) to protect the lender's interest in the event of the borrower's default.

We consider such arrangement as similar to the transactions contemplated under the Fourth Further Supplemental Agreement as the Company can be considered as a lender which provides financial assistance to Mr. Li in the form of the Outstanding Interest and the interest to be accrued thereon, with the repayment obligation of Mr. Li being secured by the Remaining Securities. Given that we consider the transactions contemplated under the Fourth Further Supplemental Agreement as similar to a loan/financial assistance arrangement between connected persons, we consider these Market Comparables, which involved the provision of collaterals or guarantee as one of their principal terms, as representative in reflecting general market practices and showing that it is not uncommon for a lender to secure its borrower's repayment obligation by requiring the latter's provision of a collateral or guarantee and in any case, in favour of the lender.

As disclosed in the Board Letter, if Mr. Li fails to repay the Outstanding Interest with interest accrued by the Further Extended Repayment Deadline, the Company will at its discretion take control over the Remaining Securities and may resell it to the market for the recovery of the Outstanding Interest and the interest to be accrued thereon. We consider such arrangement as comparable to collaterals in similar loan/financial assistance arrangements, and we understand that the management of the Company considers the Remaining Securities as commercially comparable to the value of the Outstanding Interest and the interest to be accrued thereon.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Meanwhile, pursuant to the Fourth Further Supplemental Agreement, Mr. Li agrees and undertakes that if he breaches the Fourth Further Supplemental Agreement by failing to pay the Outstanding Interest and the interest to be accrued thereon by the Further Extended Repayment Deadline, he shall pay the Purchaser damages to be calculated on a daily basis at an interest rate of 15.0% per annum on the outstanding amount and interest payable to the Purchaser commencing from the Further Extended Repayment Deadline, until all amounts due have been fully repaid.

We consider such personal undertaking (i.e., the 15.0% interest rate payable upon default) as an additional protection of the interest of the Company because in addition to being entitled to take control over the Remaining Securities in the event of Mr. Li's default, the Purchaser could be compensated by the additional interest payments payable by Mr. Li. Given the above, we are of the view that the arrangement under the Fourth Further Supplemental Agreement is more secured in protecting the interest of the lender (i.e., the Purchaser) than the loan/financial assistance arrangements of some of the Market Comparables, in that not only guarantees but additional interest payments are required upon default.

Taking into consideration that the interest rate, the duration of the Fourth Further Supplemental Agreement, and the Remaining Securities and undertaking provided by Mr. Li are in line with, or better than, those arrangements of the Market Comparables, we consider that the terms of the Fourth Further Supplemental Agreement 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 Shareholders as a whole.

*II. Value of the Remaining Securities*

It is noted that, the Board is of the view that if Mr. Li failed to repay the Outstanding Interest and the interest to be accrued thereon by the Further Extended Repayment Deadline, the Company would still be able to recover the amount by enforcing the Remaining Securities provided by Mr. Li. In assessing whether the Remaining Securities are commercially comparable to the value of the Outstanding Interest and the interest to be accrued thereon, we have considered the below:

*(i) Mr. Li's 80% equity interest in Spring Water Ding Dong and the Valuation Report*

According to the Valuation Report, which was conducted by adopting a discounted cash flow method under the income approach, Spring Water Ding Dong had an estimated market value of approximately HK\$735.0 million as at 31 March 2022, with no impairment made since acquisition. Accordingly, 80% of its equity interests would amount to approximately HK\$588.0 million (equivalent to approximately RMB540 million), which prima facie exceeds the Outstanding Interest.

We have performed the works as required under Note 1(d) to Rule 13.80 of the Listing Rules and paragraph 5.3 of the Corporate Finance Adviser Code of Conduct in respect of the Valuation Report, which included (i) assessment of the Valuer's experiences in valuing entities in the PRC similar to Spring Water Ding Dong; (ii) obtaining information on the Valuer's track records on other business valuations; (iii) inquiry on the Valuer's current and prior relationship with the Group and other parties to the Fourth Further Supplemental Agreement; (iv) review of the terms of the Valuer's engagement, in particular its scope of work, for the assessment of the value of the equity interests of Spring Water Ding Dong and the Water Procurement Permit; and (v) discussion with the Valuer regarding the bases, methodology and assumptions adopted in the Valuation Report.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(a) Valuer

We understand that Mr. Paul Hung (“**Mr. Hung**”), the director of the Valuer and the signor of the Valuation Report, among others, is a registered surveyor and member of the Royal Institution of Chartered Surveyors, and an accredited senior appraiser of the American Society of Appraisers with over 10 years of experience in conducting the business valuation. We have also obtained information on the Valuer’s track records on other business valuations and noted that the Valuer had been the valuer for a wide range of companies in Hong Kong and the PRC. As such, we are of the view that the Valuer and Mr. Hung are qualified, experienced and competent in performing business valuations and providing a reliable opinion in respect of the valuation of the equity interests of Spring Water Ding Dong and the Water Procurement Permit.

We have also enquired with the Valuer as to its independence from the Group and the parties to the Fourth Further Supplemental Agreement and were given to understand that the Valuer is an independent third party of the Group and its connected persons. The Valuer also confirmed to us that it was not aware of any relationship or interest between itself and the Group or any other parties that would reasonably be considered to affect its independence to act as an independent valuer for the Company. The Valuer confirmed to us that apart from normal professional fees payable to it in connection with its engagement for the valuation, no arrangements exist whereby it will receive any fee or benefit from the Group and its associates.

Furthermore, although the Valuation Report was prepared for the purpose of the annual audit of the financial statements of the Company for the year ended 31 March 2022, we noted from the engagement letter entered into between the Company and the Valuer that the scope of work was appropriate for the Valuer to form the opinion required to be given and there were no limitations on the scope of work which might adversely impact the degree of assurance given by the Valuer in the Valuation Report.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### (b) Valuation basis

We have reviewed the Valuation Report and understand that it was prepared based on a going concern premise and conducted on a fair value basis, and in accordance with the International Valuation Standards on business valuation published by International Valuation Standards Council.

According to the Valuation Report, fair value is defined as *“the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date”*.

Since no unusual matters had come to our attention that led us to believe that the Valuation Report was not prepared according to a fair value basis, we believe that the valuation forms a fair and reasonable basis for our further assessment on the valuation of the equity interests of Spring Water Ding Dong.

### (c) Valuation methodology

We have also discussed with the Valuer on the methodology adopted in valuing the equity interests of Spring Water Ding Dong as at 31 March 2022, and noted it had considered the three generally accepted valuation approaches, namely the asset approach, the market approach and the income approach.

According to the Valuation Report,

1. *“The asset approach determines a fair value indication of a business, business ownership interest, security, or intangible asset by using one or more methods based on the value of the assets net of liabilities. Value is established based on the cost of reproducing or replacing the property, less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable;*
2. *The market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparative; and*

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- The income approach is the present worth of the future economic benefits of ownership. This approach is generally applied to an aggregation of assets that consists of all assets of a business enterprise including working capital and tangible and intangible assets."*

According to the Valuer, since there were insufficient comparable transactions in the market to form a reliable basis for its opinion of value, it considered that the market approach was not preferable for valuing the equity interests of Spring Water Ding Dong. The Valuer also considered the asset approach as not appropriate as it ignores the future growth potential of Spring Water Ding Dong. As such, the discounted cash-flow method under the income approach was adopted in valuing the equity interests of Spring Water Ding Dong.

As stated in the Valuation Report, the discounted cash-flow method *"is premised on the concept that the value is based on the present value of all future benefits that flow to the shareholder by applying an appropriate discount rate"* and *"requires a forecast to be made of cash flow, going out far enough into the future until an assumed stabilization occurs for the assets being appraised"*. As such, in order to analyze whether the discounted cash-flow method is fair and reasonable for the valuation of the equity interests of Spring Water Ding Dong, we have considered the following:

### Cash-flow forecast

In arriving at the valuation of the equity interests of Spring Water Ding Dong, the Valuer had performed the valuation of the same based on the cash-flow forecast prepared and provided by the management of the Company and Spring Water Ding Dong (the **"Management"**). We have reviewed the said cash-flow forecast and noted that it was estimated by the Management that, revenue will mainly come from Spring Water Ding Dong's manufacturing and sales of bottled water business over the forecast period. In this regard, we have obtained and reviewed the calculation spreadsheet of the aforementioned cash-flow forecast and discussed with the Management in relation to the underlying basis and assumptions. We understand that the cash-flow forecast was arrived at with reference to (i) the sales growth estimated based on Spring Water Ding Dong's experience and future

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

business plan; (ii) the operating expenses estimated based on Spring Water Ding Dong's business plan; (iii) the level of capital expenditure and working capital determined with reference to historical figures and estimations based on Spring Water Ding Dong's business plan; and (iv) a perpetual growth rate of 2% (based on the long term growth rate for advanced economies taking into account the industry growth rate, past experience and the medium or long term growth target of the associates) that was used to determine the terminal value. We agree with the Valuer that the underlying basis and assumptions of the cash-flow forecast were fair and representative, and as such, we consider that the cash-flow forecast formed a fair and reasonable basis for the Valuation Report.

### Discount rate

As the adoption of the discounted cash flow method requires an appropriate discount rate for the equity interests of Spring Water Ding Dong, we noted that the Valuer had used the weighted average cost of capital ("WACC") for the estimation of such. According to the Valuation Report, WACC comprises two components: cost of equity and cost of debt. The cost of equity was determined using the capital asset pricing model (the "CAPM"), which states that an investor requires excess returns to compensate systematic risks and that an efficient market provides no excess return for other risks. In determining the cost of equity, the Valuer had identified four relevant peer group companies that engaged in the manufacturing and sales of bottled water business, which are listed in Hong Kong stock exchanges. Having reviewed the list of comparable companies used in the Valuation, we are of the view that they are fair comparables in deriving the discount rate, considering the nature of business of the listed companies.

Hence, in determining the equity interests of Spring Water Ding Dong, the Valuer conducted a valuation of the Water Procurement Permit using the multi period excess earnings method, with the fair value of the Water Procurement Permit being the sum of the discounted present values of the projected annual excess earnings (i.e., the operating profit attributed to the Water Procurement Permit less the required return for its contributory tangible and intangible assets). In arriving the projected annual excess earnings, the Valuer had considered (i)

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the financial projections on the existing products using the Water Procurement Permit, (ii) all the estimated direct costs and related expenses and capital expenditure for production of respective products according to the information provided by the management of the Company, and (iii) the amount of profit tax according to the profit before tax. As for the required return for its contributory tangible and intangible assets, the Valuer had considered certain factors, including the average working capital based on the turnover days, the estimated borrowing costs and the training and recruitment costs of the assembled workforce involved. We also noted that the Valuer assumed that the level of inherent risk of Spring Water Ding Dong and the Water Procurement Permit was similar, and therefore it had applied the same WACC as the discount rate for the valuation of the equity interests of Spring Water Ding Dong and the Water Procurement Permit. We concur with the Valuer in this regard and we consider the adoption of WACC as the discount rate as fair and reasonable.

Upon our discussion with the Valuer, we also noted that a discount for lack of marketability (“**DLOM**”) of 25% was employed in calculating the WACC, as Spring Water Ding Dong was a private company which was considered as less marketable compared to shares of the companies listed on the Stock Exchange. Marketability is defined as the ability to convert an investment into cash quickly at a known price at a minimal cost, and a DLOM is a downward valuation adjustment which is used to reflect an investment’s reduced level of marketability. We noted that the DLOM adopted by the Valuer was obtained from official guidelines for professional valuers, the source of reference has been reviewed by us and we noted that the DLOM of 25% was determined based on the median DLOM of 25% derived from 15 restricted stock studies that cover several hundred transactions spanning from the late 1960s through 2000. Given that the DLOM adopted by the Valuer was determined based on empirical evidence, we consider such DLOM to be fair and reasonable.

Given the above and the fact that the discounted cash-flow method under the income approach applied by the Valuer is one of the generally accepted methodologies adopted by professional valuers and is in compliance with the International Valuation Standards on business valuation published by International Valuation Standards Council, we consider that the methodology and basis adopted by the Valuer in determining the fair value of the equity interests of Spring Water Ding Dong was appropriate.

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(d) Valuation assumptions

We noted that the Valuer had made various assumptions in the valuation of the equity interests of Spring Water Ding Dong due to the changing environment in which the company operated in. We have discussed with the Valuer and reviewed the principal assumptions made and nothing has come to our attention which would lead us to doubt the fairness and reasonableness of the principal assumptions adopted in the Valuation Report.

(e) Our view on the Valuation Report

In assessing the fairness and reasonableness of the valuation, we have focused on assessing the accuracy and completeness of the information relied upon by the Valuer. In this regard, we have held discussions with the Management and the Valuer, reviewed the cash-flow forecast prepared by the Management, which sets out the basis for the revenue projection and the production capacity of Spring Water Ding Dong. Based on our assessment, we are of the view that the information and representations made to the Valuer are reliable and reasonable. Meanwhile, although the Valuation Report was dated 29 June 2022 and showed the appraised value of the equity interests of Spring Water Ding Dong as at 31 March 2022 and was prepared for the purpose of the annual audit of the financial statements of the Company for the year ended 31 March 2022, we consider such valuation forms a reasonable reference for the current transaction, given that no material event subsequent to 31 March 2022 has come to our attention. On the other hand, given that 80% of the estimated market value of Spring Water Ding Dong amounted to approximately HK\$588.0 million (equivalent to approximately RMB540 million) based on the Valuation Report, it is not only commercially comparable to, but also prima facie exceeds the Outstanding Interest.

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(ii) *Mr. Li's shares in Future Bright*

As stated in the Board Letter, for those Remaining Securities which are listed shares, which comprise shares in Future Bright, the Company has monitored their market trading prices from time and time. For the purposes of the Fourth Further Supplemental Agreement, the Company has referred to their trading price as at 18 August 2022, with breakdown details as below:

Name of the Listed Company	Stock Code	Number of shares	Percentage of Shareholding	Market Value of the shares (HK\$) as at the	
				18 August 2022	Encumbrance(s) (if any)
Future Bright Mining Holdings Limited	2212	2,388,995,000	54.44%	119.4 million	Nil

*Source: the website of the Stock Exchange*

Based on the updated trading price of the shares in Future Bright, the market value thereof was approximately HK\$119.4 million (equivalent to approximately RMB103.2 million) as at 18 August 2022.

Given that the value of the Securities which are not listed shares (i.e. Mr. Li's 80% equity interest in Spring Water Ding Dong) of approximately HK\$588.0 million (equivalent to approximately RMB540 million) already surpasses the value of the Outstanding Interest, Mr. Li's shares in Future Bright provide an additional protection to the Purchaser for its recovery of the Outstanding Interest.

We have further evaluated the marketability of shares in Future Bright by reviewing their respective trading volume on the Stock Exchange during the past six months, from 1 February 2022 up to and including the date of the Announcement, details of which are set out in the table below.

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**% of average  
daily trading  
volume to total  
issued shares  
(Note 1)**

<b>Months</b>	<b>Future Bright (Stock code: 2212)</b>
<b>2022</b>	
February	0.018%
March	0.037%
April	0.066%
May	0.268%
June	0.328%
July	0.363%
August ( <i>up to 19 August 2022</i> )	0.297%
<b>Minimum</b>	<b>0.018%</b>
<b>Average</b>	<b>0.197%</b>
<b>Maximum</b>	<b>0.363%</b>

*Source: the website of the Stock Exchange*

*Note:*

1. Average daily trading volume is calculated by dividing the total trading volume of these shares for the month/day by the number of trading days during the month/day. The percentage of the average daily trading volume to total issued shares is calculated based on the average daily trading volumes of these shares divided by the total issued share capital of Future Bright at the end of each month or as at 19 August 2022, as applicable.

As set out in the above table, the average daily trading volume of shares in Future Bright was approximately 0.197% of the total number of issued shares of Future Bright during the review period. As shown in the above table, the liquidity of shares in Future Bright had been relatively stable, staying at around 0.3% of Future Bright's total number of issued shares and reflecting that such shares can sold on an open market relatively easily.

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Given that the Group would be able to take possession of the Remaining Securities if Mr. Li fails to repay the Outstanding Interest and the interest to be accrued thereon eventually, Mr. Li's shares in Future Bright would be an additional resort for the Group to recover part of the Outstanding Interest if Mr. Li fails to meet his repayment obligations.

