邁時資本
MAXA CAPITAL

Unit 1908, Harbour Center
25 Harbour Road
Wan Chai
Hong Kong

25 April 2023

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF SUBSIDIARIES

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Disposal, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 25 April 2023 issued by the Company (the "**Circular**") of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 24 April 2023 (after trading hours), the Company entered into the Sale and Purchase Agreement with the Purchaser, a subsidiary of CEG, pursuant to which the Company conditionally agreed to sell as the beneficial owner and the Purchaser conditionally agreed to buy the Target Shares at the Consideration of RMB2. The principal underlying assets represented by the Target Shares are the Disposal Group, being 47 existing health and living projects of the Group which are primarily residential and property development projects (the "**Projects**").

As the highest applicable percentage ratio (calculated in accordance with Rule 14.07 of the Listing Rules) in respect of the Disposal exceeds 75%, the Disposal constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules. As at the Latest Practicable Date, the Purchaser is a subsidiary of CEG, the controlling shareholder of the Company interested in approximately 58.54% of the total number of issued Shares and hence a connected person of the Company. Therefore, the Purchaser is an associate of CEG and thus a connected person of the Company. Accordingly, the Disposal also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and therefore subject to the requirements of reporting, announcement, circular and approval by the Independent Shareholders under the Listing Rules. CEG and its associates are required to abstain from voting at the GM on the resolution(s) in relation to the Disposal. The Independent Board Committee has been established by the Company to consider the Sale and Purchase Agreement and the transactions contemplated thereunder and to advise the Independent Shareholders whether and the basis thereof, the Sale and Purchase Agreement, the transactions contemplated thereunder are on normal commercial terms or better and fair and reasonable, and in the interests of the Company and the Shareholders as a whole. We, Maxa Capital Limited, have been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from the Company in accordance with Rule 13.84 of the Listing Rules. We did not have any relationship with or interest in the Company, its subsidiaries and any other parties that could reasonably be regarded as relevant to our independence. We are not associated with the Company, its subsidiaries, its associates, or their respective substantial shareholders or associates or any other parties to the Disposal, and accordingly, are eligible to give independent advice and recommendations on the terms of the Disposal. Save for this appointment, there was no other engagement between the Company and us in last two years. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates.

BASIS OF OUR OPINION

In formulating our advice and recommendations, we have reviewed, among others, (i) the Sale and Purchase Agreement; (ii) the annual reports of the Company for the year ended 31 December 2019 (the "**2019 AR**") and the year ended 31 December 2020 (the "**2020 AR**"); (iii) the interim report of the Company for the six months ended 30 June 2021 (the "**2021 IR**"); (iv) the unaudited management account in relation to the Disposal Group as set out in Appendix II to the Circular; (v) the Valuation Report prepared by the Independent Property Valuer as set out in Appendix III to the Circular; and (vi) the unaudited pro forma financial information of the Remaining Group as set out in Appendix IV to the Circular. We have assumed that all statements of belief and intention made by the Directors and the management of the Company were made after due enquiry. We have also assumed that all information, representations, and opinions made were true, accurate and complete at the time they were made and continued to be true at the date of the Circular and will remain so up to the date of the GM.

We consider that we have reviewed sufficient and relevant information and documents and have taken reasonable steps as required under Rule 13.80 of the Listing Rules to reach an informed view and to provide a reasonable basis for our recommendation. We have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and the Company, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the date of this letter. We have also 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. Our opinion is based on the Directors' representation and confirmation that no material facts have been omitted from the information provided and referred to in the Circular.

The Company confirmed that it has, at our request, provided us with all currently available information and documents which are available under present circumstances to enable us to reach an informed view and we have relied on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our opinion. We have no reason to suspect that any material facts or information, which is known to the Company, have been omitted or withheld from the information supplied or opinions expressed in the Circular nor do doubt the truth and accuracy of the information and facts, or the reasonableness of the opinions expressed by the Company and the Directors which have been provided to us. We have not, however, conducted any independent verification on the information provided to us by the Directors and the Independent Property Valuer, nor have we conducted any form of independent in-depth investigation into the business and affairs of the Company, CEG and each of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion on the terms of the Sale and Purchase Agreement, we have taken into consideration the following principal factors and reasons:

1. Background of the Disposal and recent developments

1.1 *Information of the Group*

The principal business activities of the Group are (i) Health Management Segment, including "internet+" community health management, international hospitals, elderly care and rehabilitation; and (ii) NEV Segment, including the R&D and manufacturing of, and sales services in respect of new energy vehicles. For the Health Management Segment, the Group developed property projects, namely Evergrande Elderly Care Valley, across China for its members or customers to stay in home elderly care service centers, apartments or elderly care institutions that complimented with medical and health care solutions. For the NEV Segment, the Group has been dedicated to establish Hengchi as a world-renowned Chinese automobile brand with a full industry chain of new energy vehicles covering automobile manufacturing, electric motor control, power batteries, intelligent network connection, autonomous driving, vehicle sales, smart charging and other aspects.

According to the business update announced by the Company on 30 December 2022, the Group has delivered a total of 324 units to customers. As stated in the Board Letter, the Remaining Group had delivered over 900 units of Hengchi 5 to the customers as at the Latest Practicable Date. The Group also implemented a series of cost reduction measures such as reduction of salaries of some employees and cutting down the number of employees in order to save costs. Besides, a wholly-owned subsidiary of the Company established in Sweden received a statutory demand regarding a debt of around Euro 4.8 million due to its creditor, which has been fully settled as at the Latest Practicable Date according to the management of the Company. However, as at the Latest Practicable Date, the production of Hengchi 5 in the Group's Tianjin facilities was suspended due to insufficient funding.

Trading in the Shares has been suspended since 1 April 2022 and there is no liquid market for Shareholders to trade their Shares on the Stock Exchange. Prior to the suspension, the Company has conducted three equity fund raising exercises during 2021 and the gross amount raised was around HK$29.3 billion that has been utilised toward R&D and production in NEV Segment and repayment of debts. The Company received a resumption guidance ("**Resumption Guidance**") from the Stock Exchange on 15 June 2022 that required the Company to meet, among others, (a) publish all outstanding financial results required under the Listing Rules and address any audit modifications; (b) demonstrate the Company's compliance with Rule 13.24 of the Listing Rules; and (c) inform the market of all material information for the Shareholders and other investors to appraise the Company's position, and remedy the issues causing the trading suspension and fully comply with the Listing Rules to the Stock Exchange's satisfaction before trading in Shares is allowed to resume. As stated in the Board Letter, the Company hopes that by restructuring the Projects outside of the Group is a first step towards the Company's resumption of trading, thereby facilitating the Shareholders' exit (if they so wish). Independent Shareholders should note that if the Company fails to resume trading in the Shares by 30 September 2023, the Listing Division of the Stock Exchange will recommend the Listing Committee to proceed with the cancellation of the Company's listing status.