Taking into consideration our analysis in the above two sub-sections headed "Mr. Li's 80% equity interest in Spring Water Ding Dong and the Valuation Report" and "Mr. Li's shares in Future Bright", we are of the view that the Fourth Further Supplemental Agreement would help the Company to recover the Outstanding Interest.

#### **4. Reason for and benefits of entering of the Fourth Further Supplemental Agreement**

As disclosed in the Board Letter, the Directors and the Special Committee have taken several factors into account before entering into the Fourth Further Supplemental Agreement, which included, (i) the drop in the property value in the PRC; (ii) the economic challenges attributable to the COVID-19 pandemic; (iii) the continued trade dispute between the United States and the PRC; (iv) the current cash flow of Mr. Li which was affected by the aforesaid factors; (v) the partial repayment (including the entire Refund Amount, the monetary compensation and part of the accrued interests) made by, and the continued communication with, Mr. Li indicating his sincerity to fulfill his obligations under the Termination Agreement and the Subsequent Supplemental Agreements; (vi) the fact that Mr. Li has already repaid a substantial portion of the outstanding sum and the amount of the outstanding sum has been substantially reduced; and (vii) other potential options which the Company may pursue, such as taking legal actions against Mr. Li or enforcing the Remaining Securities which Mr. Li has provided.

#### ***Mr. Li's commitment to fulfil his repayment obligation so far***

Mr. Li's cashflow is mainly driven by his property investment business in the PRC, which involves the sale and purchase and the leasing of properties. Since the property market in the PRC was largely impacted by the COVID-19 pandemic and the debt crisis, the market sentiment remained low in the past year. As advised by the management, neither Mr. Li nor the Company foresaw that the COVID-19 pandemic would last so long, which had suspended the construction of some of the development projects of Mr. Li and affected the leasing of properties due to the increase in work from home arrangements which had reduced the demand in office space as tenants inclined to rent premises with smaller areas. These incidents have affected the cashflow of Mr. Li and severely affected his ability to repay the Refund Amount in full.

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Nonetheless, up to 2 July 2022, Mr. Li has already paid (1) the entire Refund Amount, (2) the monetary compensation and (3) part of the accrued interests in the aggregate sum of approximately RMB624.1 million, which accounted for more than 87.0% of the total repayment sum of approximately RMB712.6 million. In view of Mr. Li's partial repayment and his commitment to continually communicate with the Board regarding his repayment plan, the Directors and the Special Committee are of the view that Mr. Li is sincere in fulfilling his obligation under the Termination Agreement and the Subsequent Supplemental Agreements, and should be given additional time to recover his cash flow gradually and repay the Company the Outstanding Interest and interest accrued, especially when the spread of COVID-19 pandemic in the PRC have become more controllable as compared with the initial outbreak in 2020 and Mr. Li's financial capability may at a result improve gradually.

### *Mr. Li's repayment plan and repayment ability*

As disclosed in the Board Letter, Mr. Li has recently discussed with the Directors and the Special Committee in details on the updated status of his property leasing and development businesses in the PRC. In particular, for the period from July 2022 to June 2023, it is expected that Mr. Li's rental income and property sales proceeds will amount to approximately RMB370 million, which is estimated to be more than the Outstanding Interest and the interest to be accrued thereon. Considering the projected market condition, the business and current financial status of Mr. Li and the value of the Remaining Securities, the Company believes that it is justifiable to give reasonable additional time for Mr. Li to recover his cash flow gradually and repay the Company the Outstanding Interest and the interest accrued. Moreover, Mr. Li has also indicated to the Company that he will repay the Outstanding Interest as soon as possible (but not necessarily on 2 July 2023) in order to reduce the interest amount to be accrued.

We have discussed with the Company regarding the validity of the business updates provided by Mr. Li and noted that in addition to providing these updates to the Board from time to time, in order to demonstrate his sincerity to fulfill his repayment obligation, Mr. Li has also provided a letter undersigned by himself to the Board which elaborates on how he plans to settle the Outstanding Interest through his property leasing and development businesses that are currently run by his two companies in the PRC. From our review of the aforementioned letter, we noted that one of these companies runs a commercial leasing business for a commercial office building situated in a prime location in the central business district of Beijing, and such commercial office building had an occupancy rate of approximately 60% in mid-2022 and it is expected that its occupancy rate will gradually increase to 85% in the second half of 2022 at a rental level similar to that

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

prior to the COVID-19 pandemic outbreak, generating additional income for Mr. Li. Meanwhile, for the other company, it is noted that their residential and commercial property sales in Beijing are expected to be resumed later this year and hence also bring in capital to Mr. Li's property investment businesses.

Besides the aforementioned letter undersigned by Mr. Li, we have also performed independent online research on the prices of the commercial and residential properties in Beijing that Mr. Li owned and confirmed that the expected revenue gained from the two properties could reach the amount expected by Mr. Li. The expected revenue could reach approximately 4.0 times of the Outstanding Interest, which provides a buffer in case the property market in the PRC is not as optimistic as Mr. Li expects.

Despite the challenges faced by China's property market since mid-2021, the Chinese policy makers restated their goal to maintain a steady and healthy property sector. The government lowered the loan prime rate to maintain steady loan growth on 23 August 2022 in order to alleviate a worsening housing crisis. It is expected that the lowering of loan prime rates would boost demand for property and mortgages. Given the PRC government's priority of keeping the property market stable, the economic upswing in the PRC expected after the COVID-19 pandemic and the location advantage enjoyed by Mr. Li's properties, we consider that the assumptions and bases adopted by Mr. Li in determining his expected income are fair and reasonable.

### *Merits of the Fourth Further Supplemental Agreement*

We also understand that, while the business updates provided by Mr. Li has provided the Board with confidence regarding Mr. Li's sincerity in fulfilling his repayment obligation, the Board has decided to enter into the Fourth Further Supplemental Agreement also because of the merits of the terms thereof.

In this regard, we were given to understand that the Company considers the entering into of the Fourth Further Supplemental Agreement, which would allow the Purchaser to receive cash repayments rather than having to incur additional costs in taking legal actions against Mr. Li or liquidating the Remaining Securities, to be more commercially justifiable and preferable given the lower level of potential disruption to the daily operation of the Group. Given that Mr. Li has honoured his commitment in repaying the Refund Amount, the monetary compensation and part of the accrued interests in the past as discussed above, the Company considers further repayments of the Outstanding Interest and the interest to be accrued thereon from Mr. Li to be likely. Accordingly, the Company considers that the entering into of the Fourth Further Supplemental Agreement is currently the most expedite and practicable option for the Company and is in the interests of the Company and the Shareholders as a whole.

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As discussed in the above section headed “Comparable analysis” of this letter, we consider the interest rate under the Fourth Further Supplemental Agreement of 8% per annum to be fair and reasonable as it was better than the market rates. Accordingly, we agree with the management of the Company that the interests to be generated from the Fourth Further Supplemental Agreement would continue to be an attractive opportunity for the Company to generate interest income for the Group under the prevailing adverse market condition, which would result in an increase in the Company’s revenue, earnings and assets. In addition, pursuant to the Fourth Further Supplemental Agreement, Mr. Li agrees and undertakes that if he breaches the Fourth Further Supplemental Agreement by failing to pay the Outstanding Interest and the interest to be accrued thereon, he shall pay the Purchaser damages to be calculated on a daily basis at an interest rate of 15.0% per annum on the outstanding amount payable to the Purchaser at the Further Extended Repayment Deadline, until all amounts due have been fully repaid, an arrangement which we consider as an additional protection for the interest of the Company.

The Board is also of the view that, in the event of Mr. Li’s default on the Further Extended Repayment Deadline, the Company has the right to take possession of Mr. Li’s Remaining Securities, which as discussed above, prima facie exceeds the Outstanding Interest of approximately RMB88.6 million as they comprise (i) Mr. Li’s 80% equity interest in Spring Water Ding Dong which amounted to approximately HK\$588.0 million (equivalent to approximately RMB540 million) as at 31 March 2022; and (ii) Mr. Li’s shares in Future Bright which amounted to approximately RMB103.2 million as at 18 August 2022. Accordingly, even if Mr. Li was not able to settle the Outstanding Interest through his property leasing and development businesses in the PRC, the Company would still be able to recover the Outstanding Interest through liquidating the Remaining Securities, which the Company believes will witness an increase in value as the economy gradually recovers and the impact of the COVID-19 pandemic recedes, safeguarding the interests of the Company and the Shareholders as a whole.

### *Costs of other potential options which the Company may pursue*

In entering into of the Fourth Further Supplemental Agreement, we understand that the Directors and the Special Committee have considered the costs of other potential option such as (i) taking legal actions against Mr. Li for the breach of the Termination Agreement and the Subsequent Supplemental Agreements; and (ii) enforcing the Remaining Securities which Mr. Li has provided.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Given that taking legal actions against Mr. Li will, among others, (i) result in a negative image of the Company given that Mr. Li is the Chairman and an executive Director; (ii) incur additional costs (including without limitation the aforementioned legal costs for legal advice, court hearings, debt recovery and enforcement of the Remaining Securities) by the Company; and (iii) potentially disrupt the daily operation of the Group as (a) Mr. Li is involved in the major business projects and operations of the Company, (b) the extra time and resources to be expended for court proceedings (including without limitation the potential time and effort in attending meetings with legal and other professional advisors, compiling evidence and court documents for legal actions and arranging for attendance at court hearings) will deplete the resources of the Company which can otherwise be allocated to managing the business, the Company currently considers taking legal actions against Mr. Li as an undesirable option.

On the other hand, the enforcement of the Remaining Securities may also not be feasible at the moment given that the Company has not received any feedback from the financial advisors or intermediaries on any interested potential buyer, likely due to recent uncertain and adverse market conditions and the unpredictability of how the situation of COVID-19 pandemic will develop. Accordingly, it is expected that even if the Remaining Securities were to be enforced now, the realisation value would not be high. Nonetheless, as discussed above, the Company is of the view that as the economy gradually recovers as the impact of the COVID-19 pandemic recedes, it will be able to recover the Outstanding Interest should it exercise its discretion to take control over the Remaining Securities and resell it to the market, if Mr. Li fails to repay the Outstanding Interest by the Further Extended Repayment Deadline. In addition, since some of the assets covered by the Remaining Securities are located in Hong Kong instead of Mainland China, and the laws of Hong Kong are the applicable laws of the relevant security documents, it will be easier for the Company to enforce such securities as Hong Kong is the legal system which the Directors are more familiar and confident with.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *Section conclusion*

Given that (i) the partial repayment made by Mr. Li, the letter undersigned by him and his continuous communication with the Board have given the Board confidence of his sincerity in fulfilling his repayment obligation; (ii) the assumptions and bases adopted by Mr. Li in determining his expected income from his properties are fair and reasonable based our independent online research; (iii) the interest rate under the Fourth Further Supplemental Agreement of 8.0% per annum is better than the market rates and such interests to be generated are an attractive opportunity for the Company to generate interest income for the Group under the prevailing adverse market condition; (iv) if Mr. Li defaults under the Fourth Further Supplemental Agreement, further protection of the Group's and the Shareholders' interest is provided as (a) Mr. Li undertakes that he shall pay the Purchaser damages to be calculated on a daily basis at an interest rate of 15.0% per annum on the outstanding amount payable to the Purchaser at the Further Extended Repayment Deadline, until all amounts due have been fully repaid, and (b) the Company has the right to take possession of Mr. Li's Remaining Securities, which prima facie exceeds the Outstanding Interest; (v) taking legal actions against Mr. Li would incur additional costs to the Company and potentially disrupt the daily operation of the Company, while enforcing the Remaining Securities now may be difficult and may not generate a high realization value for the Company under the current market conditions, we are of the view that the further extension of the repayment deadline is currently the best option for the Company compared to other options as it not only incurs the lowest cost to the Group, but also allows the Group to generate additional interest incomes. In the same vein, we are of the view that the entering into of the Fourth Further Supplemental Agreement and the terms thereof are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### RECOMMENDATION

Having considered the principal factors and reasons referred to above, we are of the opinion that, despite the entering into the Fourth Further Supplemental Agreement and the transactions contemplated thereunder is not in the ordinary and usual course of business of the Group, the terms of the Fourth Further Supplemental Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolutions approving the Fourth Further Supplemental Agreement and the transactions contemplated thereunder at the SGM. We also recommend the Independent Shareholders to vote in favour of the resolutions relating to the Fourth Further Supplemental Agreement and the transactions contemplated thereunder at the SGM.

Yours faithfully,  
For and on behalf of  
**Pelican Financial Limited**  
**Charles Li\***  
*Managing Director*

\* *Charles Li is a responsible person registered under the SFO to carry out Type 6 (advising on corporate finance) regulated activity for Pelican Financial Limited and has over 30 years of experience in the accounting and financial services industry.*

## 1. FINANCIAL INFORMATION OF THE GROUP

The published audited financial statements of the Group for each of the three years ended 31 March 2020, 2021 and 2022 were set out in the Company's annual reports for each of the three years ended 31 March 2020, 2021 and 2022, which can be accessed on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)), and the website of the Company (<http://www.asiaresources899.com.hk>). Quick links to the annual reports of the Company are set out below:

Annual report of the Company for the year ended 31 March 2020:  
<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0722/2020072200165.pdf>

Annual report of the Company for the year ended 31 March 2021:  
<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0630/2021063002991.pdf>

Annual report of the Company for the year ended 31 March 2022:  
<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0728/2022072800001.pdf>

## 2. STATEMENT OF INDEBTEDNESS

As at the close of business on 15 August 2022, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, there were unaudited outstanding lease liabilities of approximately HK\$1.4 million.

Save as disclosed above, the Group, apart from intra-group liabilities, did not have any loan capital issued and outstanding or agreed to be issued, debt securities, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance (other than normal trade bills), or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities as at 15 August 2022.

### 3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2022, being the date to which the latest published audited consolidated financial statement of the Company were made up.

### 4. WORKING CAPITAL

The Directors, after due and careful enquiry and taking into consideration the internal financial resources available to the Group, are of the opinion that, after entering into the Fourth Further Supplemental Agreement, the Group will have sufficient working capital to satisfy its present requirements for the next twelve months from the date of this circular in the absence of unforeseen circumstances.

### 5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

#### Revenue

For the year ended 31 March 2022, the revenue of the Group was approximately HK\$21,200,000 (2021: HK\$32,920,000). The decrease in revenue was mainly because (i) most of the saleable area of the completed properties held for sale in Dalian, the PRC had been handed over to buyers and the corresponding revenue was recognised in previous financial years and as a result the remaining saleable area decreased; (ii) the debt crisis of some of the property developers in the PRC has adverse impact on the property market; and (iii) the sales and handover of the remaining completed properties held for sale were slowed down during the year ended 31 March 2022 due to the continuation of the COVID-19 pandemic.

**Cost of Sales**

For the year ended 31 March 2022, the Group's cost of sales was approximately HK\$4,136,000 (2021: HK\$16,471,000). The cost of sales represented the cost of properties sold and its decrease was in line with the decrease in revenue from sales of properties.

**Gross Profit**

The Group recorded a gross profit of approximately HK\$17,064,000 for the year ended 31 March 2022. The gross profit was mainly attributable to the rental income generated from the investment properties in Zhejiang.

**Business Review**

The Group continuously focuses its effort on our core business in the water business, property development and property investment business. Since early 2020, in response to the COVID-19 pandemic, the PRC government authorities imposed travel restrictions for a long period of time and implemented varying degrees of movement controls in certain regions, depending on the number of infected cases. These precautionary measures adversely affected our core businesses and caused unforeseen delays in our investment and development. The Company is proactively taking actions to mitigate the adverse impacts of the COVID-19 pandemic on the Group. Besides, the debt crisis of some of the property developers in the PRC has negative impact on the property market, which in turn adversely affected the development progress and valuation of our property projects.

For the water mining business in Hunan, the construction works on the production facilities has been suspended and delayed due to the outbreak of COVID-19 pandemic since January 2020. The construction works were resumed in the first half of 2021. However, due to the outbreak of the Omicron variant of the COVID-19 virus in the PRC since the beginning of 2022, the construction works have to be further delayed. The construction of the factory is expected to be completed near the end of 2022 and the production is expected to commence in around early 2023. The Board considers such estimated timeline is fair and reasonable given the current circumstances, including, inter alia, the constraints in supply logistics and arrangements of workers. However, there still exists uncertainties on future lock-down, travel restrictions requirements or control and testing measures that may be imposed by the government from time to time. As at the Latest Practicable Date, the basic infrastructure of the factory is completed and the surrounding facilities are under construction.