1.2 *Financial information of the Group and Disposal Group*

1.2.1 *Financial information of the Group*

Set out below is the summarised financial information of the Group for the two years ended 31 December 2018 and 2019 ("**FY2018**" and "**FY2019**") and FY2020, and for the six months ended 30 June 2020 and 2021 ("**1H2020**" and "**1H2021**", respectively), as extracted from the 2019 AR, the 2020 AR and the 2021 IR:

	For the year ended 31 December			**For the six months ended 30 June**	
	2018	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Total revenue	**3,133,018**	**5,635,559**	**15,486,625**	**4,510,321**	**6,923,244**
Health Management Segment	3,133,018	4,975,064	15,299,092	4,457,320	6,886,260
NEV Segment	—	660,495	187,533	53,001	36,984
Profit/(Loss) for the year/ period	**(1,428,378)**	**(4,947,478)**	**(7,664,907)**	**(2,456,910)**	**(4,821,626)**

As disclosed in the 2019 AR, the total revenue of the Group was approximately RMB5,635.6 million for FY2019, representing an increase of approximately RMB2,502.5 million or 79.9% as compared to FY2018, whereas the loss for FY2019 was approximately RMB4,947.5 million as compared to a loss of approximately RMB1,428.4 million for FY2018. Such increase in revenue is mainly attributable to the increase in revenue from Evergrande Elderly Care Valley by 58.4% to RMB4,948.5 million for FY2019 from RMB3,124.4 million for FY2018, and the Group recognised revenue from NEV Segment for the first time during FY2019 which attributed approximately RMB660.5 million or 11.7% of the total revenue, while an increase in loss for the year was primarily due to the Group's development of the NEV Segment and the increase in R&D expenses, administrative expenses and finance cost for FY2019.

As disclosed in the 2020 AR, the total revenue of the Group was approximately RMB15,486.6 million for FY2020, representing an increase of approximately RMB9,851.1 million or 174.8% as compared to FY2019, whereas the Group recorded a loss of RMB7,664.9 million, representing an increase of 54.9% from a loss of RMB4,947.5 million for FY2019. Such an increase in revenue is mainly attributable to the increase in revenue from Evergrande Elderly Care Valley by 208.5% to RMB15,268.1 million for FY2020 from RMB4,948.5 million for FY2019, which was partially offset by the decrease in revenue from NEV Segment by 71.6% to RMB187.5 million for FY2020 from RMB660.5 million in FY2019, while an increase in loss for the year was primarily due to the decline in gross profit of the health management business and the increase in marketing expenses, finance cost, and R&D expenses in the new energy vehicle business along with the Group's strategy to expand in the NEV Segment.

As disclosed in the 2021 IR, the total revenue of the Group was approximately RMB6,923.2 million for 1H2021, representing an increase of approximately RMB2,412.9 million or 53.5% as compared to 1H2020, whereas loss for the period was approximately RMB4,821.6 million for 1H2021 as compared to a loss for the period of RMB2,456.9 million for 1H2020. Such an increase in the revenue for the period was primarily attributable to the increase in revenue from Evergrande Elderly Care Valley by 54.4% to RMB6,865.2 million during 1H2021 from RMB4,446.0 million in the corresponding period of 2020, while an increase in loss for the period was primarily due to the combined effect of a decline in gross profit of health management business and the increased marketing expenses and R&D expenses in the new energy vehicle business.

Based on the financial information as stated above, the Health Management Segment represented about 88% to 100% of the Group's revenue during the respective period while the loss of the Group as a whole was mainly attributed to increasing expenses from marketing, interest and R&D from the NEV Segment. According to 2019 AR and 2020 AR, Health Management Segment recorded segmental profit of RMB606 million, RMB837 million and RMB820 million for the three years ended 31 December 2020, respectively, while NEV Segment incurred segmental loss of RMB1,727 million, RMB5,295 million, RMB8,191 million during the same periods given the Group's new energy vehicle "Hengchi" was still in the development stage and not able to generate any revenue.

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)	(unaudited)
Non-current assets	6,328,920	36,413,675	46,843,248	53,509,577
Property, plant and equipment	1,534,925	10,422,736	17,058,834	21,294,077
Intangible asset	5,199	7,581,130	10,243,587	11,990,210
Goodwill	—	6,193,274	6,244,210	5,964,172
Current assets	15,854,190	56,994,773	103,221,492	111,580,758
Trade and other receivables	507,137	4,593,702	7,973,999	12,456,381
Properties under development	11,170,539	29,317,271	61,126,374	64,849,748
Completed properties held for sale	1,169,672	2,679,747	12,678,679	14,023,488
Restricted cash	367,825	2,415,109	3,668,420	2,936,427
Cash and cash equivalents	1,570,014	9,857,780	10,476,239	9,577,100
Total assets	**22,183,110**	**93,408,448**	**150,064,740**	**165,090,335**
Non-current liabilities	11,293,732	51,580,322	61,362,453	28,434,608
Borrowings	11,248,425	47,214,338	55,915,728	21,821,897
Lease liabilities	—	223,221	589,422	636,674
Current liabilities	11,551,846	43,123,693	94,540,809	124,580,061
Trade and other payables	7,330,851	24,282,087	52,964,764	73,045,007
Contract liabilities	99,284	2,444,932	23,464,876	35,884,516
Borrowings	3,613,900	15,172,530	16,290,530	13,268,475
Total liabilities	**22,845,578**	**94,704,015**	**155,903,262**	**153,014,669**
Total equity (deficit)	**(662,468)**	**(1,295,567)**	**(5,838,522)**	**12,075,666**

As disclosed in the 2019 AR, the Group had total assets of approximately RMB93,408.4 million as at 31 December, 2019 as compared to total assets of approximately RMB22,183.1 million as at 31 December, 2018. Such increase in total assets was mainly attributable to (i) the increase in properties under development ("**PUD**") by 162.5% or RMB18,146.7 million mainly due to the increase in costs of acquiring rights to use certain lands; and (ii) the increase in goodwill by RMB6,193.3 million mainly arose from the acquisition of the new energy vehicle business. The Group had total liabilities of approximately RMB94,704.0 million as at 31 December 2019, representing an increase of approximately 314.5% or RMB71,858.4 million as compared to that as at 31 December 2018, which was primarily due to (i) the increase in total borrowings by 319.8% or RMB47,524.5 million; and (ii) the increase in trade and other payables by 231.2% or RMB16,951.2 million mainly due to the increasing liquidity risk under the impacts on cash flows. The Group has a total deficit of approximately RMB1,295.6 million as at 31 December 2019. As at 31 December 2019, the assets allocated to the Health Management Segment and NEV Segment represented 47% and 53% of the total assets of the Group, respectively. As at 31 December 2019, the gearing ratio calculated as total liabilities to total assets (the "**Gearing Ratio**") of the Health Management Segment and NEV Segment was 84% and 110%, respectively.