For the property development business in Dalian, construction of the Phase I has been completed and as at 31 March 2022, the Group has already handed over an aggregate of approximately 79% of the total saleable area of the Phase I properties to the buyers since April 2019 onwards. Based on the existing market circumstances, the Company expects that the sale of the entire Phase I properties will be completed by 31 March 2023.

Phase II is recognised as the properties under development of the Group. The Group planned to develop 34 buildings with aggregate saleable area of approximately 69,000 square metres. The development of Phase II is in preliminary stage. Due to (i) the outbreak of the COVID-19 pandemic since the beginning of 2020; (ii) the slowdown of economic growth in the PRC; and (iii) the debt crisis of some of the property developers in the PRC since mid-2021, the development of Phase II has been delayed and rescheduled to late 2022 or early 2023.

On 27 January 2022, Dalian Chuanghe received an idle land decision from Dalian Municipal Bureau of Natural Resources\* (大連市自然資源局), pursuant to which the land of Phase II was determined to be in idle condition. Therefore, there is a risk that the land of Phase II being repossessed by the PRC government authorities without compensation. The management of Dalian Chuanghe is actively negotiating and communicating with the PRC government authorities to lift the decision of idle status and to avoid land repossession by the PRC government authorities without compensation.

Based on the best available information to the Company in relation to the conditions and criteria to be imposed on the Company on the land of Phase II, including but not limited to (i) placing of deposit of RMB30 million to RMB40 million to the joint bank accounts to be managed by the Group and the PRC government authorities for the purpose of payment of construction costs; (ii) commencement of the construction works within a specified time frame and (iii) commencement of the sales of the properties within one or two years, the Board needs to assess various factors and further discuss with the PRC government authorities on the repossession. As at the Latest Practicable Date, the legal title of the land of Phase II remained under the control of the Company despite the idle land decision. No further action was taken by the PRC government authorities and the Company was not aware of any exact timeline of the repossession.

\* For identification purpose only

The Board has reviewed and reconsidered the development plan of Phase II. The construction material costs has continuously increased in recent years, which led to the increase in the development costs. However, the selling price of the properties in Dalian has dropped due to the debt crisis of some of the property developers in the PRC since mid-2021 and the outbreak of the COVID-19 pandemic. As a result, the projected profit margin of developing Phase II has dropped significantly. Due to the abovementioned factors, a full impairment of approximately HK\$242,539,000 (2021: Nil) on the properties under development was made. Nevertheless, the management are still using its best endeavors to avoid land repossession by the PRC government authorities without compensation. If there is any further update, the Company will make a separate announcement on the same as and when appropriate.

The Group also endeavours to diversify its scope of business and product portfolio in order to diverse the risks from its existing businesses. Apart from its current core business in water business, property development and property investment business, the Group is actively studying the feasibilities of expansion into mining business in other types of minerals and also the business of commodities trading.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE GROUP**

Set out below is the management's discussion and analysis of the Group for each of the three years ended 31 March 2020, 2021 and 2022, as extracted from the annual reports of the Company for each of the years ended 31 March 2020, 2021 and 2022:

### **(1) FOR THE YEAR ENDED 31 MARCH 2020**

The management's discussion and analysis of the audited consolidated financial results and operations relating to the business of the Group for the year ended 31 March 2020 is set out below.

#### **FINANCIAL REVIEW**

##### **Revenue**

For the year ended 31 March 2020, the revenue from continuing operations of the Group was approximately HK\$201,510,000. The revenue for the year was mainly attributable to the handover of properties in Dalian and start-up of sales of bottled water products. For the year, the Group recorded revenue from sales of properties and sales of bottled water products of approximately HK\$201,242,000 and HK\$268,000 respectively.

For the year ended 31 March 2019, the revenue from continuing operations of the Group was approximately HK\$32,760,000 which was attributable to trading business.

##### **Cost of Sales**

For the year ended 31 March 2020, the Group's cost of sales from continuing operations was approximately HK\$288,754,000 of which the costs of properties and bottled water products sold were approximately HK\$288,565,000 and HK\$189,000 respectively.

For the year ended 31 March 2019, the cost of goods trading was approximately HK\$31,732,000.

##### **Gross Loss**

The Group recorded a gross loss from continuing operations of approximately HK\$87,244,000 for the year ended 31 March 2020. The gross loss was mainly attributable to loss on sales of properties in Dalian due to higher development costs arising from the delay of property development and downturn of the property market in Dalian resulting in a drop in selling price.

For the year ended 31 March 2019, the Group recorded a gross profit from continuing operations of approximately HK\$1,028,000 from trading business.

#### **Other Gains**

For the year ended 31 March 2020, the Group recorded other gains of approximately HK\$27,950,000 (2019: HK\$1,908,000). The increase was mainly due to compensation and interest income relating to termination of acquisition of the Properties.

#### **Other Losses**

For the year ended 31 March 2020, the Group recorded other losses of approximately HK\$60,825,000 (2019: HK\$334,000). The increase was mainly due to exchange loss derived from depreciation of Renminbi.

#### **Selling and Distribution Expenses**

Selling and distribution expenses primarily consist of agency fee, promotion fee and advertising expenses, which were approximately HK\$9,653,000 for the year ended 31 March 2020 (2019: HK\$5,918,000). The increase was mainly due to sales of properties in Dalian and start-up of sales of bottled water products.

#### **Administrative Expenses**

Administrative expenses primarily consist of directors' emoluments, other staff costs and benefits, depreciation, legal and professional fee and other general office expenses, which were approximately HK\$35,267,000 for the year ended 31 March 2020 (2019: HK\$32,947,000). The increase was mainly due to increase in the number of staff.

#### **Material Impairment Losses**

For the year ended 31 March 2020, the Group provided impairment losses for intangible assets, deposits paid, completed properties held for sale and properties under development of approximately HK\$46,932,000 (2019: Nil), HK\$92,873,000 (2019: HK\$1,087,000), HK\$25,348,000 (2019: HK\$72,821,000) and HK\$28,033,000 (2019: HK\$66,440,000) respectively.

These impairment losses arose mainly because the values of the corresponding assets of the Group in the PRC are adversely affected by the Sino-US trade dispute and the COVID-19 pandemic. Details are set out in the paragraph headed "BUSINESS REVIEW" below.

### **Share of Results of Associates**

Share of losses of associates was approximately HK\$9,572,000 (2019: HK\$17,152,000). Decrease in losses was because the associates have a significant growth in sales and a decrease in production costs in the year ended 31 March 2020.

### **Loss Attributable to Owners of the Company**

The Group recorded a loss attributable to the owners of the Company of approximately HK\$338,784,000 for the year ended 31 March 2020 (2019: HK\$158,640,000). The increase in loss was mainly due to (i) the gross loss from sales of properties in Dalian; (ii) the impairment loss on properties under development; (iii) the impairment loss on completed properties held for sale; (iv) the impairment losses on deposits paid; (v) impairment losses on intangible assets; (vi) share of losses of associates; and (vii) exchange losses.

Basic and diluted loss per share from continuing and discontinued operations for the year ended 31 March 2020 was HK\$0.045 (2019: HK\$0.022).

## **BUSINESS REVIEW**

The Group continuously focuses its effort on its core business including water business, property development and property investment business.

Affected by Sino-US trade dispute and COVID-19 pandemic, the PRC's economic growth has slowed down, Renminbi has depreciated and the values of assets in the PRC are impaired. The Group also suffered a significant impact on its core business from these factors.

### **Water Business**

The Group recorded a loss from water business segment of approximately HK\$57,739,000 for the year ended 31 March 2020 (2019: HK\$1,912,000). The loss mainly comprised (i) impairment loss on intangible assets; and (ii) operating expenses.

#### *Water Production and Sales*

The Group holds 20% equity interests in Spring Water Ding Dong which had a wholly-owned subsidiary in Guangxi, i.e. Guangxi Spring Water Ding Dong. Guangxi Spring Water Ding Dong possessed a water procurement permit for production and sales of bottled water and was currently in operation in Guangxi. According to a valuation report issued by an independent qualified valuer, the value of the water procurement permit as at 31 March 2020 was RMB1,392,190,000.

During the year ended 31 March 2020, the Group shared losses of associates of approximately HK\$9,572,000 (2019: HK\$17,152,000), which were mainly caused by the depreciation of property, plant and equipment and amortization of water procurement permit. Losses decrease was because Guangxi Spring Water Ding Dong had a significant growth in sales and a decrease in production costs in the year ended 31 March 2020.

On 4 April 2019, the Group entered into a supply agreement with Guangxi Spring Water Ding Dong to procure bottled water products for trading. Guangxi Spring Water Ding Dong is beneficially owned as to 80% by Mr. Li Yuguo, a substantial shareholder, the chairman and an executive Director of the Company. Details of the supply agreement are set out in the announcement of the Company dated 4 April 2019. During the year ended 31 March 2020, the Group recorded revenue from sales of bottled water products of approximately HK\$268,000 and gross profit of approximately HK\$79,000. The gross profit margin was approximately 29.5%.

#### *Water Mining*

The Group held 67% equity interests of Good Union (China) Limited which had a wholly-owned subsidiary in Hunan. It possessed a water mineral licence for exploitation of mineral water in Hunan. Due to the outbreak of COVID-19 since January 2020, the construction works of factory were suspended and delayed. We have been actively communicating with the local government authorities and contractors in order to resume the construction works as soon as possible. We expected the construction works will be resumed in the second half of 2020 and will be completed in mid-2021. The production is expected to commence in late 2021.

The Group reviewed the fair value of the water mining licence as at 31 March 2020 with reference to a valuation report issued by an independent qualified valuer and an impairment provision of approximately HK\$46,932,000 (2019: Nil) was made for the year ended 31 March 2020.

In accordance with the sale and purchase agreement dated 23 May 2017, the vendor, who is currently the minority shareholder of Good Union (China) Limited, has committed a production volume guarantee on Hunan project from 2019 to 2028. For details, please refer to the announcement of the Company dated 23 May 2017. The vendor was not able to satisfy the production volume guarantee for the year 2019 since production has not commenced yet. The Group is currently negotiating with the vendor for the compensation of 2019. The Group may engage other professionals to verify the amount of compensation.

### Property Development and Property Investment Business

The Group recorded a loss from property development and investment segment of approximately HK\$272,534,000 for the year ended 31 March 2020 (2019: HK\$117,845,000). The loss was mainly comprised of (i) gross loss on sales of properties in Dalian; (ii) impairment losses on properties under development and completed properties held for sales located in Dalian; (iii) impairment losses on deposits paid for property investments in Yantian, Beijing and Zengcheng of Guangdong Province; (iv) exchange losses; and (v) operating expenses.

#### *Property Development*

##### Dalian Properties

Dalian Chuanghe commenced to handover the properties to buyers in April 2019. For the year ended 31 March 2020, approximately 30,723 square metres of properties had been handed over and revenue of approximately HK\$201,242,000 (2019: Nil) was recorded. As at 31 March 2020, Dalian Chuanghe had sale contracts with contract amount of approximately RMB48,264,000 with gross saleable areas of around 6,611 square metres. The properties under these sales contracts were expected to be handed over in the near future.

For Phase II, there are 34 buildings with aggregate saleable area of approximately 69,000 square metres. Due to the outbreak of COVID-19, we had re-scheduled the development of Phase II and the construction of Phase II was expected to commence in around 2021.

Since the Sino-US trade dispute and COVID-19 pandemic led to the slowdown of economic growth and drop in assets price in the PRC, the selling price of Xin Tian Jia Yuan was adversely affected. Besides, the delay and long period of property development caused higher development costs. Therefore, the Group suffered a gross loss of approximately HK\$87,323,000 from sales of properties and further impairment losses were recognised on completed properties held for sale and properties under development.

The Group reviewed the market value of the completed properties held for sale and properties under development as at 31 March 2020 with reference to a valuation report issued by an independent qualified valuer using market approach in the assessment of the valuation. Provision for impairment losses of approximately HK\$25,348,000 (2019: HK\$72,821,000) and HK\$28,033,000 (2019: HK\$66,440,000) were made for the year ended 31 March 2020 for completed properties held for sale and properties under development respectively.

*Property Investment*

Yantian Properties

- (A) The Group entered into an acquisition agreement on 24 June 2014, a supplemental agreement on 15 April 2015, the second supplemental agreement on 12 July 2016, the third supplemental agreement on 17 May 2017 and the fourth supplemental agreement on 3 May 2018 to purchase the property at a consideration of approximately RMB100,000,000 (equivalent to approximately HK\$126,000,000).

The property comprises 46 units of Jinma Creative Industry Park (formerly known as "Kingma Information Logistic Park") which is situated at Depot No. 2, 3rd Road and Shenyang Road Intersect, Inner Logistic Park, Yantian Bonded Area, Yantian District, Shenzhen City, the PRC\* (中國深圳市鹽田區鹽田保稅區物流園內三號路與深鹽路交匯處二號堆場) ("**Jinma Creative Industry Park**") with a total gross floor area of approximately 8,699 square metres.

As at 31 March 2020, the Group had obtained physical possession of the property and paid conditionally refundable deposit in the aggregate sum of RMB90,000,000 in accordance with the payment terms stated in the sales and purchase agreement. The remaining balance of the consideration of approximately RMB10,000,000 shall be paid within 30 days from the date on which the relevant building ownership certificates are issued in favour of the purchaser which is an indirect wholly-owned subsidiary of the Company (the "**Jinma Industry Park Purchaser**"). The vendor shall register the title of the property under the name of the Jinma Industry Park Purchaser on or before 31 December 2018 (or such other date as may be mutually agreed).

- (B) The Group entered into the second acquisition agreement on 15 May 2015, a supplemental agreement on 12 July 2016, the second supplemental agreement on 17 May 2017 and the third supplemental agreement on 3 May 2018 to purchase additional property at a consideration of approximately RMB65,100,000 (equivalent to approximately HK\$81,400,000). The property comprises 30 units of Jinma Creative Industry Park with a total gross floor area of approximately 5,400 square metres.

\* For identification purpose only

As at 31 March 2020, the Group had obtained physical possession of the property and paid conditionally refundable deposit in the aggregate sum of RMB60,000,000 in accordance with the payment terms stated in the sales and purchase agreement. The remaining balance of the consideration of approximately RMB5,100,000 shall be paid within 30 days from the date on which the property has been registered under the name of the Jinma Industry Park Purchaser. The vendor shall register the title of the property under the name of the Jinma Industry Park Purchaser on or before 31 December 2018 (or such other date as may be mutually agreed).

- (C) The Group entered into the third acquisition agreement on 10 November 2015, a supplemental agreement on 17 May 2017 and the second supplemental agreement on 3 May 2018 to purchase additional property at a consideration of approximately RMB101,600,000 (equivalent to approximately HK\$122,000,000). The property acquired, being a single-storey reinforced concrete building designated for office and storage uses located at Block 2 of Jinma Creative Industry Park with a total gross floor area of approximately 4,957 square metres.

As at 31 March 2020, the Group had obtained physical possession of the property and paid conditionally refundable deposit in the aggregate sum of RMB100,000,000 in accordance with the terms of payment stated in the sales and purchase agreement. The remaining balance of the consideration of approximately RMB1,600,000 shall be paid within 30 days from the date on which the property has been registered under the name of the Jinma Industry Park Purchaser. The vendor shall register the title of the property under the name of the Jinma Industry Park Purchaser on or before 31 December 2018 (or such other date as may be mutually agreed).

For Yantian Properties (A), (B) and (C), as at 29 June 2020 (i.e. the date of the annual report for the year ended 31 March 2020), the vendor has still not registered the titles of the properties under the name of the Jinma Industry Park Purchaser. The approval from the PRC government authority for issuing the building ownership certificates remained pending. In May 2020, the Company received a letter from the vendor requesting for an extension of the deadline to 31 December 2020 for handling the matter of building ownership certificates. The Company has engaged a PRC law firm to negotiate with the vendor to resolve this matter.

The Group reviewed the market value of Yantian Properties (A), (B) and (C) as at 31 March 2020 with reference to a valuation report issued by an independent qualified valuer using market approach in the assessment of the valuation. A provision for impairment loss on deposits paid for Yantian Properties of approximately HK\$5,358,000 (2019: Nil) was made for the year ended 31 March 2020.

## Beijing Properties

The Group entered into an acquisition agreement on 28 February 2017 to purchase (a) office premises with a gross floor area of 8,335 square metres and (b) underground car park with a gross floor area of 3,100 square metres located in Phase III of Beijing Convention and Exhibition International Port (Exhibition Centre Ancillary Facilities) Project\* (北京會展國際港展館配套設施項目第三期) for a consideration of approximately RMB220,000,000 (subject to adjustment).

As at 31 March 2020, the Group paid the consideration of RMB200,000,000 in accordance with the payment terms stated in the sale and purchase agreement. The remaining balance of the consideration of approximately RMB20,000,000 shall be paid upon the execution of the pre-sale agreement between the vendor and the purchaser, an indirect wholly-owned subsidiary of the Company and the building ownership certificate having been obtained by the purchaser. In May 2020, the Company received a letter from the vendor explaining the reasons of delay in construction works and requesting for an extension of handover of the properties. Due to the outbreak of COVID-19, the construction works have been suspended and not yet resumed. The vendor will resume the construction works as soon as possible and make best efforts to complete the construction on or before 31 December 2020.

The Group reviewed the market value of Beijing Properties as at 31 March 2020 with reference to a valuation report issued by an independent qualified valuer using market approach in assessment of the valuation. A provision for impairment loss on deposits paid for Beijing Properties of approximately HK\$19,057,000 (2019: Nil) was made for the year ended 31 March 2020.

## The Properties (Terminated)

The Group entered into the Sale and Purchase Agreement on 12 October 2017 to purchase the Properties at a total consideration of RMB625,000,000 (subject to adjustment). The Properties comprise Floors 7 to 35 of Building T3 situated at 46 Nanjing North Street, Heping District, Shenyang City, Liaoning Province, PRC with a gross floor area of approximately 34,754.58 square metres, while the gross floor area of office is approximately 30,480.96 square metres.

On 24 April 2019, the Termination Agreement was entered into between the Vendor and the Group to terminate the Sale and Purchase Agreement in relation to the acquisition of Properties. The Vendor shall refund the total amount of deposits of RMB562,500,000 paid by the Group, together with a monetary compensation of RMB11,250,000 on or prior to 24 October 2019, details of which are set out in the announcement of the Company dated 24 April 2019.

\* For identification purpose only

On 1 November 2019, the Group further entered into the Supplemental Agreement with Mr. Li Yuguo, a substantial shareholder, the chairman and an executive Director of the Company and the ultimate beneficial owner of the Vendor, pursuant to which Mr. Li Yuguo agreed to take up the responsibilities to repay the Refund Amount and the related compensation and interests to the Group and provide his personal assets as securities. The Group agreed to extend the repayment date to 24 April 2020, with an interest rate of 5.25% per annum. Details of the Supplemental Agreement are set out in the announcement of the Company dated 1 November 2019.

On 29 April 2020, the Company published an announcement on the event of default in relation to the payment of the Refund Amount and related compensation and interest accrued thereon. On 8 May 2020, the Company set up a special committee, with 3 independent non-executive directors as members, to handle the repayment and/or the recovery of the Refund Amount. The Company had engaged independent legal advisors to work with the Special Committee and the Special Committee would seek other professional advice so as to take appropriate actions to recover the Refund Amount or enforce the securities if necessary. Details of the event of default and the Special Committee are set out in the announcements of the Company dated 29 April 2020 and 8 May 2020 respectively.

Up to 29 June 2020 (i.e. the date of the annual report for the year ended 31 March 2020), the Group has received a partial payment of the Refund Amount and related compensation and interest of approximately HK\$16,900,000.

#### Zengcheng Properties (Terminated)

Reference is made to the announcements of the Company dated 15 April 2015, 5 June 2015, 27 August 2015, 15 June 2016 and 18 January 2017 in relation to the acquisition of certain properties located in Jinma Waterfront Square\* (金馬水岸廣場). Given that the vendor failed to deliver the physical possession of the properties within the timeframe specified in the acquisition agreements, the Group served a termination notice to the vendor on 18 January 2017 and demand the refund of the consideration in the amount of RMB274,000,000 pursuant to the terms and conditions of the acquisition agreements and the payment of an additional sum representing not less than 3% thereof as compensation (details of which were disclosed in the announcement dated 18 January 2017). As at 31 March 2020, the Group has received an aggregate sum of RMB212,000,000 as partial refund of the paid consideration and the payment of compensation. The Group's legal advisors has issued demand letters to the vendor for the repayment of the remaining balance of the paid consideration and the related compensation. Up to the date of 2020 annual report, no reply has been received from the vendor. The Group is closely following up the repayment status and considering to take further legal action against the vendor if appropriate.

\* For identification purpose only

After reviewing the past repayment history, and the behaviour of the vendor, the Directors are of the view that there is difficulty in debt collection because the repayment ability of the debtor is adversely affected by (i) the economic downturn; and (ii) the COVID-19 pandemic which affected the cash flow of the debtor. As a result, the outstanding refundable amount of approximately HK\$68,458,000 has been fully provided for the year ended 31 March 2020 (2019: HK\$1,087,000).

### **Trading Business**

The Group strives to seek profitable trading business in order to enhance the diversity of our business and increase revenue. For the year ended 31 March 2019, the Group traded electric wires in Hong Kong on one-off and trial basis and recognised a revenue of approximately HK\$32,760,000 and a gross profit of approximately HK\$397,000. During the year ended 31 March 2020, the Group traded bottled water products in the PRC on an one-off and trial basis as set out in the subsection headed "Water Production and Sales" above. Due to the outbreak of COVID-19 in early 2020, our sales plan has been hugely affected and only minimal sales were recorded in 2020. The Group will consider, depending on the actual market circumstances and opportunities, to identify new sources of general merchandises and engage in trading business in Hong Kong, the PRC or elsewhere.

### **PROSPECTS**

Despite the short-term economic downturn resulting from, inter alia, the Sino-US trade dispute and COVID-19, the Directors are optimistic about the economic development of the PRC in the long run and the demands for water products and properties in the PRC will remain strong and sustainable. The Group will continue to strengthen its competitive strength in its core business, i.e. water business, property development and property investment business and look for appropriate business and investment opportunities in these areas. The management also remains open for other business opportunities whenever the same arise.

## SIGNIFICANT INVESTMENTS

As at 31 March 2020, the Group had significant investments in equity securities classified as financial assets at fair value through profit or loss. The details are set out as follows:

Stock code	Name of investee company	Number of shares held as at 31 March 2020	Percentage of shareholdings as at 31 March 2020	Carrying amount as at 31 March 2019 <i>HK\$'000</i>	Unrealised fair value loss for the year ended 31 March 2020 <i>HK\$'000</i>	Fair value as at 31 March 2020 <i>HK\$'000</i>	Percentage of total financial assets at fair value through profit or loss as at 31 March 2020	Percentage of total assets of the Group as at 31 March 2020
							25.22%	0.03%
640	Infinity Development Holdings Company Limited ( <i>Note 1</i> )	1,000,000	0.17%	610	110	720	25.22%	0.03%
747	Shenyang Public Utility Holdings Company Limited ( <i>Note 2</i> )	13,100,000	2.16%	3,930	(1,795)	2,135	74.78%	0.10%
				4,540	(1,685)	2,855	100.00%	0.13%

*Notes:*

1. According to the interim report of Infinity Development Holdings Company Limited ("**Infinity**") for the six months ended 31 March 2021, Infinity and its subsidiaries are principally engaged in the manufacturing and selling of adhesives, primers, hardeners and vulcanized shoes adhesive related products used by the footwear manufacturers.
2. According to the interim report of Shenyang Public Utility Holdings Company Limited ("**Shenyang Public Utility**") for the six months ended 30 June 2021, Shenyang Public Utility and its subsidiaries are principally engaged in infrastructure construction and property investment.

## FUND RAISING ACTIVITIES OF THE GROUP

### Placing of Shares on 3 August 2018

The net proceeds (net of all relevant costs and expenses) from placing of shares under specific mandate on 3 August 2018 were approximately HK\$316,500,000. Details of the placing of shares were set out in the announcements of the Company dated 17 April 2018 and 3 August 2018 and the circular of the Company dated 5 June 2018.

Up to 31 March 2020, the Group had used the net proceeds as follows:

Intended use of net proceeds	Original allocation of net proceeds		Actual use of net proceeds	Actual allocation of net proceeds		Utilisation up to 31 March 2020	Remaining balance of net proceeds as at 31 March 2020
	HK\$' million	% of net proceeds		HK\$' million	% of net proceeds	HK\$' million	HK\$' million
Capital expenditure on the production facilities of Hunan Xintian	56.0	17.7%	Capital expenditure on the production facilities of Hunan Xintian	56.0	17.7%	5.6	50.4
Potential acquisition of business or companies	213.0	67.3%	Acquisition of the Properties	213.0	67.3%	213.0	-
Working capital of the Group	47.5	15.0%	Working capital of the Group	47.5	15.0%	29.7	17.8
	<u>316.5</u>	<u>100%</u>		<u>316.5</u>	<u>100.0%</u>	<u>248.3</u>	<u>68.2</u>

With a view to putting the Company's resources to a better use, the Board had therefore temporarily re-allocated the aforesaid unutilised net proceeds for the use of acquisition of the Properties. As disclosed in the announcements dated 24 April 2019, 1 November 2019, 29 April 2020 and 8 May 2020, the acquisition of the Properties had been terminated and the Group will consider all possible ways to recover the Refund Amount of RMB562.5 million and related compensation and interests. The Board will deploy the unutilised net proceeds of approximately HK\$68.2 million back to the capital expenditure on production facilities of Hunan Xintian and working capital of the Group as and when appropriate after taking into account the market environment at the material time.

The unutilised net proceeds for the use of the capital expenditure on the production facilities of Hunan Xintian is expected to be used between September 2020 to late 2021 and that for the use of working capital will continue to be used on the daily operations of the Group.

### **CAPITAL STRUCTURE**

Total equity attributable to owners of the Company decreases from approximately HK\$2,213,608,000 as at 31 March 2019 to approximately HK\$1,811,528,000 as at 31 March 2020. The decrease arose from the loss attributable to owners of the Company. There were no other material change in the capital structure of the Group during the year ended 31 March 2020.

### **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 March 2020, the Group had total assets of approximately HK\$2,115,424,000 (2019: HK\$2,720,466,000) which was financed by current liabilities of approximately HK\$190,585,000 (2019: HK\$371,716,000), non-controlling interests of approximately HK\$102,189,000 (2019: HK\$118,690,000) and shareholders' equity of approximately HK\$1,811,528,000 (2019: HK\$2,213,608,000).

As at 31 March 2020, the Group's current ratio was approximately 5.61 (2019: 2.6). Current ratio is calculated based on current assets divided by current liabilities.

As at 31 March 2020, the Group's gearing ratio was nil (2019: Nil). Gearing ratio is calculated based on total borrowings divided by total equity.

### **MATERIAL ACQUISITIONS OR DISPOSALS**

The Group has no material acquisition or disposal during the year ended 31 March 2020.

**SUBSEQUENT EVENTS AFTER THE YEAR ENDED 31 MARCH 2020**

- (a) On 24 April 2020, the extended repayment deadline, Mr. Li Yuguo, a substantial Shareholder, the chairman and an executive Director of the Company, has not yet repaid Refund Amount relating to the termination of the acquisition of the Properties and the related compensation and interests to the Purchaser, an indirect wholly-owned subsidiary of the Company. The Company issued a debt collection letter to Mr. Li Yuguo on 28 April 2020.

On 8 May 2020, the Company set up a special committee, with 3 independent non-executive directors as members, to handle the repayment and/or the recovery of the Refund Amount. The Company has engaged independent legal advisors to work with the Special Committee and the Special Committee will seek other professional advice so as to take appropriate actions if necessary to recover the Refund Amount or enforce the securities. Details of the event of default and the Special Committee are set out in the announcements of the Company dated 29 April 2020 and 8 May 2020 respectively.

Up to 29 June 2020 (i.e. the date of the annual report for the year ended 31 March 2020), the Group has received a partial payment of Refund Amount and related compensation and interest of approximately HK\$16,900,000.

On 3 July 2020, the Purchaser and Mr. Li Yuguo entered into the Further Supplemental Agreement.

- (b) On 26 May 2020, New Jumbo Group Limited (匯寶集團有限公司) (“**New Jumbo**”), a wholly-owned subsidiary of the Company, Mu Linlin (“**Ms. Mu**”) and Chi Sheng Trading Company Limited (熾盛貿易有限公司) (“**Chi Sheng**”) entered into a sale and purchase agreement, pursuant to which New Jumbo conditionally agreed to acquire, and Ms. Mu conditionally agreed to sell, the entire issued share capital of and the shareholder’s loan advanced to Chi Sheng in accordance with the terms and conditions of the sale and purchase agreement. Chi Sheng through 浙江上水捷運食品有限公司 (Zhejiang Shangshui Jieyun Food Co., Ltd.), indirectly holds, inter alia, a two-storey industrial building located at 中國浙江省金華蘭溪市上華街道沈村 (Chen Village, Shanghua Street, Lanxi City, Jinhua, Zhejiang Province, the PRC), which is currently leased to tenants for rental income. For details, please refer to the announcement of the Company dated 26 May 2020. The acquisition was completed on 24 June 2020.

## **EXPOSURE TO FLUCTUATION IN EXCHANGE RATES**

The Group is mainly exposed to fluctuation in the exchange rate of RMB, arising from relevant group entities' monetary assets and liabilities denominated in foreign currency for the Group's operating activities.

The Group currently does not have a foreign currency hedging policy to eliminate the currency exposures. However, the management closely monitors the relevant foreign currency exposure from time to time and will consider hedging significant foreign currency exposures should the need arise.

## **EMPLOYEE AND REMUNERATION POLICY**

The Group had a total of approximately 55 (2019: 47) employees in Hong Kong and the PRC as at 31 March 2020. The total staff cost (staff salaries, directors' emoluments and other staff costs) for the year ended 31 March 2020 amounted to approximately HK\$14,792,000 (2019: HK\$9,638,000). Remuneration packages were generally structured according to market environment and individual performance. Apart from the mandatory provident fund and statutory retirement benefits, the Group also provided medical benefits and subsidies employees in various training and continuous education programs.

## **SHARE OPTION SCHEME**

As at 31 March 2020, there were no outstanding share options under the share option scheme adopted by the Company on 14 January 2002 and the 2011 Share Option Scheme.

## **CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES**

As at 31 March 2020, the Group had capital commitments of approximately HK\$143,037,000 (2019: HK\$307,622,000) for acquisition of investment properties, property development expenditure and construction cost for water exploitation activities in Hunan.

## **FINANCIAL GUARANTEE CONTRACTS**

As at 31 March 2020, Dalian Chuanghe provided corporate guarantees to third parties amounting to approximately RMB100,000,000 (2019: RMB200,000,000).

Up to 29 June 2020 (i.e. the date of the annual report for the year ended 31 March 2020), the Group did not suffer any loss from the above corporate guarantees and pledge. Having considered the counter-guarantees provided by 創達地產(大連)有限公司, pledge of valuable properties by 大連順浩置業有限公司 and 創達地產(大連)有限公司 and subsequent settlement arrangements as stated above, in the opinion of the Directors, the fair values of the financial guarantee contracts are insignificant at initial recognition as the probability of suffering any significant loss by the Group from the above corporate guarantees and pledge is low. Accordingly, no provision has been made in the consolidated financial statements for these guarantees.

## CHARGES ON GROUP ASSETS

The Group did not have any charges over the Group's assets as at 31 March 2020. As at 31 March 2020, the Group had a land use right located in Beibu District, Jinshitan, Jinzhou New District, Dalian, the PRC of approximately HK\$121,229,000 which was pledged to a bank for a recurring loan granted to a third party. For the details, please refer to the paragraph headed "FINANCIAL GUARANTEE CONTRACTS" in the annual report of the Company for the year ended 31 March 2020.