As disclosed in the 2020 AR, the Group had total assets of approximately RMB150,064.7 million as at 31 December, 2020 as compared to total assets of approximately RMB93,408.4 million as at 31 December, 2019. Such increase in total assets was mainly attributable to (i) the increase in PUD by 108.5% or RMB31,809.1 million mainly due to the significant increase in construction costs and capitalised expenditures; and (ii) the increase in completed properties held for sale ("**PHS**") by 373.1% or RMB9,998.9 million mainly attributable to the adoption of strict COVID-19 prevention and control measures by the government nationwide, which resulted in extensive obstructions on construction and delivery of properties. The Group had total liabilities of approximately RMB155,903.3 million as at 31 December 2020, representing an increase of approximately 64.6% or RMB61,199.2 million as compared to that as at 31 December 2019, which was primarily due to (i) the increase in trade and other payables by 118.1% or RMB28,682.7 million mainly due to the increasing liquidity risk under the impacts on cash flows; and (ii) the increase in contract liabilities by 859.7% or RMB21,019.9 million that mainly arose from sales of vehicle living projects. The Group's total equity further decrease to a deficit of approximately RMB5,838.5 million as at 31 December 2020 mainly due to the continuous loss for the year. As at 31 December 2020, the assets allocated to the Health Management Segment and NEV Segment represented 39% and 61% of the total assets of the Group, respectively. As at 31 December 2020, the Gearing Ratio of the Health Management Segment increased to 94% from 84% as at 31 December 2019 while the Gearing Ratio of the NEV Segment decreased to 106% from 110% as at 31 December 2019.

As disclosed in the 2021 IR, the Group had total assets of approximately RMB165,090.3 million as at 30 June, 2021 as compared to total assets of approximately RMB 150,064.7 million as at 31 December, 2020. Such increase in total assets was mainly attributable to (i) the increase in trade and other receivables by 56.2% or RMB4,482.4 million that mainly arose from sale of health and living projects; and (ii) the increase in property, plant and equipment by 24.8% or RMB4,235.2 million mainly due to the increased investment in property, plant and equipment and construction in progress. The Group had total liabilities of approximately RMB153,014.7 million as at 30 June, 2021, representing a decrease of approximately 1.9% or RMB2,888.6 million as compared to that as at 31 December 2020, which was primarily due to the decrease in total borrowings by 51.4% or RMB37,115.9 million through partial repayment of the principal of borrowings after the Company raised net proceed of HK$26 billion by issuance of new Shares. As at 30 June 2021, the Group turned around the deficit to equity of approximately RMB12,075.7 million mainly due to the share subscription by third party investors with net proceeds of approximately HK$26 billion. Taking out the impact of the fundraising, the Disposal Group would still record a total deficit as at 30 June, 2021. As at 30 June 2021, the assets allocated to the Health Management Segment and NEV Segment represented 36% and 64% of the total assets of the Group, respectively. As at 30 June 2021, the Gearing Ratio of the Health Management Segment continued to increase to 95% from 94% as at 31 December 2020, while the Gearing Ratio of the NEV Segment decreased further to 88% from 106% as at 31 December 2020.

As disclosed in the Company's announcement on quarterly update dated 22 March 2023, in order to centralize financial resources to support the mass production of Hengchi 5, the Company continues to promote cost saving measures, improve management efficiency, actively adopt staff reduction measures towards and optimize employee structure in National Electric Vehicle Sweden AB, a Sweden-established subsidiary within the Group. In face of the inability to obtain additional liquidity, the Group is at risk of discontinuing production. However, if the Group is able to obtain financing of more than RMB29 billion in the future, it plans to launch a number of flagship models and hopes to achieve mass production. Under this plan, the cumulative unleveraged cash flow from 2023 to 2026 is expected to reach negative RMB7 billion to negative RMB5 billion. As at the Latest Practicable Date, the production of Hengchi 5 in the Group's Tianjin facilities was suspended due to insufficient funding. The Remaining Group will continue to carry out technical skills training and various facilities enhancements and improvements. The Remaining Group intends to raise funds by disposing of certain non-core assets and introducing strategic investments so that it may resume payments to suppliers and the Tianjin facilities may resume production capacity in May 2023.

1.2.2 *Financial information of the Disposal Group*

As mentioned in the Board Letter, the Disposal Group is principally engaged in the investment holding of, collectively, 47 existing health and living projects of the Group under the Health Management Segment and the NEV Segment via their subsidiaries (the "**Projects**"). The Projects are primarily residential and property development projects.

Set out below are the unaudited combined consolidated financial information of the Disposal Group for the three years ended 31 December 2022, as extracted from the financial information of the Disposal Group as set out in Appendix II to the Circular ("**Financial Information of the Disposal Group**"):

			For the year ended 31 December
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
	(unaudited)	(unaudited)	(unaudited)
Total revenue	15,298,551	6,977,270	1,504,269
Profit/(loss) for the year	68,126	(16,782,562)	(8,824,385)

The total revenue of the Disposal Group was approximately RMB6,977.3 million for FY2021, representing a substantial decrease of approximately RMB8,321.3 million or 54.4% as compared to FY2020, whereas the loss for FY2021 was approximately RMB16,782.6 million as compared to a profit of approximately RMB68.1 million for FY2020. As discussed with the management, such decrease in revenue is mainly attributable to the (i) impacts from the struggling residential property market as homebuyers remain cautious; (ii) operational challenges the Company faced such as obstructions on construction area due to financial difficulties and unstable employment; and (iii) travel restrictions against the background of the COVID-19 pandemic and the subsequent impact on China's economy, while an increase in loss for the year was primarily due to the increase in net other expenses by RMB13,283.9 million mainly as a result of (i) the write-downs of inventories; (ii) the impairment losses on trade and other receivables as counterparties write off registrations; and (iii) returns of certain land parcels.

The total revenue of the Disposal Group was approximately RMB1,504.3 million for FY2022, representing a decrease of approximately RMB5,473.0 million or 78.4% as compared to FY2021, whereas the loss for FY2022 was approximately RMB8,824.4 million as compared to a loss of approximately RMB16,782.6 million for FY2021, leading to a cumulative loss of approximately RMB25.6 billion for the two years ended 31 December 2022. As discussed with the management, such decrease in revenue is mainly attributable to the (i) continuous impacts from the struggling residential property market; and (ii) operational challenges the Company faced, leading to a decrease in sales volume, while the loss for the year narrowed by RMB7,958.2 million was primarily due to the decrease in net other expenses by RMB5,983.2 million to RMB7,309.3 million.