### (2) FOR THE YEAR ENDED 31 MARCH 2021

The management's discussion and analysis of the audited consolidated financial results and operations relating to the business of the Group for the year ended 31 March 2021 is set out below.

## FINANCIAL REVIEW

### Revenue

For the year ended 31 March 2021, the revenue of the Group was approximately HK\$32,920,000 (2020: HK\$201,510,000). The decrease in revenue was mainly due to (i) over 72% of total saleable area of the completed properties in Dalian, the PRC had been handed over to buyers for which the corresponding revenue was recognised during the year ended 31 March 2020 and the remaining saleable area was significantly reduced during the year ended 31 March 2021; and (ii) the sales and handover of the remaining completed properties held for sale were slowed down during the year ended 31 March 2021 due to the outbreak of COVID-19 pandemic.

### Cost of Sales

For the year ended 31 March 2021, cost of sales of the Group was approximately HK\$16,471,000 (2020: HK\$288,754,000). The decrease was in line with the decrease in revenue.

### **Gross Profit**

For the year ended 31 March 2021, the Group recorded a gross profit of approximately HK\$16,449,000. The gross profit was mainly attributable to the rental income earned after the acquisition of the entire issued share capital of Chi Sheng Trading Company Limited (details of which were disclosed in the announcement of the Company dated 26 May 2020), which has a wholly owned subsidiary in Zhejiang, the PRC. Rental income was earning from the leasing of certain land use rights, a two-storey industrial building and machinery currently owned by the subsidiary in Zhejiang.

For the year ended 31 March 2020, the Group recorded a gross loss of approximately HK\$87,244,000. The gross loss was mainly attributable to the loss on sales of properties in Dalian due to higher development costs arising from the delay in the property development, and downturn of the property market in Dalian which resulting in a drop in selling prices.

### **Other Gains**

For the year ended 31 March 2021, the Group recorded other gains of approximately HK\$107,508,000 (2020: HK\$27,950,000). The increase was mainly due to the interest income receivable by the Group relating to the termination of acquisition of Properties (details of which were disclosed in the circular of the Company dated 24 August 2020) and the currency exchange gains on monetary assets and liabilities denominated in Renminbi resulting from the appreciation of Renminbi.

### **Other Losses**

For the year ended 31 March 2021, the Group recorded other losses of approximately HK\$41,000 (2020: HK\$60,825,000). For the year ended 31 March 2020, other losses were mainly due to the currency exchange losses on monetary assets and liabilities denominated in Renminbi resulting from the depreciation of Renminbi.

### **Selling and Distribution Expenses**

For the year ended 31 March 2021, selling and distribution expenses primarily consisted of agency fee and promotion fee, which were approximately HK\$2,641,000 (2020: HK\$9,653,000). The decrease was mainly attributable to the slowdown of sales of properties in Dalian due to the outbreak of COVID-19 pandemic.

### **Administrative Expenses**

Administrative expenses primarily consisted of directors' emoluments, other staff costs and benefits, depreciation, legal and professional fees and other general office expenses, which were approximately HK\$25,965,000 for the year ended 31 March 2021 (2020: HK\$35,267,000). The decrease was mainly due to the drop in staff costs as a result of the decrease in the number of staff.

### **Share of Results of Associates**

For the year ended 31 March 2021, the share of losses of associates was approximately HK\$10,195,000 (2020: HK\$9,572,000). The increase in losses was due to the drop in profit of the associate in Guangxi for the year ended 31 March 2021.

### **Profit attributable to Owners of the Company**

For the year ended 31 March 2021, the Group recorded a profit attributable to owners of the Company, which amounted to approximately HK\$91,264,000 (2020: loss of approximately HK\$338,784,000). The change from loss for the year ended 31 March 2020 to profit for the year ended 31 March 2021 was mainly attributable to:

- (i) the change from gross loss to gross profit on sales of properties located in Dalian;
- (ii) the interest income receivable by the Group relating to the termination of acquisition of the Properties;
- (iii) the currency exchange gains on the monetary assets and liabilities denominated in Renminbi resulting from the appreciation of Renminbi in the year ended 31 March 2021, in contrast with the currency exchange losses on the corresponding monetary assets and liabilities resulting from the depreciation of Renminbi in the previous year;
- (iv) the absence of significant impairment losses on assets and the reversal of impairment loss on deposits paid resulting from the increase in fair value of Yantian Properties in the year ended 31 March 2021, in contrast with the significant impairment losses on certain assets due to the decrease in their fair values in the previous year; and
- (v) the gain from change in fair value of investment properties in Zhejiang.

## BUSINESS REVIEW

At the beginning of 2020, the outbreak of COVID-19 pandemic had brought unprecedented challenges on the business of the Group. The lockdown order and travel restriction had significantly affected the Group's operation. As a result, it slowed down the development and growth of our businesses.

### Water Business

The Group recorded a loss from water business segment of approximately HK\$5,275,000 for the year ended 31 March 2021 (2020: HK\$57,739,000). For the year ended 31 March 2020, the loss from water business was mainly attributable to an impairment loss on intangible assets of approximately HK\$46,932,000. For the year ended 31 March 2021, there was no impairment provision on the intangible assets. In addition, the decrease in advertising expenses and staff costs reduced the loss from water business for the year ended 31 March 2021.

#### *Water Production and Sales*

The Group holds 20% equity interests in Spring Water Ding Dong which has a wholly-owned subsidiary in Guangxi, i.e. Guangxi Spring Water Ding Dong. Guangxi Spring Water Ding Dong possesses a water procurement permit for production and sales of bottled water and is currently in operation in Guangxi.

During the year ended 31 March 2021, the Group shared losses of associates of approximately HK\$10,195,000 (2020: HK\$9,572,000), which were mainly caused by the depreciation of property, plant and equipment and amortization of water procurement permit.

#### *Water Mining*

The Group holds 67% equity interests in Good Union (China) Limited which has a wholly-owned subsidiary in Hunan, which possesses a water mining licence for exploitation of mineral water in Hunan. Due to the outbreak of COVID-19 pandemic since January 2020, the construction works of the factory has been suspended and delayed. The construction works were resumed in the first half of 2021 and is expected to be completed in mid-2022. The production is expected to commence in the second half of 2022.

The Group reviewed the fair value of the water mining licence as at 31 March 2021 with reference to a valuation report issued by an independent qualified valuer and there was no impairment provision on the water mining licence for the year ended 31 March 2021 (2020: Provision for impairment loss of approximately HK\$46,932,000).

Under the sale and purchase agreement dated 23 May 2017, the vendor, who is currently the minority shareholder of Good Union (China) Limited, has committed a production volume guarantee on the Hunan project for each of the calendar year from 2019 to 2028. For details, please refer to the announcement of the Company dated 23 May 2017. However, the production volume guarantees for each of the years 2019 and 2020 were not satisfied due to the delay in construction works and the outbreak of COVID-19 pandemic. The Group has engaged a law firm to issue demand letters to the vendor for compensation and to negotiate with the vendor.

### **Property Development and Property Investment Business**

The Group recorded a profit from property development and investment segment of approximately HK\$124,476,000 for the year ended 31 March 2021 (2020: loss of approximately HK\$272,534,000). The change from loss to profit was attributable to:

- (i) the change from gross loss to gross profit on sales of properties located in Dalian;
- (ii) the interest income receivable by the Group relating to the termination of acquisition of the Properties;
- (iii) the currency exchange gains on the monetary assets and liabilities denominated in Renminbi resulting from the appreciation of Renminbi in the year ended 31 March 2021, in contrast with the currency exchange losses on the corresponding monetary assets and liabilities resulting from the depreciation of Renminbi in the previous year;
- (iv) the absence of significant impairment losses on assets and the reversal of impairment loss on deposits paid resulting from the increase in fair value of Yantian Properties in the year ended 31 March 2021, in contrast with the significant impairment losses on certain assets due to the decrease in their fair values in the previous year; and
- (v) the gain from change in fair value of investment properties in Zhejiang.

### **Property Development**

#### *Dalian Properties*

Dalian Chuanghe engages in the development of urban land for residential usage in Dalian and plans to develop 55 buildings with 21 buildings in Phase I and 34 buildings in Phase II at Beibu District, Jinshitan, Jinzhou New District, Dalian, the PRC.

Phase I, named "Xin Tian Jia Yuan", was completed in March 2019. There are 21 buildings established in Phase I with total saleable area of approximately 42,540 square metres including 4 eight-storey apartments (小高層), 9 garden villas (洋房) and 8 garden houses (聯排別墅). Dalian Chuanghe commenced to hand over the properties to buyers in April 2019. For the year ended 31 March 2021, approximately 2,420 square metres of properties were handed over and revenue of approximately HK\$19,399,000 (2020: HK\$201,242,000) was recorded. Up to 31 March 2021, an aggregate of approximately 78% of the total saleable area of Phase I have been handed over to the buyers. As at 31 March 2021, Dalian Chuanghe had sale contracts with contract amount of approximately RMB32,791,000 with gross saleable areas of around 4,600 square metres which would be handed over to buyers in the near future.

For Phase II, there are 34 buildings with aggregate saleable area of approximately 69,000 square metres. The development of Phase II is in preliminary stage. Due to the outbreak of COVID-19 pandemic and the slowdown of economic growth in the PRC, the development of Phase II will be re-scheduled subject to the sales condition of Phase I and the property market in Dalian.

The Group reviewed the market value of the completed properties held for sale and properties under development as at 31 March 2021 with reference to a valuation report issued by an independent qualified valuer using market approach and residual method respectively in the assessment of the valuation. For the year ended 31 March 2021, a reversal of impairment losses on completed properties held for sale of approximately HK\$856,000 (2020: Provision for impairment loss of approximately HK\$25,348,000) was made. There was no impairment provision on properties under development for the year ended 31 March 2021 (2020: Provision for impairment loss of approximately HK\$28,033,000).

## **Property Investment**

### *Yantian Properties*

- (A) The Group entered into an acquisition agreement on 24 June 2014, a supplemental agreement on 15 April 2015, the second supplemental agreement on 12 July 2016, the third supplemental agreement on 17 May 2017 and the fourth supplemental agreement on 3 May 2018 to purchase the property at a consideration of approximately RMB100,000,000 (equivalent to approximately HK\$126,000,000).

The property comprises 46 units of Jinma Creative Industry Park with a total gross floor area of approximately 8,699 square metres.

As at 31 March 2021, the Group had obtained physical possession of the property and paid conditionally refundable deposit in the aggregate sum of RMB90,000,000 in accordance with the payment terms stated in the sales and purchase agreement. The remaining balance of the consideration of approximately RMB10,000,000 shall be paid within 30 days from the date on which the relevant building ownership certificates are issued in favour of the purchaser which is an indirect wholly-owned subsidiary of the Company (the "Jinma Industry Park Purchaser"). The vendor shall register the title of the property under the name of the Jinma Industry Park Purchaser on or before 31 December 2018 (or such other date as may be mutually agreed).

- (B) The Group entered into the second acquisition agreement on 15 May 2015, a supplemental agreement on 12 July 2016, the second supplemental agreement on 17 May 2017 and the third supplemental agreement on 3 May 2018 to purchase additional property at a consideration of approximately RMB65,100,000 (equivalent to approximately HK\$81,400,000). The property comprises 30 units of Jinma Creative Industry Park with a total gross floor area of approximately 5,400 square metres.

As at 31 March 2021, the Group had obtained physical possession of the property and paid conditionally refundable deposit in the aggregate sum of RMB60,000,000 in accordance with the payment terms stated in the sale and purchase agreement. The remaining balance of the consideration of approximately RMB5,100,000 shall be paid within 30 days from the date on which the property is registered under the name of the Jinma Industry Park Purchaser. The vendor shall register the title of the property under the name of the Jinma Industry Park Purchaser on or before 31 December 2018 (or such other date as may be mutually agreed).

- (C) The Group entered into the third acquisition agreement on 10 November 2015, a supplemental agreement on 17 May 2017 and the second supplemental agreement on 3 May 2018 to purchase additional property at a consideration of approximately RMB101,600,000 (equivalent to approximately HK\$122,000,000). The property acquired, being a single-storey reinforced concrete building designated for office and storage uses located at Block 2 of Jinma Creative Industry Park with a total gross floor area of approximately 4,957 square metres.

As at 31 March 2021, the Group had obtained physical possession of the property and paid conditionally refundable deposit in the aggregate sum of RMB100,000,000 in accordance with the terms of payment stated in the sale and purchase agreement. The remaining balance of the consideration of approximately RMB1,600,000 shall be paid within 30 days from the date on which the property is registered under the name of the Jinma Industry Park Purchaser. The vendor shall register the title of the property under the name of the Jinma Industry Park Purchaser on or before 31 December 2018 (or such other date as may be mutually agreed).

For Yantian Properties (A), (B) and (C) as described above, as at the date of this report, the vendor has still not registered the titles of the properties under the name of the Jinma Industry Park Purchaser. The approval from the PRC government authority for issuing the building ownership certificates remained pending. In April 2021, the Company received the second letter from the vendor requesting for an extension of the deadline to 31 December 2021 for handling the matter of building ownership certificates. The Company has engaged a PRC law firm to negotiate with the vendor to resolve this matter. The management will continue to follow up and take appropriate actions.

The Group reviewed the market value of Yantian Properties (A), (B) and (C) as at 31 March 2021 with reference to a valuation report issued by an independent qualified valuer using market approach in the assessment of the valuation. A reversal of impairment loss on deposits paid for Yantian Properties of approximately HK\$5,454,000 (2020: Provision for impairment loss was approximately HK\$5,358,000) was made for the year ended 31 March 2021.

#### *Beijing Properties*

The Group entered into an acquisition agreement on 28 February 2017 to purchase (a) office premises with a gross floor area of 8,335 square metres and (b) underground car park with a gross floor area of 3,100 square metres located in Phrase III of Beijing Convention and Exhibition International Port (Exhibition Centre Ancillary Facilities) Project\* (北京會展國際港展館配套設施項目第三期) for a consideration of approximately RMB220,000,000 (subject to adjustment).

As at 31 March 2021, the Group paid the consideration of RMB200,000,000 in accordance with the payment terms stated in the sale and purchase agreement. The remaining balance of the consideration of approximately RMB20,000,000 shall be paid upon the execution of the pre-sale agreement between the vendor and the purchaser, an indirect wholly-owned subsidiary of the Company and the building ownership certificate having been obtained by the purchaser. Due to the outbreak of COVID-19 pandemic, the construction works were temporarily suspended and the progress was delayed. In April 2021, the Company received the second letter from the vendor explaining the reasons of delay in construction works and requesting for an extension of handover of the properties. Currently, the vendor has resumed the construction works and the construction is expected to be completed on or before 30 June 2022. The management will continue to follow up and take appropriate actions.

\* For identification purpose only

The Group reviewed the market value of Beijing Properties as at 31 March 2021 with reference to a valuation report issued by an independent qualified valuer using market approach in assessment of the valuation. An impairment loss on deposits paid for Beijing Properties of approximately HK\$1,141,000 (2020: HK\$19,057,000) was provided for the year ended 31 March 2021.

#### *Zhejiang Properties*

During the year ended 31 March 2021, the Group acquired 100% equity interest in Chi Sheng Trading Company Limited which has a wholly-owned subsidiary in Zhejiang, the PRC. The subsidiary holds the land use rights in respect of an industrial land parcel with site area of approximately 31,950 square metres and a two-storey industrial building with a total gross floor area of approximately 45,330 square metres together with another land parcel with a total site area of approximately 74,960 square metres located in Chen Village, Shanghua Street, Lanxi City, Jinhua, Zhejiang Province, the PRC. The acquisition has been completed on 24 June 2020. The industrial lands and building are currently leased to tenants for rental income. The Group recorded rental income of approximately HK\$13,520,000 for the year ended 31 March 2021 (2020: Nil). The Group reviewed the market value of Zhejiang Properties as at 31 March 2021 with reference to a valuation report issued by an independent qualified valuer using market approach in the assessment of the valuation. Increment in fair value of Zhejiang Properties of approximately HK\$2,282,000 (2020: Nil) was recognised for the year ended 31 March 2021.