	As at 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
	(unaudited)	(unaudited)	(unaudited)
Non-current assets	4,888,039	4,155,565	1,650,981
Property, plant and equipment	2,220,203	2,445,294	621,013
Current assets	98,672,968	78,094,528	70,064,043
Trade and other receivables and prepaid taxes	6,512,909	7,210,598	12,725,266
Properties under development and completed properties held for sale	73,003,062	65,415,742	54,202,850
Restricted cash	3,447,149	664,156	2,354,737
Cash and cash equivalents	9,183,588	305,009	88,481
Total assets	103,561,007	82,250,093	71,715,024
Non-current liabilities	12,685,316	11,295,883	5,289,806
Borrowings	11,815,737	10,543,787	5,164,496
Current liabilities	90,042,908	86,729,835	91,214,617
Trade and other payables	60,986,264	42,415,428	49,201,052
Contract liabilities	20,576,486	37,706,768	32,779,684
Borrowings	6,811,568	4,905,000	7,521,284
Total liabilities	102,728,224	98,025,718	96,504,423
Total equity/(deficit)	832,783	(15,775,625)	(24,789,399)

The Disposal Group had total assets of approximately RMB82,250.1 million as at 31 December, 2021, representing a decrease of approximately RMB21,310.9 million or 20.6% as compared to total assets of approximately RMB103,561.0 million as at 31 December, 2020. Such decrease in total assets was mainly attributable to the impairment losses of approximately RMB10 billion on properties under development and completed properties held for sale, resulting from the macroeconomic changes in the operational development in the property sector in the PRC in late 2021 as well as the prolonged impact brought by the COVID-19 pandemic. The Disposal Group had total liabilities of approximately RMB98,025.7 million as at 31 December 2021, representing a decrease of approximately RMB4,702.5 million or 4.6% as compared to that as at 31 December 2020, which was primarily due to decrease in trade and other payables by RMB18,570.8 million as a result of the reduction in construction area under the circumstance of abovementioned operational challenges. The Gearing Ratio of the Disposal Group increased from 99.2% as at 31 December 2020 to 119.2% as at 31 December 2021. The Disposal Group's total equity decreased from approximately RMB832.8 million as at 31 December 2020 to a deficit of approximately RMB15,775.6 million as at 31 December 2021, which is mainly attributable to a loss of approximately RMB16,782.6 million for FY2021.

The Disposal Group had total assets of approximately RMB71,715.0 million as at 31 December, 2022, representing a decrease of approximately RMB10,535.1 million or 12.8% as compared to total assets of approximately RMB82,250.1 million as at 31 December, 2021. Such decrease in total assets was mainly attributable to (i) the decrease in PUD and PHS by RMB11,212.9 million as a result of the write-downs of inventories and returns of certain land parcels; and (ii) decrease in property, plant and equipment by RMB1,824.3 million due to the disposal of several subsidiaries. The Disposal Group had total liabilities of approximately RMB96,504.4 million as at 31 December 2022, representing a decrease of approximately RMB1,521.3 million or 1.6% as compared to that as at 31 December 2021, which was primarily due to the decrease in total borrowings by RMB2,763.0 million mainly due to the repayment of borrowings, partially through disposal of assets. The Disposal Group's total deficit continues to increase from approximately RMB15,775.6 million as at 31 December 2021 to approximately RMB24,789.4 million as at 31 December 2022, which is mainly due to a loss of approximately RMB8,824.4 million for FY2022 and the loss by write-downs of inventories and returns of certain land parcels. The Gearing Ratio of the Disposal Group increased further to 134.6% as at 31 December 2022 from 119.2% as at 31 December 2021.

1.3 *Information of CEG*

CEG and its subsidiaries are principally engaged in the property development, property investment, property management, new energy vehicle business, hotel operations, finance business and health industry business in the PRC.

Trading the shares of CEG on the Stock Exchange has been suspended since 21 March 2022. Prior to such suspension, CEG Group has been facing operational and financial challenges, in particularly the debt stress. According to the announcement of CEG dated 20 December 2022, it is actively pushing forward the offshore debt restructuring work with its financial and legal advisers, and is also engaging in constructive communications with certain offshore bondholders and their advisers, in order to push forward the formulation of an offshore debt restructuring plan. Due to the substantial liabilities, the operation of CEG still faces significant challenges and there is significant uncertainty as to whether the resources for debt repayment can generate the expected value. CEG also announced on 16 August 2022 that the Financial Reporting Council has initiated and extended enquiries into the financial statements of CEG and one of its subsidiaries, namely Evergrande Property Service Group Limited.

As stated in the Board Letter, the Disposal will allow the Group to focus on the NEV Segment and deploy the appropriate resources toward funding existing and future projects which will, in the long term, offer better and more sustainable returns to the Group and in turn benefit the Company and its Shareholders as a whole. In view of the significant capital commitment required by the NEV Segment, and having considered the Group's current resources, the Board is of the view that committing further resources in health and living projects within the Disposal Group would not be in line with its overall strategy to de-leverage and may pose limitations to the Group in the development of the NEV Segment. By de-leveraging and reducing its holding of the Projects, through better focus and specialisation in the NEV Segment, the Board believes that the Company can take the NEV Segment to its next stage of growth. Segmental assets attributed by the NEV Segment increased from approximately RMB4,747.5 million in FY 2018 to nearly 10 times of RMB 49,497.5 million in FY2019 and then further increased to RMB91,056.4 million in FY2020, notwithstanding the segmental liabilities also increased accordingly. The aggregated investment, associated borrowings and capital expenditure under the NEV Segment had exceeded those under the Health Management Segment since FY2020.

Upon Completion, the Remaining Group will continue its existing principal business in the NEV Segment, and the holding of one residential and property development project in each of Tianjin (the "**Tianjin Project**") and Nanning (the "**Nanning Project**") respectively. It is expected that the residential units in the Tianjin Project will be delivered to the purchasers by the end of June 2023 and hence, the company holding the Tianjin Project will not form part of the Disposal Group. Regarding the Nanning Project, the Group is in negotiation with the relevant parties and intends to complete the disposal of the company holding the Nanning Project as soon as practicable. The Board also believes that the business growth in the NEV Segment will allow the Shareholders to realise shareholder value from their continued investment in the Remaining Group.

2. Principal terms of the Sale and Purchase Agreement

2.1 *Terms of the Sale and Purchase Agreement*

Date:	24 April 2023 (after trading hours)
Parties:	The Company as seller, the Purchaser as purchaser and CEG as Guarantor. As at the Latest Practicable Date, the Purchaser is a subsidiary of CEG, the controlling shareholder of the Company which is interested in approximately 58.54% of the total number of issued Shares and hence a connected person of the Company. Therefore, the Purchaser is an associate of CEG and thus a connected person of the Company.
Assets to be disposed of:	The Purchaser has conditionally agreed to purchase, and the Company has conditionally agreed to sell as the beneficial owner, the Target Shares, free from all Encumbrances and with all rights accruing or attaching to them including the right to receive all distributions and dividends declared, paid or made in respect of the Target Shares as at or after the Completion. The Target Shares are made up of one issued share of each of Assemble Guard and Flaming Ace, representing the entire issued share capital of Assemble Guard and Flaming Ace respectively.

Consideration: The Consideration for the Target Shares shall be RMB2 and shall be paid by the Purchaser at the Completion, subject to adjustment with reference to the Adjusted NAV of the Disposal Group as at 31 December 2022. The Consideration was determined after arm's length negotiations between the parties to the Sale and Purchase Agreement with reference to, *inter alia*, (i) the unaudited net liabilities of the Disposal Group of approximately RMB24,789 million as at 31 December 2022; (ii) the property valuation of approximately RMB60,154 million as at 28 February 2023 performed by an Independent Property Valuer (the amount of which is higher than the aggregate value of investment properties and properties under development and completed properties held for sale as at 31 December 2022, being approximately RMB54,696 million, primarily due to certain items with their values as per the Valuation Report higher than their corresponding carrying amounts by approximately RMB5,458 million); and (iii) the reasons for and benefits of the Disposal as set out in the section headed "Reasons for and benefits of the Disposal" in the Board Letter.