#### **Response to Outbreak of COVID-19 Pandemic**

During the year ended 31 March 2021, COVID-19 pandemic spread widely in the PRC and worldwide. Facing the ongoing situation of the COVID-19 pandemic outbreak, the Group has, in a timely manner, put in place numerous precautionary measures and procured essential protective supplies to ensure the health and safety of all its employees in different regions. At the same time, during this critical period, the Group has proactively taken steps to ensure stable operations. The Group has been coordinating with various parties from time to time and took swift actions whenever necessary. It actively discussed with the vendors and customers on the effect of delay in the delivery due to the travel restrictions and movement controls imposed by the PRC government authorities. The Group has also implemented various flexible working arrangements for its staff. The Group has used, and will continue to use, its best endeavors to mitigate the adverse impact of the COVID-19 pandemic on the Group. The Group will closely monitor the development of COVID-19 pandemic and ensure the safety of employees and stable operations. As and when appropriate, the Group will adjust its measures and plans for pandemic prevention, operations and business development accordingly. The Group will make timely disclosure on any significant matters which may arise in the future.

### **Environmental Policies and Performance**

The Group is committed to the long term sustainability of the environment and communities in which it operates. As a responsible corporation, the Group has complied with all relevant laws and regulations regarding environmental protection, health and safety, workplace conditions and employment in all material respects. The Group has also adopted effective measures to achieve efficient use of resources, energy saving and waste reduction.

### **Compliance with Laws and Regulations**

During the year ended 31 March 2021, there was no incident of material non-compliance with any relevant laws and regulations for the Group.

### **Relationship with Suppliers, Customers and other Stakeholders**

During the year ended 31 March 2021, there were no material dispute between the Group and its key stakeholders, including employees, customers, suppliers, banks, regulators and shareholders. The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders.

## **PROSPECTS**

Although the Group has faced challenge from COVID-19 pandemic during the year ended 31 March 2021, the Directors are optimistic about the economic development of the PRC in the long run and the demands for water products and properties in the PRC will remain strong and sustainable. The Group will continue to strengthen its competitive strength in its core business, i.e. water business, property development and property investment business and look for appropriate business and investment opportunities in these areas.

The management will also remain open for other business opportunities whenever the same arise.

## **FUND RAISING ACTIVITIES OF THE GROUP**

### **Placing of Shares on 3 August 2018**

The net proceeds (net of all relevant costs and expenses) from placing of shares under specific mandate on 3 August 2018 were approximately HK\$316,500,000. Details of the placing of shares were set out in the announcements of the Company dated 17 April 2018 and 3 August 2018 respectively and the circular of the Company dated 5 June 2018.

## APPENDIX II MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE GROUP

Up to 31 March 2021, the Group had utilised the net proceeds as follows:

Intended use of net proceeds	Original allocation of net proceeds		Actual use of net proceeds	Actual allocation of net proceeds		Utilisation up to 31 March 2021	Remaining balance of net proceeds as at 31 March 2021
	HK\$ million	% of net proceeds		HK\$ million	% of net proceeds	HK\$ million	HK\$ million
Capital expenditure on the production facilities of Hunan Xintian	56.0	17.7%	Capital expenditure on the production facilities of Hunan Xintian	56.0	17.7%	7.7	48.3
Potential acquisition of business or companies	213.0	67.3%	Acquisition of the Properties	213.0	67.3%	213.0	-
Working capital of the Group	47.5	15.0%	Working capital of the Group	47.5	15.0%	47.5	-
	316.5	100%		316.5	100.0%	268.2	48.3

With a view to putting the Company's resources to a better use, the Board had therefore temporarily re-allocated the aforesaid unutilised net proceeds for the use of acquisition of the Properties in previous years. Referring to the announcements dated 24 April 2019, 1 November 2019 and 7 July 2020 respectively and the circulars dated 6 February 2020 and 24 August 2020 respectively, the acquisition of the Properties had been terminated and the Group entered into supplemental agreements with Mr. Li Yuguo, a substantial shareholder, the chairman and an executive Director of the Company to recover the outstanding sum in relation to the termination of the acquisition of the Properties on or before 2 July 2021. The Directors are still assessing the most appropriate time to utilize the said net proceeds. The Board will deploy the unutilised net proceeds of approximately HK\$48.3 million back to the capital expenditure on production facilities of Hunan Xintian as and when appropriate after taking into account the market environment at the material time.

The unutilised net proceeds for the use of the capital expenditure on the production facilities of Hunan Xintian is expected to be used between August 2021 and mid-2022.

## CAPITAL STRUCTURE

As at 31 March 2021, total equity attributable to owners of the Company was approximately HK\$1,974,578,000 (2020: HK\$1,811,528,000). The increase arose from the profit attributable to owners of the Company. There were no other material change in the capital structure of the Group during the year ended 31 March 2021.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2021, the Group had total assets of approximately HK\$2,275,578,000 (2020: HK\$2,115,424,000) which was financed by current liabilities of approximately HK\$165,214,000 (2020: HK\$190,585,000), non-controlling interests of approximately HK\$102,066,000 (2020: HK\$102,189,000) and shareholders' equity of approximately HK\$1,974,578,000 (2020: HK\$1,811,528,000).

As at 31 March 2021, the current ratio of the Group was approximately 6.34 (2020: 5.61). Current ratio is calculated based on current assets divided by current liabilities.

As at 31 March 2021, the gearing ratio of the Group was approximately 0.005 (2020: Nil). Gearing ratio is calculated based on total borrowings divided by total equity.

## MATERIAL ACQUISITIONS OR DISPOSALS

### Acquisition

On 26 May 2020, the Group entered into a sale and purchase agreement to acquire 100% of the issued share capital of, and the shareholder's loan advanced to, Chi Sheng Trading Company Limited at a consideration of RMB100 million. Its wholly-owned subsidiary, Zhejiang Shangshui Jieyun Food Co., Ltd.\* (浙江上水捷運食品有限公司), holds, inter alia, the land use rights in respect of an industrial land parcel and a two-storey industrial building together with another land parcel located at Chen Village, Shanghua Street, Lanxi City, Jinhua, Zhejiang Province, the PRC\* (中國浙江省金華蘭溪市上華街道沈村), which are currently leased to tenants for rental income. The acquisition was completed on 24 June 2020. Details of the acquisition are set out in the announcements of the Company dated 26 May 2020 and 24 June 2020 respectively.

Save as disclosed above, the Group has no other material acquisition during the year ended 31 March 2021.

\* For identification purpose only

## **Disposal**

The Group has no material disposal during the year ended 31 March 2021.

## **SUBSEQUENT EVENTS AFTER THE YEAR ENDED 31 MARCH 2021**

The Board is not aware of any significant events that have occurred subsequent to 31 March 2021, which require disclosure herein.

## **EXPOSURE TO FLUCTUATION IN EXCHANGE RATES**

The Group is mainly exposed to fluctuation in the exchange rate of RMB, arising from relevant Group entities' monetary assets and liabilities denominated in foreign currency for the Group's operating activities.

The Group currently does not have a foreign currency hedging policy to eliminate the currency exposures. However, the management closely monitors the relevant foreign currency exposure from time to time and will consider hedging significant foreign currency exposures should the need arise.

## **EMPLOYEE AND REMUNERATION POLICY**

The Group had a total of 25 (2020: 55) employees in Hong Kong and the PRC as at 31 March 2021. The total staff cost (staff salaries, directors' emoluments and other staff costs) for the year ended 31 March 2021 amounted to approximately HK\$9,482,000 (2020: HK\$14,792,000). Remuneration packages are generally structured with reference to market conditions and individual performance. Apart from the mandatory provident fund and statutory retirement benefits, the Group also provides medical benefits and subsidies employees in various trainings and continuous education programs.

## **SHARE OPTION SCHEME**

During the year ended 31 March 2021, there was no share option granted, exercised, lapsed or cancelled under the 2011 Share Option Scheme. As at 31 March 2021, there was no outstanding share option under the 2011 Share Option Scheme.

## **CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES**

As at 31 March 2021, the Group had capital commitments of approximately HK\$154,572,000 (2020: HK\$143,037,000) for acquisition of investment properties, property development expenditure and construction in-progress for water exploitation activities in Hunan.

## FINANCIAL GUARANTEE CONTRACTS

As at 31 March 2021, Dalian Chuanghe provided corporate guarantees to third parties amounting to approximately RMB100,000,000 (2020: RMB100,000,000), details of which are set forth in note 36 to the consolidated financial statements of the annual report of the Company for the year ended 31 March 2021.

## CHARGES ON GROUP ASSETS

The Group did not have any charges over its assets as at 31 March 2021.

### (3) FOR THE YEAR ENDED 31 MARCH 2022

The management's discussion and analysis of the audited consolidated financial results and operations relating to the business of the Group for the year ended 31 March 2022 is set out below.

## FINANCIAL REVIEW

### Revenue

For the year ended 31 March 2022, the revenue of the Group was approximately HK\$21,200,000 (2021: HK\$32,920,000). The decrease in revenue was mainly because (i) most of the saleable area of the completed properties held for sale in Dalian, the PRC had been handed over to buyers and the corresponding revenue was recognised in previous financial years and as a result the remaining saleable area decreased; (ii) the debt crisis of some of the property developers in the PRC has adverse impact on the property market; and (iii) the sales and handover of the remaining completed properties held for sale were slowed down during the year ended 31 March 2022 due to the continuation of the COVID-19 pandemic.

### Cost of Sales

For the year ended 31 March 2022, the Group's cost of sales was approximately HK\$4,136,000 (2021: HK\$16,471,000). The cost of sales represented the cost of properties sold and its decrease was in line with the decrease in revenue from sales of properties.

### Gross Profit

For the year ended 31 March 2022, the Group recorded a gross profit of approximately HK\$17,064,000 (2021: HK\$16,449,000). The gross profit was mainly attributable to the rental income generated from the investment properties in Zhejiang.

### **Other Gains**

For the year ended 31 March 2022, the Group recorded other gains of approximately HK\$125,692,000 (2021: HK\$107,508,000). Other gains mainly consisted of (i) interest income relating to the termination of acquisition of Properties; (ii) the compensation receivable from the minority shareholder of Good Union (China) Limited (“**Good Union**”), a non wholly-owned subsidiary of the Group, relating to the failure to fulfil the production volume guarantee of the water mining business in Hunan; and (iii) currency exchange gains on monetary assets and liabilities denominated in Renminbi resulting from the appreciation of Renminbi.

### **Finance Costs**

For the year ended 31 March 2022, the Group recorded finance costs of approximately HK\$1,052,000 (2021: HK\$1,261,000). The finance costs represented the interest on lease liabilities and other payables.

### **Selling and Distribution Expenses**

For the year ended 31 March 2022, selling and distribution expenses of approximately HK\$3,001,000 (2021: HK\$2,641,000) primarily consisted of agency and promotion fee incurred for selling the remaining unsold properties in Dalian.

### **Administrative Expenses**

Administrative expenses primarily consisted of directors' emoluments, other staff costs and benefits, depreciation, legal and professional fees, land and property taxes and other general office expenses, which were approximately HK\$26,777,000 for the year ended 31 March 2022 (2021: HK\$26,277,000). The increase was mainly due to the additional legal and professional fees incurred for the major acquisition during the year ended 31 March 2022 and the increase in land and property taxes of the investment properties in Zhejiang, exceeding the decrease in other operating expenses.

### **Share of Results of Associates**

For the year ended 31 March 2022, the share of losses of associates was approximately HK\$14,366,000 (2021: HK\$10,195,000). The increase in losses was caused by the loss of the associate in Guangxi for the year ended 31 March 2022, for which its operation was adversely affected by the continuation of the COVID-19 pandemic and the increasing transportation costs caused by varying degrees of movement controls in the PRC.

**Loss/Profit attributable to Owners of the Company**

For the year ended 31 March 2022, the Group recorded a loss attributable to owners of the Company, which amounted to approximately HK\$361,642,000 (2021: profit of approximately HK\$91,264,000). The change from profit for the year ended 31 March 2021 to loss for the year ended 31 March 2022 was mainly attributable to:

- (i) provision for impairment loss on properties under development of approximately HK\$242,539,000 (2021: Nil);
- (ii) provision for impairment loss on completed properties held for sales of approximately HK\$10,604,000 (2021: reversal of impairment loss of approximately HK\$856,000);
- (iii) provision for impairment loss on deposits paid of approximately HK\$150,795,000 resulting from the decrease in fair values of the underlying property investments in the PRC properties (2021: reversal of impairment loss of approximately HK\$4,313,000);
- (iv) provision for impairment loss on intangible assets of approximately HK\$40,504,000 (2021: Nil);
- (v) provision for impairment loss on interests in associates of approximately HK\$29,395,000 (2021: Nil); and
- (vi) loss from changes in fair value of investment properties of approximately HK\$37,074,000 (2021: gain of approximately HK\$2,282,000).

**BUSINESS REVIEW**

The Group continuously focuses on its core businesses including water business, property development and property investment business. Since early 2020, in response to the COVID-19 pandemic, the PRC government authorities imposed travel restrictions for a long period of time and implemented varying degrees of movement controls in certain regions, depending on the number of infected cases. These precautionary measures adversely affected our core businesses and caused unforeseen delays in our investment and development. The Company is proactively taking actions to mitigate the adverse impacts of the COVID-19 pandemic on the Group. Besides, the debt crisis of some of the property developers in the PRC has negative impact on the property market, which in turn adversely affected the development progress and valuation of our property projects.

## **Water Business**

The Group recorded a loss from water business segment of approximately HK\$17,420,000 for the Year (2021: HK\$5,275,000). For the Year, the loss from water business was mainly attributable to an impairment loss on intangible assets which exceeded the compensation paid to the Group for failure to fulfill the production volume guarantee given by the former minority shareholder of Good Union. For the year ended 31 March 2021, there was no impairment provision on the intangible assets.

### *Water Production and Sales*

The Group holds 20% equity interests in Spring Water Ding Dong which has a wholly-owned subsidiary in Guangxi, Guangxi Spring Water Ding Dong. Guangxi Spring Water Ding Dong possesses a water procurement permit for production and sales of bottled water and is currently in operation in Guangxi.

During the year ended 31 March 2022, the Group shared losses of associates of approximately HK\$14,366,000 (2021: HK\$10,195,000), which were mainly attributable to the depreciation of property, plant and equipment and amortization of water procurement permit. Losses increased because the revenue of the associates was adversely affected by the continuation of the COVID-19 pandemic and increasing transportation costs caused by varying degrees of movement controls in certain regions in the PRC.

The Group reviewed the recoverable amount of the interests in associates as at 31 March 2022 with reference to a valuation report issued by an independent qualified valuer. An impairment loss on the interests in associates of approximately HK\$29,395,000 (2021: Nil) was provided for the year ended 31 March 2022.

### *Water Mining*

The Group holds 67% equity interests in Good Union with a wholly owned subsidiary in Hunan, which possesses a water mining licence for exploitation of mineral water in Hunan. Due to the outbreak of the COVID-19 pandemic since early 2020, the construction works of the factory has been suspended and delayed. The construction works were resumed in the first half of 2021. However, due to the outbreak of the Omicron variant of the COVID-19 virus in the PRC since the beginning of 2022, the construction works have to be further delayed. The construction of the factory is expected to be completed in the third quarter of 2022 and the production is expected to commence at the end of 2022 or early 2023.

On 23 May 2017, the Group entered into a sale and purchase agreement with Mr. Lam Chun Ho, pursuant to which Mr. Lam Chun Ho agreed to sell, and the Group agreed to purchase, 67% equity interests in Good Union. Immediately after the acquisition by the Group, Good Union was owned by the Group and Mr. Lam Chun Ho as to 67% and 33% respectively. Mr. Lam Chun Ho has given certain production volume guarantee pursuant to the sale and purchase agreement, including the production volume of spring water shall not be less than 50,000 cubic metres in 2019 and 100,000 cubic metres for each calendar year from 2020 to 2028. If Good Union fails to satisfy the production volume guarantee, Mr. Lam Chun Ho shall be required to pay monetary compensation to the Group. For details, please refer to the announcement of the Company dated 23 May 2017.

On 27 August 2021, Mr. Lam Chun Ho disposed of his 33% shareholding in Good Union to an independent third party. The Company continues to hold 67% shareholding in Good Union. The new minority shareholder of Good Union has agreed to assume all the liabilities and commitments of Mr. Lam Chun Ho. The new minority shareholder of Good Union has also agreed and fulfilled certain compensation obligations of Mr. Lam Chun Ho. The compensation relating to the failure to fulfil the production volume guarantee of the water mining business in Hunan for the years 2019 and 2020 of approximately HK\$26,338,000 was mutually agreed between the new minority shareholder and the Group and recognised as other gains for the Year. As of the Latest Practicable Date, the new minority shareholder has paid HK\$3,000,000 on 3 September 2021 and agreed to pay a further amount of HK\$10,000,000 by the end of October 2022 and expects to pay the balance of the compensation amount by the end of this year. The Group is keeping its negotiation with the new minority shareholder which has responded that their business in the PRC has been affected by the government policies and restrictions relating to pandemic control measures causing delay in settlement of the entire compensation amount.

The production volume guarantee of the year 2021 was not satisfied due to stringent precautionary measures for the COVID-19 pandemic and the delay in constructions works. For the compensation for the year 2021, the Group is still negotiating with the new minority shareholder.

The water mining licence expired on 3 May 2022 and the renewal application has been submitted in April 2022. Affected by the COVID-19 pandemic, the renewal procedures of the government authorities were delayed. Up to the date of this report, the Xintian County Natural Resources Bureau, Xintian County People's Government and Yongzhou City Natural Resources and Planning Bureau have issued letters to agree for the renewal of water mining licence. It is expected that the renewal procedures will be completed in the third quarter of 2022 and the delay of the renewal of water mining licence will not affect the construction and production plan of the factory in Hunan.

The Group reviewed the recoverable amount of the water mining licence as at 31 March 2022 with reference to a valuation report issued by an independent qualified valuer. An impairment loss on the water mining licence of approximately HK\$40,504,000 (2021: Nil) was provided for the Year. Details of the valuation method and key assumptions and the impairment assessment are set out in notes 3 and 19 to the consolidated financial statements.

### Property Development and Property Investment Business

The Group recorded a loss from property development and investment segment of approximately HK\$317,435,000 for the year ended 31 March 2022 (2021: profit of approximately HK\$124,476,000). The change from profit to loss was attributable to:

- (i) provision for impairment loss on properties under development;
- (ii) provision for impairment loss on completed properties held for sales;
- (iii) provision for impairment loss on deposits paid resulting from the decrease in fair values of the underlying property investments in the PRC properties; and
- (iv) loss from changes in fair value of investment properties.

### Property Development

#### *Dalian Properties*

Dalian Chuanghe engages in the development of urban land for residential usage in Dalian and plans to develop 55 buildings with 21 buildings in Phase I and 34 buildings in Phase II at Beibu District, Jinshitan, Jinzhou New District, Dalian, the PRC.

Phase I, named "Xin Tian Jia Yuan", was completed in March 2019 and recognised as the completed properties held for sale of the Group. There are 21 buildings established in Phase I with total saleable area of approximately 42,540 square metres including 4 eight-storey apartments (小高層), 9 garden villas (洋房) and 8 garden houses (聯排別墅). Dalian Chuanghe commenced to hand over the properties to buyers in April 2019. For the Year, approximately 548 square metres of properties were handed over and revenue of approximately HK\$4,709,000 (2021: HK\$19,399,000) was recorded. Up to 31 March 2022, an aggregate of approximately 79% of the total saleable area of Phase I have been handed over to the buyers. As at 31 March 2022, Dalian Chuanghe had sale contracts with contract amount of approximately RMB36,979,000 with gross saleable areas of around 5,000 square metres which would be handed over to buyers in the near future.

The Group reviewed the market value of the completed properties held for sale as at 31 March 2022 with reference to a valuation report issued by an independent qualified valuer using market approach in the assessment of the valuation. For the year ended 31 March 2022, a provision for impairment loss on completed properties held for sale of approximately HK\$10,604,000 (2021: Reversal of impairment loss of approximately HK\$856,000) was made.

Phase II is recognised as the properties under development of the Group. The Group planned to develop 34 buildings with aggregate saleable area of approximately 69,000 square metres. The development of Phase II is in preliminary stage. Due to (i) the outbreak of the COVID-19 pandemic since the beginning of 2020; (ii) the slowdown of economic growth in the PRC; and (iii) the debt crisis of some of the property developers in the PRC since mid-2021, the development of Phase II has been delayed and rescheduled to late 2022 or early 2023.

On 27 January 2022, Dalian Chuanghe received an idle land decision from Dalian Municipal Bureau of Natural Resources, pursuant to which the land of Phase II was determined to be in idle condition. Therefore, there is a risk that the land of Phase II being repossessed by the PRC government authorities without compensation. The management of Dalian Chuanghe is actively negotiating and communicating with the PRC government authorities to lift the decision of idle status and to avoid land repossession by the PRC government authorities without compensation. At the current stage, no further action was taken by the PRC government authorities.

The Board has reviewed and reconsidered the development plan of Phase II. The construction material costs has continuously increased in recent years, which led to the increase in the development costs. However, the selling price of the properties in Dalian has dropped due to the debt crisis of some of the property developers in the PRC since mid-2021 and the outbreak of the COVID-19 pandemic. As a result, the projected profit margin of developing Phase II has dropped significantly. Due to the abovementioned factors, the Board considered a full impairment of approximately HK\$242,539,000 (2021: Nil) on the properties under development is appropriate and reasonable. Nevertheless, the management are still using its best endeavors to avoid land repossession by the PRC government authorities without compensation. If there is any further update, the Company will make a separate announcement on the same as and when appropriate.

### **Property Investment**

#### *Yantian Properties*

- (A) The Group entered into an acquisition agreement on 24 June 2014, a supplemental agreement on 15 April 2015, the second supplemental agreement on 12 July 2016, the third supplemental agreement on 17 May 2017 and the fourth supplemental agreement on 3 May 2018 to purchase the property at a consideration of approximately RMB100,000,000 (equivalent to approximately HK\$126,000,000).

The property comprises 46 units of Jinma Creative Industry Park which is situated at Depot No. 2, 3rd Road and Shenyang Road Intersect, Inner Logistic Park, Yantian Bonded Area, Yantian District, Shenzhen City, the PRC\* (中國深圳市鹽田區鹽田保稅區物流園內三號路與深鹽路交匯處二號堆場) with a total gross floor area of approximately 8,699 square metres.

As at 31 March 2022, the Group had obtained physical possession of the property and paid conditionally refundable deposit in the aggregate sum of RMB90,000,000 in accordance with the payment terms stated in the sales and purchase agreement. The remaining balance of the consideration of approximately RMB10,000,000 shall be paid within 30 days from the date on which the relevant building ownership certificates are issued in favour of the Jinma Industry Park Purchaser. The vendor shall register the title of the property under the name of the Jinma Industry Park Purchaser on or before 31 December 2018 (or such other date as may be mutually agreed).

- (B) The Group entered into the second acquisition agreement on 15 May 2015, a supplemental agreement on 12 July 2016, the second supplemental agreement on 17 May 2017 and the third supplemental agreement on 3 May 2018 to purchase additional property at a consideration of approximately RMB65,100,000 (equivalent to approximately HK\$81,400,000). The property comprises 30 units of Jinma Creative Industry Park with a total gross floor area of approximately 5,400 square metres.

As at 31 March 2021, the Group had obtained physical possession of the property and paid conditionally refundable deposit in the aggregate sum of RMB60,000,000 in accordance with the payment terms stated in the sale and purchase agreement. The remaining balance of the consideration of approximately RMB5,100,000 shall be paid within 30 days from the date on which the property is registered under the name of the Jinma Industry Park Purchaser. The vendor shall register the title of the property under the name of the Jinma Industry Park Purchaser on or before 31 December 2018 (or such other date as may be mutually agreed).

- (C) The Group entered into the third acquisition agreement on 10 November 2015, a supplemental agreement on 17 May 2017 and the second supplemental agreement on 3 May 2018 to purchase additional property at a consideration of approximately RMB101,600,000 (equivalent to approximately HK\$122,000,000). The property acquired, being a single-storey reinforced concrete building designated for office and storage uses located at Block 2 of Jinma Creative Industry Park with a total gross floor area of approximately 4,957 square metres.

\* For identification purpose only

As at 31 March 2022, the Group had obtained physical possession of the property and paid conditionally refundable deposit in the aggregate sum of RMB100,000,000 in accordance with the terms of payment stated in the sale and purchase agreement. The remaining balance of the consideration of approximately RMB1,600,000 shall be paid within 30 days from the date on which the property is registered under the name of the Jinma Industry Park Purchaser. The vendor shall register the title of the property under the name of the Jinma Industry Park Purchaser on or before 31 December 2018 (or such other date as may be mutually agreed).

For Yantian Properties (A), (B) and (C) as described above, as at as at 28 July 2022 (i.e. the date of the annual report for the year ended 31 March 2022), the vendor has still not registered the titles of the properties under the name of the Jinma Industry Park Purchaser. The approval from the PRC government authority for issuing the building ownership certificates remained pending. In April 2021, the Company received the second letter from the vendor requesting for an extension of the deadline to 31 December 2021 for handling the matter of building ownership certificates. However, due to the continuation of the COVID-19 pandemic, the registration of building ownership certificates has not been completed by the extended deadline. The Company has engaged a PRC law firm to negotiate with the vendor to resolve this matter. The management will continue to follow up and take appropriate actions. As of the Latest Practicable Date, the Group is also considering and assessing various possible ways to resolve this matter in a more cost-efficient and time-efficient manner, including but not limited to searching for potential buyers to dispose the interests in the properties.

The Group reviewed the market value of Yantian Properties (A), (B) and (C) as at 31 March 2022 with reference to a valuation report issued by an independent qualified valuer using market approach in the assessment of the valuation. A provision for impairment loss on deposits paid for Yantian Properties of approximately HK\$84,621,000 (2021: Reversal of impairment loss of approximately HK\$5,454,000) was made for the year ended 31 March 2022.

#### *Beijing Properties*

The Group entered into an acquisition agreement on 28 February 2017 to purchase (a) office premises with a gross floor area of 8,335 square metres and (b) underground car park with a gross floor area of 3,100 square metres located in Phrase III of Beijing Convention and Exhibition International Port (Exhibition Centre Ancillary Facilities) Project\* (北京會展國際港展館配套設施項目第三期) for a consideration of approximately RMB220,000,000 (subject to adjustment).

\* For identification purpose only

As at 31 March 2022, the Group paid the consideration of RMB200,000,000 in accordance with the payment terms stated in the sale and purchase agreement. The remaining balance of the consideration of approximately RMB20,000,000 shall be paid upon the execution of the pre-sale agreement between the vendor and the purchaser, an indirect wholly owned subsidiary of the Company and the building ownership certificate having been obtained by the purchaser. Due to the outbreak of the COVID-19 pandemic, the construction works were temporarily suspended for several times and the progress was significantly affected and delayed. In the second quarter of 2022, there was an outbreak of the COVID-19 pandemic in Beijing again, which further affected the construction progress. In June 2022, the Company received a letter from the vendor explaining the reasons of delay in construction works and requesting for a further extension of handover of the properties. Currently, the vendor has resumed the construction works and the construction is expected to be completed on or before 31 December 2022. The management will continue to follow up and take appropriate actions.

The Group reviewed the market value of Beijing Properties as at 31 March 2022 with reference to a valuation report issued by an independent qualified valuer using market approach in assessment of the valuation. An impairment loss on deposits paid for Beijing Properties of approximately HK\$61,847,000 (2021: HK\$1,141,000) was provided for the Year.

#### *Zhejiang Properties*

In 2020, the Group acquired 100% equity interest in Chi Sheng Trading Company Limited which has a wholly-owned subsidiary in Zhejiang, the PRC. The subsidiary holds the land use rights in respect of an industrial land parcel with site area of approximately 31,950 square metres and a two-storey industrial building with a total gross floor area of approximately 45,330 square metres together with another land parcel with a total site area of approximately 74,960 square metres located in Chen Village, Shanghua Street, Lanxi City, Jinhua, Zhejiang Province, the PRC\*.

The industrial lands and building are currently leased to tenants for rental income. The Group recorded rental income of approximately HK\$16,491,000 for the Year (2021: HK\$13,520,000). However, some of the tenants did not renew the tenancy agreements as the Group understands that their business were affected by the continuation of the COVID-19 pandemic during the year ended 31 March 2022. The management of the Zhejiang subsidiary is actively soliciting new tenants to maintain the high occupancy ratio.

\* For identification purpose only

The Group reviewed the market value of Zhejiang Properties as at 31 March 2022 with reference to a valuation report issued by an independent qualified valuer using market approach in the assessment of the valuation. The loss from change in fair value of Zhejiang Properties of approximately HK\$37,074,000 (2021: increment in fair value of approximately HK\$2,282,000) was recognised for the year ended 31 March 2022.

### **Response to Outbreak of COVID-19 Pandemic**

Since early 2020, the COVID-19 pandemic spread widely in the PRC and worldwide. Facing the ongoing situation of the COVID-19 pandemic outbreak, the Group has, in a timely manner, put in place numerous precautionary measures and procured essential protective supplies to ensure the health and safety of all its employees in different regions. At the same time, during this critical period, the Group has proactively taken steps to ensure stable operations.

The Group has been coordinating with various parties from time to time and took swift actions whenever necessary. It actively discussed with the vendors and customers on the effect of delay in the delivery due to the travel restrictions and movement controls imposed by the PRC government authorities. The Group has also implemented various flexible working arrangements for its staff. The Group has used, and will continue to use, its best endeavors to mitigate the adverse impact of the COVID-19 pandemic on the Group.

The Group will closely monitor the development of the COVID-19 pandemic and ensure the safety of employees and stable operations. As and when appropriate, the Group will adjust its measures and plans for pandemic prevention, operations and business development accordingly. The Group will make timely disclosure on any significant matters which may arise in the future.

### **Environmental Policies and Performance**

The Group is committed to the long term sustainability of the environment and communities in which it operates. As a responsible corporation, the Group has complied with all relevant laws and regulations regarding environmental protection, health and safety, workplace conditions and employment in all material respects. The Group has also adopted effective measures to achieve efficient use of resources, energy saving and waste reduction.

### **Compliance with Laws and Regulations**

During the year ended 31 March 2022, there was no incident of material non-compliance with any relevant laws and regulations for the Group.

### **Relationship with Suppliers, Customers and other Stakeholders**

During the year ended 31 March 2022, there were no material dispute between the Group and its key stakeholders, including employees, customers, suppliers, banks, regulators and shareholders. The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders.

### **PROSPECTS**

Although the Group has faced challenge from the COVID-19 pandemic and the debt crisis of some of the property developers in the PRC during the year ended 31 March 2022, the Directors are optimistic about the economic development of the PRC in the long run and believes that the demands for water products and properties in the PRC will remain stable and sustainable. The Group will continue to strengthen its competitive strength in its core business, i.e. water business, property development and property investment business and look for appropriate business and investment opportunities in these areas. During the year ended 31 March 2022, the Group has also been conducting studies on certain energy-related and natural resources projects to explore the possibility of diversifying our businesses.

The management remains open for other business opportunities whenever the same arise.

### **FUND RAISING ACTIVITIES OF THE GROUP**

#### **Placing of Shares on 3 August 2018**

The net proceeds (net of all relevant costs and expenses) from placing of shares under specific mandate on 3 August 2018 were approximately HK\$316,500,000. Details of the placing of shares were set out in the announcements of the Company dated 17 April 2018 and 3 August 2018 respectively and the circular of the Company dated 5 June 2018.

**APPENDIX II MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE GROUP**

Up to 31 March 2022, the Group had utilised the net proceeds as follows:

Intended use of net proceeds	Original allocation of net proceeds		Actual use of net proceeds	Actual allocation of net proceeds		Utilisation up to 31 March 2022	Remaining balance of net proceeds as at 31 March 2022
	HK\$ million	% of net proceeds		HK\$ million	% of net proceeds	HK\$ million	HK\$ million
Capital expenditure on the production facilities of Hunan Xintian	56.0	17.7%	Capital expenditure on the production facilities of Hunan Xintian	56.0	17.7%	7.7	48.3
Potential acquisition of business or companies	213.0	67.3%	Acquisition of the Properties	213.0	67.3%	213.0	-
Working capital of the Group	47.5	15.0%	Working capital of the Group	47.5	15.0%	47.5	-
	<u>316.5</u>	<u>100%</u>		<u>316.5</u>	<u>100.0%</u>	<u>268.2</u>	<u>48.3</u>

With a view to putting the Company's resources to a better use, the Board had therefore temporarily re-allocated the aforesaid unutilised net proceeds for the use of acquisition of the Properties in previous years. Referring to the announcements dated 24 April 2019, 1 November 2019, 7 July 2020 and 1 September 2021 respectively and the circulars dated 6 February 2020, 24 August 2020 and 1 November 2021 respectively, the acquisition of the Properties had been terminated and the Group entered into supplemental agreements with Mr. Li Yuguo, a substantial shareholder, the chairman and an executive Director of the Company to recover the outstanding sum in relation to the termination of the acquisition of the Properties on or before 2 July 2022.