Accordingly, the Directors consider that the Consideration and the terms and conditions of the Sale and Purchase Agreement are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

Conditions Precedent: The Completion is conditional on the following Conditions being satisfied or, as the case may be, waived, on or before the Longstop Date:

(i) the relevant shareholders of the Company having approved the Sale and Purchase Agreement and the transactions contemplated thereunder in accordance with the Listing Rules;

(ii) the representations, warranties and undertakings of the Company given under the Sale and Purchase Agreement remaining true, accurate and not misleading;

(iii) the representations, warranties and undertakings of the Purchaser given under the Sale and Purchase Agreement remaining true, accurate and not misleading; and

(iv) all necessary governmental and other consents, approvals, licences, waivers and/or exemptions in respect of the execution and performance of the Sale and Purchase Agreement and any documents entered into in connection with the Sale and Purchase Agreement having been obtained and not having been revoked or withdrawn at any time before the Completion.

The Condition (i) above cannot be waived, in whole or in part, by any party to the Sale and Purchase Agreement. The Condition (ii) above may be waived in whole or in part by the Purchaser by notice in writing to the Company. The Condition (iii) above may be waived in whole or in part by the Company by notice in writing to the Purchaser. The parties to the Sale and Purchase Agreement may jointly waive the Condition (iv) above in whole or in part (to the extent not required by the Applicable Laws) by notice in writing to the other parties.

If the Conditions have not been satisfied or, as the case may be, waived by 11:59 p.m. (Hong Kong time) on the Longstop Date, the Sale and Purchase Agreement shall automatically terminate with immediate effect, save for certain surviving clauses in the Sale and Purchase Agreement, without prejudice to any rights or remedies of the parties to the Sale and Purchase Agreement which have accrued prior to such termination.

Completion: The Completion shall take place on the Completion Date.

Post-Completion: The Company shall, as soon as practicable, after Completion, use reasonable endeavours to procure its auditors to conduct a review of the accounts of the Disposal Group for FY2022 in accordance with the Hong Kong Standard on Review Engagements 2400 (Revised) and provide a statement as to the amount of the Adjusted NAV of the Disposal Group as at 31 December 2022 to the parties to the Sale and Purchase Agreement. If the Adjusted NAV of the Disposal Group reviewed by the auditors remains to be a negative amount or is not more than RMB2, the Consideration will remain unchanged. If the Adjusted NAV of the Disposal Group reviewed by the auditors is more than RMB2, the Consideration shall be adjusted to the amount of the Adjusted NAV of the Disposal Group (the "**Adjusted Consideration**") and the Purchaser shall pay to the Company an amount equal to the difference between the Adjusted Consideration and the Consideration (the "**Remaining Consideration**"). The Remaining Consideration shall be paid by the Purchaser in cash or in kind or a combination of both, at the election of the Purchaser. If the Purchaser elects to pay the Remaining Consideration wholly in cash, such payment shall be made pursuant to a payment schedule to be agreed by the parties to the Sale and Purchase Agreement. If the Purchaser elects to pay the Remaining Consideration partly or wholly in kind, the Company shall obtain further approval by the relevant shareholders of the Company with respect to such manner of settlement. If such proposal is rejected by those shareholders of the Company, the Remaining Consideration shall be settled in cash according to a payment schedule to be agreed by the parties to the Sale and Purchase Agreement. The payment of the Remaining Consideration by the Purchaser is subject to the requirements of the then prevailing Listing Rules applicable to CEG.

2.2 *Valuation of the Properties and basis to determine the Consideration*

As disclosed in the Board Letter, the Consideration is RMB2, which was determined after arm's length negotiations between the parties to the Sale and Purchase Agreement with reference to, *inter alia*, the unaudited net liabilities of the Disposal Group of approximately RMB24,789.4 million as at 31 December 2022 after taken into account of the property valuation of the property interests held by the Disposal Group of approximately RMB60,154 million as at 28 February 2023 (the "**Valuation Date**"), as valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the Independent Property Valuer.

In order to assess the expertise and independence of the Independent Property Valuer, we have obtained and reviewed its engagement letter and the relevant licenses, qualifications and experience of the Independent Property Valuer and its working team. We have also discussed with the working team of the Independent Property Valuer to understand its previous experiences on valuation projects, the methodologies, basis and assumptions which they have adopted in the Valuation Report as well as the steps and measures taken by them in conducting such valuation. We also understand from the Independent Property Valuer that it has carried out on-site inspections on the Projects and made relevant enquiries and searches for preparing such Valuation Report. The Independent Property Valuer confirmed that it is independent from the Group and their respective associates. Based on the above, we consider that the Independent Property Valuer is qualified and possesses relevant experience in conducting the valuations, and the terms and scope of the engagement between the Company and the Independent Property Valuer are appropriate to the opinion the Independent Property Valuer is required to give.

We have reviewed the list of projects valued by the Independent Property Valuer from the Valuation Report and crosschecked the list of the Projects set out in the Board Letter. We understood that property No.47 and property No.48 in the Valuation Report are properties grouped under property No.46, Kunming Evergrande International Health City, but they are listed and valuated separately in the Valuation Report since they are located at addresses or lot number different from Project Kunming Evergrande International Health City.

We have discussed with the Independent Property Valuer on the methodologies of, and basis and assumptions adopted therein. We noted that the valuation is carried out on a market value basis and we understood that (i) for property interests held for sale by the Group and the Company's joint ventures (the "**Joint Ventures**") in the PRC ("**Group I**"), property interests held for future development by the Group and Joint Ventures in the PRC ("**Group III**"), property interests held for investment by the Group in the PRC ("**Group IV**") and property interests held and occupied by the Group in the PRC ("**Group V**"), the Independent Property Valuer has adopted the comparison approach by making reference to comparable sales transactions as available in the market as this approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors; (ii) for property interests held under development by the Group and Joint Ventures in the PRC ("**Group II**"), the Independent Property Valuer has adopted the comparison approach by making reference to comparable sales transactions as available in the market and have also taken into account the accrued construction cost and professional fees relevant to the stage of construction as at the Valuation Date and the remainder of the cost and fees expected to be incurred for completing the development. We noted that the Independent Property Valuer has relied on the accrued construction cost and professional fees information provided by the Group and Joint Ventures according to the different stages of construction of the properties as at the Valuation Date, and did not find any material inconsistency from those of other similar developments; and (iii) for property interests contracted to be acquired by the Group and Joint Ventures in the PRC, who has entered into agreements with the relevant government authorities ("**Group VI**"), the Independent Property Valuer has attributed no commercial value to such property interests since the Group and Joint Ventures have not yet obtained the State-owned Land Use Rights Certificates/Real Estate Title Certificates (for land) and/or the payment of the land premium has not yet been fully settled as at the Valuation Date, while the Independent Property Valuer also opinioned on the market value of such property interests as at the valuation date assuming all the relevant legal issues have been settled. We understood from the Independent Property Valuer that the abovementioned comparison approach is fully in line with the relevant valuation and market standards for appraising the properties in the PRC.

We have selected the top five properties in terms of valuation as set out in the valuation report, namely Project No. 46 Kunming Evergrande International Health City, Project No. 14 Zhengzhou Evergrande Future Light, Project No. 28 Nantong Evergrande Cloud Garden, Project No. 24 Nanjing Evergrande Health Valley, and Project No. 7 Chongqing Shuangfu Evergrande Health City, (collectively, the "**Selected Properties**"). As the aggregated value of the Selected Properties accounts for approximately 30% of the total value of the 47 projects held by the Disposal Group, we are of the view that the review of the Selected Properties would be sufficient for the purpose of concluding that the valuation methodologies, the basis and assumptions are reasonable and acceptable. We have also reviewed the list of comparable sales transactions identified by the Independent Property Valuer ("**Comparable Properties**") for the constructions erected of Selected Properties from the Projects, and such Comparable Properties form an exhaustive list of properties most comparable to the Selected Properties in terms of location, time of transaction, usage, accessibility and other relevant factors. We noted that (i) the Comparable Properties are of car parking, commercial or residential use and located in the nearby districts of the Selected Properties; (ii) the transactions of Comparable Properties are conducted before the Valuation Date; and (iii) the information of the Comparable Properties is consistent with the information published on several real estate internet portals. We understood that the Comparable Properties are subject to appropriate adjustments when taking into account the differences in location, size and other characters between the Comparable Properties and the Selected Properties to arrive at the assumed unit price for the Comparable Properties, from which an upward adjustment is made to allow for conditions, functional obsolescence and other relevant factors if the Comparable Properties are inferior than the Selected Properties, or alternatively, a downward adjustment is made, which is in line with market practice. The Independent Property Valuer then used the average of the adjusted unit price of the Comparable Properties to arrive at a reasonable value of the Selected Properties.

We have also reviewed the list of comparable lands identified by the Independent Property Valuer ("**Comparable Lands**") for the Selected Properties and such Comparable Lands form an exhaustive list of lands most comparable to the Selected Properties in terms of location, time of transaction, usage, accessibility and other relevant factors. We noted that (i) the Comparable Lands are located in the nearby districts of the Selected Properties assuming all relevant title certificate has been obtained and could be freely transferred; (ii) the transactions of Comparable Lands are conducted before the Valuation Date; and (iii) the information of the Comparable Lands is consistent with relevant information from the database of China Real Estate Index System (CREIS). We understood that the Comparable Lands are also subject to appropriate adjustments when taking into account the differences in location, size and other characters between the Comparable Lands and the Selected Properties to arrive at the assumed accommodation value for lands of the Comparable Lands. The Independent Property Valuer then used the average of the assumed accommodation value of the Comparable Lands to arrive at a reasonable value of the lands of the Selected Properties.

In addition, we have obtained and reviewed the legal due diligence report on the Disposal Group. We have crosschecked the relevant description on the legal opinion as set out in the Valuation Report and noted that such description in the Valuation Report is consistent with that in the legal due diligence report. Especially, for those properties which the Independent Property Valuer attributed no commercial value as (i) the properties have been seized; (ii) the Group has not yet obtained the State-owned Land Use Rights Certificates/Real Estate Title Certificates (for land) and/or the payment of the land premium has not yet been fully settled as at the Valuation Date; and/or (iii) the constructions erected are in violation of relevant building approval procedures, we noted that the description of such properties in the legal due diligence report fits at least one of the three scenarios mentioned above.

Taking into account the above work and steps we have conducted in relation to the Valuation Report, including but not limited to (i) interviewing the Independent Property Valuer as to its expertise and its independence; (ii) reviewing the terms of engagement of the Independent Property Valuer and assessing the appropriateness of its scope of work; (iii) assessment on the reasonableness of the valuation methodologies, basis and assumptions being adopted in the Valuation Report; and (iv) reviewing the legal due diligence report on the Disposal Group, we are of the view that the valuation methodologies, the basis and assumptions adopted in the Valuation Report are reasonable and acceptable and the total market value of the property interests held by the Disposal Group as at the Valuation Date is fair and reasonable.

2.3 *Valuation of comparable peers of the Disposal Group*

In order to assess the potential valuation of the Disposal Group which is mainly engaged in the investment holding of health and living projects of the Group (being primarily residential and property development projects) in the PRC, we have conducted a search on companies (i) whose shares are listed on the Stock Exchange and were not subject to trading halt or suspension as at the Latest Practicable Date; (ii) whose business operations are in the PRC; and (iii) principally engaged in investment holding of health and living projects. However, no comparable companies can be identified under such criteria. We understood from the Company that the business nature of the Disposal Group is in essence a specific category of the property development business, and therefore we have modified the selection criteria to companies mainly engaged in property development business that also involved in investment holding of health and living projects. 6 comparable companies ("**Property Comparable Companies**") have been identified based on the above revised criteria, which is an exhaustive list and forms a representative sample to provide us with the recent market sentiment on the valuation of relevant companies. We consider such Property Comparable Companies are comparable with the Disposal Group in terms of business operation (i.e. property development business and holding of health and living projects), assets nature (i.e. heavy assets) and operation location (i.e. the PRC). Since the Disposal Group recorded loss for FY2022, we have adopted the price-to-book ratio (the "**P/B Ratio**") as the main multiple for our analysis purpose, which is widely accepted for valuation of companies with heavy assets such as property companies. Set out below is the summary of the Property Comparable Companies:

Stock code	**Company name**	**Percentage of revenue derived from property development segments**	**Market capitalisation as at the Latest Practicable Date** *(HK$ billion)*	**Net Assets** *(RMB billion)*	**P/B Ratio**[1] *(times)*
0337.HK	Greenland Hong Kong Holdings Limited	96%	1.8	14.0	0.12
0688.HK	China Overseas Land & Investment Ltd.	97%	222.2	354.5	0.56
0817.HK	China Jinmao Holdings Group Limited	90%	20.6	47.4	0.39
2329.HK	Glory Health Industry Limited	86%	0.8	11.7	0.06
3377.HK	Sino-Ocean Group Holding Limited	81%	5.9	31.7	0.17
3900.HK	Greentown China Holdings Limited	92%	26.0	36.0	0.64
Minimum					0.06
Average					0.32
Maximum					0.64

Source: Wind

Note:

1. The P/B Ratio of Comparable Companies are calculated based on their respective market capitalisation on the Latest Practicable Date and net assets attributable to owners of the Company as at 31 December 2022.

As shown in table above, the P/B Ratios of the Property Comparable Companies ranged from approximately 0.06 times to approximately 0.64 times, with an average of approximately 0.32 times. Given that (i) the P/B ratios of the Property Comparable Companies are all far below 1, indicating that the market valuation of such companies represents significant discount to their book value; and (ii) the Disposal Group had substantial total deficit of around RMB24.8 billion as at 31 December 2022, which is based on valuation of the property interests held by the Disposal Group of approximately RMB60,154 million, we are of the view the Consideration of RMB2 is fair and reasonable.