The unutilised net proceeds for the use of the capital expenditure on the production facilities of Hunan Xintian is expected to be used between April 2022 to late 2022. The Board will deploy the unutilised net proceeds of approximately HK\$48.3 million back to the capital expenditure on production facilities of Hunan Xintian.

## **CAPITAL STRUCTURE**

As at 31 March 2022, total equity attributable to owners of the Company was approximately HK\$1,645,363,000 (2021: HK\$1,974,578,000). The decrease arose from the loss attributable to owners of the Company. There were no other material change in the capital structure of the Group during the year ended 31 March 2022.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 March 2022, the Group had total assets of approximately HK\$1,911,672,000 (2021: HK\$2,275,578,000) which was financed by current liabilities of approximately HK\$163,001,000 (2021: HK\$165,214,000), non-controlling interests of approximately HK\$87,810,000 (2021: HK\$102,066,000) and shareholders' equity of approximately HK\$1,645,363,000 (2021: HK\$1,974,578,000).

As at 31 March 2022, the current ratio of the Group was approximately 5.63 (2021: 6.34). Current ratio is calculated based on current assets divided by current liabilities.

As at 31 March 2022, the gearing ratio of the Group was approximately 0.006 (2021: 0.005). Gearing ratio is calculated based on total borrowings divided by total equity.

## **MATERIAL ACQUISITIONS OR DISPOSALS**

Save as disclosed in the paragraph headed "Subsequent events after the year ended 31 March 2022", the Group has no other material acquisition or disposal during the year ended 31 March 2022.

## **SUBSEQUENT EVENTS AFTER THE YEAR ENDED 31 MARCH 2022**

### **Acquisition of Shun Jie International Holdings Company Limited**

On 31 January 2022, the Group entered into a sale and purchase agreement to acquire 100% of the issued share capital of, and the shareholder's loan advanced to, Shun Jie International Holdings Company Limited at a consideration of RMB376,000,000. Its indirect wholly-owned subsidiary, Suzhou Menglian Nanting Cultural Development Company Limited holds, inter alia, several buildings located at 6 Waiwujingnong, Suzhou, Jiangsu, the PRC\*, which are currently leased to tenants for rental income. The acquisition was completed on 27 May 2022. The acquisition constituted a major transaction under the Listing Rules. Details of the acquisition are set out in the announcements of the Company dated 31 January 2022 and 27 May 2022, and the circular of the Company dated 28 March 2022.

\* For identification purpose only

### Placing of Shares on 29 July 2022

On 5 July 2022 (after trading hours), the Company and Silverbricks Securities Company Limited (the “**Placing Agent**”) entered into the placing agreement, pursuant to which the Company appointed the Placing Agent to place, on a best efforts basis and subject to the fulfillment of the conditions precedent to the placing, a maximum of 1,000,000,000 placing shares to not less than six independent places at a price of HK\$0.03 per placing share. 1,000,000,000 placing shares represents 13.14% of the issued share capital of the Company of 7,611,690,000 Shares as at the date of placing agreement, and approximately 11.61% of the issued share capital of the Company as enlarged by the issue of the maximum number of placing shares.

Completion of the placing of 1,000,000,000 Shares took place on 29 July 2022.

The net proceeds from the placing, after deduction of the placing commission and other related expenses, amounted to approximately HK\$29.51 million. The Company intends to use such net proceeds for replenishing the working capital of the Group and potential investment. As at the Latest Practicable Date, 46.59% of the net proceeds from the placing has been utilized for general working capital.

Details of the placing are set out in the Company's announcements on 5 July 2022 and 29 July 2022 respectively.

### Share Consolidation

On 1 September 2022, the Board has resolved to propose every ten(10) existing Shares in the issued and unissued share capital of the Company be consolidated into one (1) consolidated share (the “**Share Consolidation**”). The Share Consolidation is still conditional upon, inter alia, the passing of an ordinary resolution by the Shareholders approving the same and the Stock Exchange granting the listing of, and permission to deal in, the consolidated shares. For details, please refer to the announcement of the Company dated 1 September 2022 and the circular of the Company dated 19 September 2022.

## **EXPOSURE TO FLUCTUATION IN EXCHANGE RATES**

The Group is mainly exposed to fluctuation in the exchange rate of RMB, arising from relevant Group entities' monetary assets and liabilities denominated in foreign currency for the Group's operating activities.

The Group currently does not have a foreign currency hedging policy to eliminate the currency exposures. However, the management closely monitors the relevant foreign currency exposure from time to time and will consider hedging significant foreign currency exposures should the need arise.

## **EMPLOYEE AND REMUNERATION POLICY**

The Group had a total of 37 (2021: 25) employees in Hong Kong and the PRC as at 31 March 2022. The total staff cost (staff salaries, directors' emoluments and other staff costs) for the year ended 31 March 2022 amounted to approximately HK\$7,666,000 (2021: HK\$9,482,000). Remuneration packages are generally structured with reference to market conditions and individual performance. Apart from the mandatory provident fund and statutory retirement benefits, the Group also provides medical benefits and subsidises employees in various trainings and continuous education programs.

## **SHARE OPTION SCHEME**

During the year ended 31 March 2022, there was no share option granted, exercised, lapsed or cancelled under the 2011 Share Option Scheme. As at 31 March 2022, there was no outstanding share option under the 2011 Share Option Scheme.

## **CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES**

As at 31 March 2022, the Group had capital commitments of approximately HK\$176,186,000 (2021: HK\$154,572,000) for acquisition of investment properties, property development expenditure and construction in-progress for water exploitation activities in Hunan.

## **FINANCIAL GUARANTEE CONTRACTS**

As at 31 March 2022, Dalian Chuanghe provided corporate guarantees to third parties amounting to approximately RMB100,000,000 (2021: RMB100,000,000), details of which are set forth in note 36 to the consolidated financial statements of the annual report of the Company for the year ended 31 March 2022.

## **CHARGES ON GROUP ASSETS**

The Group did not have any charges over its assets as at 31 March 2022.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS OF DIRECTORS IN EQUITY OR DEBT SECURITIES

As at the Latest Practicable Date, the interests and short positions of each Director, chief executive of the Company and their respective associates in the Shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered into the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange are set out below:

Long positions in Shares as at the Latest Practicable Date:

Name of Chief Executive/Director	Personal interests	Number of Shares held (Note 1)		Approximate % of the issued share capital in the Company (Note 2)
		Corporate interests	Total	
Li Yuguo	2,268,000,000	–	2,268,000,000	26.34%
Liu Yan Chee James	104,800,000	–	104,800,000	1.22%
Yang Xiaoqiang	354,820,000	–	354,820,000	4.12%
Huang Yilin	70,000	–	70,000	0.00%

Notes:

- All interests stated are long positions.
- The percentage figures are based on the number of Shares in issue as at the Latest Practicable Date (i.e. 8,611,690,000 Shares).

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, chief executives of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered into the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

### 3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or a short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Long positions in Shares and underlying shares of equity derivatives of the Company as at the Latest Practicable Date:

<b>Name of Substantial Shareholder</b>	<b>Capacity/nature of interests</b>	<b>Number of Shares held</b> <i>(Note 1)</i>	<b>Approximate % of the issued share capital in the Company</b> <i>(Note 2)</i>
Li Yuguo	Beneficial owner	2,268,000,000	26.34%

*Notes:*

- All interests stated are long positions.
- The percentage figures are based on the number of Shares in issue as at the Latest Practicable Date (i.e. 8,611,690,000 Shares).

Save as disclosed herein, as at the Latest Practicable Date, there was no other person so far as was known to the Directors of the Company (other than a Director or chief executive of the Company) had an interest or a short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

#### 4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which was not expiring or determinable within one year without payment of compensation (other than statutory compensation).

#### 5. OTHER INTERESTS OF THE DIRECTORS

As at the Latest Practicable Date, save as disclosed herein:

- (a) none of the Directors had any direct or indirect interest in any assets which have, since 31 March 2022, being the date to which the latest published audited consolidated financial statements of the Group were made up, been acquired or disposed of by, or leased to, or were proposed to be acquired or disposed of by, or leased to any member of the Group; and
- (b) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which contract or arrangement was subsisting as at the date of this circular and which was significant in relation to the business of the Group as a whole.

#### 6. EXPERT'S CONSENT AND QUALIFICATION

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
Pelican Financial Limited	A corporation licensed to conduct Type 6 (advising on corporate finance) regulated activities under the SFO

Pelican Financial Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and all reference to its name in the form and context in which they appear.

As at the Latest Practicable Date, Pelican Financial Limited was not beneficially interested in the share capital of any member of the Group nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did they have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited consolidated financial statements of the Group were made up, acquired, disposed of by, or leased to, or were proposed to be acquired or disposed of by, or leased to any member of the Group.

#### **7. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors or any of their respective close associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group.

#### **8. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2022, being the date to which the latest published audited consolidated financial statements of the Group were made up.

#### **9. LITIGATION**

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries were engaged in any litigation or arbitration proceedings of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

#### **10. MATERIAL CONTRACTS**

The following contracts (not being contracts entered into in the ordinary course of business) had been entered into by the Company or any members of the Group within the two years immediately preceding the Latest Practicable Date and are or may be material:

- (a) Second Further Supplemental Agreement;
- (b) Third Further Supplemental Agreement;

- (c) Acquisition agreement date 31 January 2022 entered into between the subsidiary of the Company, World Kingdom Worldwide Limited, Ms. Kwong Wing Yee and Shun Jie International Holdings Company Limited in relation to the acquisition of the entire share capital of Shun Jie International Holdings Company Limited at a consideration of RMB376,000,000. Please refer to the Company's announcement dated 31 January 2022 and circular dated 28 March 2022 for details; and
- (d) Fourth Further Supplemental Agreement.

## 11. GENERAL

- (a) The company secretary of the Company is Mr. Wu Ho Wai, a fellow member of the Association of Chartered Certified Accountants and also a member of the Hong Kong Institute of Certified Public Accountants.
- (b) The share registrar and transfer office of the Company is Tricor Secretaries Limited.
- (c) The English text of this circular shall prevail over their respective Chinese text for the purpose of interpretation.

## 12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours (Saturdays and public holidays excepted) at Room 2601, 26/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong and are also displayed on the websites of the Stock Exchange at <http://www.hkexnews.hk> and the Company at <http://www.asiaresources899.com.hk> from the date of this circular up to and including the date which is 14 days from the date of this circular:

- (a) Fourth Further Supplemental Agreement;
- (b) An agreement dated 28 October 2021 between the Purchaser and Mr. Li Yuguo to extend the Long Stop Date to 30 November 2021;
- (c) Third Further Supplemental Agreement;
- (d) Second Further Supplemental Agreement;
- (e) Further Supplemental Agreement;
- (f) Supplemental Agreement;

- (g) Termination Agreement;
- (h) the material contracts as referred to in the paragraph headed “10. Material Contracts” in this appendix;
- (i) the Bye-Laws;
- (j) the audited consolidated accounts for the Group for the years ended 31 March 2020, 31 March 2021 and 31 March 2022;
- (k) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 25 to 26 of this circular;
- (l) the letter from Pelican Financial Limited to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 27 to 61 of this circular;
- (m) the written consent from Pelican Financial Limited referred to the section headed “Expert’s Consent and Qualification” of this appendix;
- (n) this circular.

**Asia Resources Holdings Limited**  
**亞洲資源控股有限公司\***

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 899)**

**NOTICE OF SPECIAL GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that a special general meeting (the “SGM”) of Asia Resources Holdings Limited (the “Company”) will be held at Units 1302-03, 13/F, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong on Thursday, 20 October 2022 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution, with or without amendments, as an ordinary resolution of the Company:

**ORDINARY RESOLUTION**

**“THAT:**

- (a) the Fourth Further Supplemental Agreement dated 19 August 2022, details of which are disclosed in the circular of the Company dated 30 September 2022 entered into between Asiaciti Investment Limited and Mr. Li Yuguo (a copy of the Fourth Further Supplemental Agreement marked “A” is produced to the SGM and signed by the chairman of the SGM for identification purpose) and the transactions contemplated thereunder and the execution thereof be and are hereby ratified, confirmed and approved; and
- (b) each of the Directors be and is hereby authorised to do all such acts and things and sign, ratify and execute all such documents and take all such steps as the Director in his/her discretion may consider necessary, appropriate, desirable and expedient to implement, give effect to or in connection with the Fourth Further Supplemental Agreement and any of the transactions contemplated thereunder and to agree to such variations, amendments or waivers as are, in his/her opinion, in the interests of the Company and its shareholders.”

By Order of the Board  
**Asia Resources Holdings Limited**  
**Liu Yan Chee James**  
*Executive Director*

Hong Kong, 30 September 2022

\* *For identification purpose only*

## NOTICE OF SGM

*Notes:*

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, in the event of a poll, subject to the provisions of the bye-laws of the Company, vote in his/her stead. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, must be lodged with the Company's Branch Registrar in Hong Kong, Tricor Secretaries Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong no later than Tuesday, 18 October 2022 at 11:00 a.m. (Hong Kong Time) or not less than 48 hours before the time for holding the said meeting or any adjourned meeting.
3. For determining the entitlement to attend and vote at the SGM, the Register of Members of the Company will be closed from Monday, 17 October 2022 to Thursday, 20 October 2022 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the SGM (or at any adjournment thereof), all transfers of shares of the Company accompanied by the relevant share certificates and the appropriate transfer forms must be lodged with the Company's branch registrar in Hong Kong, Tricor Secretaries Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. (Hong Kong Time) on Friday, 14 October 2022.
4. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting convened or any adjournment thereof, should he/she so wish, and in such event, the authority of the proxy shall be deemed to be revoked.
5. In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she/it were solely entitled thereto, but if more than one of such joint holders be present at the above meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
6. To minimise the risks of infection of novel coronavirus ("COVID-19") pandemic, the Company will implement the following precautionary measures at the SGM, including:
  - compulsory body temperature checks for all attendees at the entrance of the meeting venue;
  - prohibition from attendance at the SGM if the attendee has a fever. Persons exhibiting flu-like symptoms may also be refused admittance to the venue of the SGM;
  - each attendee may be asked whether (a) he/she travelled outside of Hong Kong within the 14-day period immediately before the SGM; and (b) he/she is subject to any Hong Kong government prescribed quarantine. Anyone who responds positively to any of these questions may be denied entry into the meeting venue or be required to leave the meeting venue;
  - compulsory wearing of surgical face masks throughout the SGM;
  - maintaining proper distance between seats; and
  - no refreshments will be served at the SGM.

## NOTICE OF SGM

7. In light of the continuing risks posed by COVID-19, the Company strongly advises Shareholders to appoint the Chairman of the SGM as their proxy to vote according to their indicated voting instructions as an alternative to attending the SGM in person.
8. Subject to the development of COVID-19, the Company may implement further changes to the arrangement of the SGM and precautionary measures and may issue further announcement on such measures as appropriate.
9. If Typhoon Signal No. 8 or above, or a "black" rainstorm warning is in effect at the time of the Meeting, the Meeting will be held as scheduled unless further notice posted on the websites of the Company at <http://www.asiaresources899.com.hk> and the Stock Exchange at <http://www.hkexnews.hk> to notify Shareholders of the date, time and place of the rescheduled meeting.

Shareholders should make their own decision as to whether they would attend the Meeting under bad weather conditions bearing in mind their own situation and if they should choose to do so, they are advised to exercise care and caution.

*As at the date of this notice, the Board consists of two executive directors, Mr. Li Yuguo and Mr. Liu Yan Chee James; two non-executive directors, Mr. Yang Xiaoqiang and Mr. Huang Yilin; and three independent non-executive directors, Mr. Ba Junyu, Mr. Zhu Xueyi and Mr. Wong Chung Man.*