3. Reasons for and benefits of the transactions contemplated under the Sale and Purchase Agreement

3.1 *Rationale of the Disposal*

The Board undertakes strategic review of its businesses from time to time with a view to maximising returns to the Shareholders. We are of the view that based on the heavily geared financial status of the Group as a whole with deteriorated performance on both NEV Segment and Health Management Segment over the years, it is essential for the Group to reform its operation or assets in order to restore a sustainable operation.

The Disposal will allow the Group to focus on the NEV Segment and deploy the appropriate resources towards funding existing and future projects which will, in the long term, offer better and more sustainable returns to the Group and in turn benefit the Company and its Shareholders as a whole.

In 2018, the Group made a strategic entry into the new energy vehicle industry. Since then, it has set up its NEV Segment, established a vertical value-chain across the industry covering vehicle R&D, power batteries, electric motor control and powertrain technology, manufacturing, smart-charging and shared mobility. The Company showcased its first new energy vehicle series "Hengchi (恒馳)" in 2020 and the NEV Segment has emerged to be an area of key focus for the Company. As disclosed in the announcement of the Company dated 30 December 2022, the Group has delivered a total of 324 units of Hengchi 5 to the customers. As stated in the Board Letter, the Remaining Group had delivered over 900 units of Hengchi 5 to the customers as at the Latest Practicable Date. However, as at the Latest Practicable Date, the production of Hengchi 5 in the Group's Tianjin facilities was suspended due to insufficient funding.

We noted the Group has been developing new energy vehicle projects for vehicles, batteries and motors since 2019. Its R&D expenses increase significantly from RMB295.1 million in 2019 to RMB1,664.0 million in 2020. Since September 2020, the Company has conducted four rounds of equity fundraising activities and raised around HK$33 billion, which is mainly used for the R&D and production of the Group's new energy vehicles, paving the groundwork for putting Hengchi new energy vehicles into production.

In view of the significant capital commitment required by the NEV Segment, and having considered the Group's current resources, the Board is of the view that committing further resources in health and living projects within the Disposal Group would not be in line with its overall strategy to de-leverage and may pose limitations to the Group in the development of the NEV Segment.

By de-leveraging and reducing its holding of the Projects, through better focus and specialisation in the NEV Segment, the Board believes that the Company can take the NEV Segment to its next stage of growth. The Board also believes that the business growth in the NEV Segment will allow the Shareholders to realise shareholder value from their continued investment in the Remaining Group. Upon Completion, the Remaining Group will continue its existing principal business in the NEV Segment, and the holding of one residential and property development project in each of Tianjin and Nanning respectively.

After Completion, the Company would become a company purely focusing on the research, development and production of new energy vehicles in the NEV Segment, save and except that the Company will continue to hold the Tianjin Project and the Nanning Project in the short term. Given the recent appetite of the investors as revealed by the valuation of the fellow companies listed on the Stock Exchange which are principally engaged in the NEV Segment, the Company considers that the valuation of the Company would improve without two distinctive segments within the same Group. This in turn would attract investors and help raising funds. The Company is actively seeking external potential investors for possible cooperation opportunities. As at the Latest Practicable Date, no definitive agreement has been entered into with any potential investor.

In addition, since the Disposal Group will no longer be consolidated into the financial statements of the Group after Completion, the Company is of the view that the Disposal would be able to facilitate the audit process for the financial statements prepared after the Completion.

For our due diligence purpose, we have checked the policies and regulations in relation to the Disposal Group and the Remaining Group. On one hand, we noted there were strengthening regulatory requirements on the property development industry in the PRC since 2020. In 2020, the government implemented the 'three red lines' policy on the property development sector, and strict limits would be imposed on developers' allowable annual debt growth as the penalties for non-compliance. As mentioned in the National Real Estate Development and Sales in 2022 published by the National Bureau of Statistic of China, sales of commercial housing decreased by 26.7%, of which residential sales decreased by 28.3%. On October 16 2022, the government issued the Report to the 20th National Congress of the Communist Party of China, adhering to the principle that "housing is for living in and not for speculation" for the real estate industry. Although the central government issued steady policy support since late 2022, the sector has been struggling for several years, with various large developers mired in debt, and the three-year-long COVID-19 pandemic worsen the situation for property developers. Against the background of industry downturn and regulatory policy on the real estate industry as discussed above, it is expected the Disposal Group is difficult to turn around its current struggling financial performance. The Disposal Group recorded substantially declining revenue from RMB15.3 billion FY2020 to RMB1.5 billion for FY2022 and loss of approximately RMB16.8 billion for FY2021 and RMB8.8 billion FY2022. The Gearing Ratio of the Disposal Group increased from 99.2% as at 31 December 2020 to 119.2% as at 31 December 2021 and reached 134.6% as at 31 December 2022. As discussed with the management of the Company, we understood that the Company had been seeking opportunities on the disposal of the Projects to independent third parties but failed to reach any agreement in this regard. Based on the above, we consider that the Disposal would be overall beneficial to the Group in terms of deleveraging and risk control.

On the other hand, we noted the new energy vehicles are promoted by the PRC government along with supporting regulations and policies. On 26 October 2021, the State Council issued the Action Plan for Carbon Dioxide Peaking Before 2030, requiring that new energy vehicles and clean energy-powered vehicles make up 40% of all new vehicle sales by 2030. With reference to the published information on the Ministry of Industry and Information Technology of the PRC, the production and sales of new energy vehicles were approximately 7.1 million and 6.9 million respectively in 2022, representing a year-on-year increase of 96.9% and 93.4% respectively, and the sales of new energy vehicles reached 25.6% of the total sales of new vehicles, indicating an opportunity for future growth in the market under the current policy. According to Frost & Sullivan, China's sales volume of NEVs is expected to reach 10.6 million units in 2026, growing at a CAGR of 26.0% from 2021 and accounting for 43.9% of the global new energy vehicle market. Based on such supporting regulations, statistics and projection, we are of the view that the NEV Segment has a relatively promising development potential. As discussed with the Company, we understood that the potential investors which the Company is currently approaching are more interested in investing in the NEV Segment alone rather than the Group as a whole. The successful four rounds of equity fundraising by the Company since September 2020, the proceeds of which were mainly used for the R&D and production of the Group's new energy vehicles, also reflected the investors' appetite on the NEV Segment.

Having considered the above factors and the section headed "Financial Effect of the Disposal" in the Board Letter, the Board (including the independent non-executive Directors) is of the view and we concur that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are fair and reasonable and that the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder are in the interest of the Company and its Shareholders as a whole.

3.2 *Prospect of the Remaining Group and valuation of its comparable peers*

In order to assess the potential valuation of the Remaining Group which would focus on the NEV Segment on production of new energy vehicles, we have conducted a search on companies (i) whose shares are listed on the Hong Kong Stock Exchange; (ii) whose business operations mainly in the PRC; (iii) which have similar business nature of the NEV Segment (i.e., design, manufacture and sales of new energy vehicles); and (iv) 80% or more of whose total revenue is generated from the manufacturing and sales of new energy vehicles. 4 comparable companies ("**NEV Comparable Companies**") have been identified based on the abovementioned criteria, which is an exhaustive list and forms a representative sample to provide us with the recent market sentiment on the valuation of relevant companies. Given all NEV Comparable Companies recorded loss in FY2022, we have adopted the price-to-sales ratio (the "**P/S Ratio**") and the P/B Ratio as the main multiples for our analysis purpose. Set out below is the summary of the NEV Comparable Companies:

Stock code	Company name	Market Capitalisation as at the Latest Practicable Date	Percentage of revenue derived from manufacturing and sales of new energy vehicles	Revenue	Net Assets	P/S Ratio[1]	P/B Ratio[2]
		(HK$ billion)		*(RMB billion)*	*(RMB billion)*	*(times)*	*(times)*
2015.HK	Li Auto Inc.	192.1	97%	45.3	44.9	3.79	3.83
9863.HK	Zhejiang Leapmotor Technology Co., Ltd.	45.1	100%	12.4	8.3	3.26	4.88
9866.HK	NIO Inc.	114.3	92%	49.3	23.9	2.07	4.28
9868.HK	Xpeng Inc.	64.6	93%	26.9	36.9	2.15	1.56
Minimum						2.07	1.56
Average						2.82	3.64
Maximum						3.79	4.88
0708.HK	the Company[3]	34.70	0.5%	17.9	11.1	1.61	2.61

Source: Wind

Notes:

1. The P/S Ratios of NEV Comparable Companies are calculated based on their respective market capitalisation on the Latest Practicable Date and revenue for FY2022.

2. The P/B Ratios of NEV Comparable Companies are calculated based on their respective market capitalisation on the Latest Practicable Date and net assets attributable to owners of the company as at 31 December 2022.

3. The P/S Ratio and the P/B Ratio of the Company are calculated based on its market capitalisation on 31 March 2022, being the last trading day of the Shares before the suspension of trading, revenue of the Group for the 12 months ended 30 June 2021 and the net assets attributable to owners of the Company.

As shown in table above, the P/S Ratios of the NEV Comparable Companies ranged from approximately 2.07 times to approximately 3.79 times, with an average of approximately 2.82 times; and the P/B Ratios of the NEV Comparable Companies ranged from approximately 1.56 times to approximately 4.88 times, with an average of approximately 3.64 times. Since the lower end of the range of the P/S Ratios of the NEV Comparable Companies is higher than the P/S Ratio of the Company and the average P/B Ratio of the NEV Comparable Companies is higher than the P/B Ratio of the Company, it indicates the market might give higher valuation to the Remaining Group (i.e. the NEV Segment alone) than to the NEV Segment as a part of the Company.

In addition, we noted the P/B Ratios of the NEV Comparable Companies are all substantially higher than those of the Property Comparable Companies, which ranged from approximately 0.06 times to approximately 0.64 times, indicating that investors have better appetite for the prospects of companies in the NEV industry and therefore willing to give them higher valuation.

As stated in the Board Letter, it is expected that the residential units in the Tianjin Project will be delivered to the purchasers by the end of June 2023, and hence, Tianjin Guoneng will not form part of the Disposal Group. Regarding the Nanning Project, the Group is in negotiation with the relevant parties and intends to complete the disposal of Guangxi Lichi as soon as practicable. Given both projects are expected to be disposed in the near future, we consider that the temporary holding of the Tianjin Project and Nanning Project would have little bearing on our assessment of the valuation of the Remaining Group and conclusion that the market might give higher valuation to the Remaining Group.

The Company is facing the problems including but not limited to, high gearing, lack of working capital, illiquidity of assets represented by the Projects, new energy vehicle production was halted, we agreed with the Board that carving out the Disposal Group allows the Group to better focus on the NEV Segment. The Board expects only with a streamlined business strategy and offloading the liabilities burden in associated with the Projects, it is more likely to attract new investors to collaborate with the Group in revitalising and expanding the NEV Segment. The Remaining Group is still subject to among others, business risks and liquidity risks as mentioned in Appendix V to the

Circular thus the operations remains challenging as a whole for the Group despite the Disposal could improve its financial burden from the Disposal Group. In view of the significant investments made by the Company on the NEV Segment in the past few years, we believed through reorganising the key business line by carving out the Health Management Segment and if the Group is able to ramp up its production with new funding from investors, financier or other market players, there are great chances the Remaining Group that focusing on the NEV Segment can form a major source of revenue for the Group over time.

4. Financial effects of the Disposal

Upon Completion, the Company will cease to have any interest in the Disposal Group and the financial information of the Disposal Group will no longer be consolidated into the consolidated financial statements of the Group. The analysis below is based on the unaudited pro forma financial information of the Remaining Group as set out in Appendix IV to the Circular (the "**Pro Forma Financial Information**"). It should be noted that such analysis is for illustrative purposes only and does not purport to represent how the financial position of the Remaining Group will be upon the Completion.

4.1 *Effects on net assets*

As at 30 June 2021, the Group had unaudited net assets attributable to owners approximately RMB11,080.2 million. Based on, the net assets attributable to owners of the Remaining Group would be approximately RMB10,240.4 million, representing a decrease of approximately 7.6% as compared to the net assets attributable to owners of the Group as at 30 June 2021.

4.2 *Effects on liabilities*

As at 30 June 2021, the Group had unaudited total liabilities of approximately RMB153,014.7 million. Based on the Pro Forma Financial Information, the total liabilities of the Remaining Group would be approximately RMB50,293.4 million, representing a decrease of approximately 67.1% as compared to the total liabilities of the Group as at 30 June 2021.

The Gearing Ratio of the Remaining Group would be 81.7% as at 30 June 2021, representing a substantial decrease from the Gearing Ratio of the Group of approximately 92.7% as at 30 June 2021.

4.3 *Effects on working capital*

As at 30 June 2021, the Group had a negative unaudited working capital of approximately RMB12,999.3 million. Based on the Pro Forma Financial Information, the negative working capital of the Remaining Group would be approximately RMB21,636.4 million, representing a decrease of approximately RMB8,637.1 million as compared to the working capital of the Group as at 30 June 2021.

As mentioned in the Appendix I to the Circular, to address the working capital sufficiency issue, the Directors will seek other possible financing alternatives (including both equity financing, i.e. the issue of new Shares to the major Shareholders and/or potential investors, and debt financing, i.e. borrowings from banks/financial institutions and/or the major Shareholders) in order to fulfil the future working capital requirements of the Remaining Group if necessary.

4.4 *Effects on earnings*

For FY2020, the Group recorded unaudited loss for the year of approximately RMB7,664.9 million. Based on the Pro Forma Financial Information, the loss for the year of the Remaining Group would be approximately RMB7,740.0 million, representing an increase of approximately RMB75.1 million as compared to loss for the year of the Company for FY2020.

Based on the above analysis, we are of the view that, although the Remaining Group would still suffer from insufficient working capital and loss making, the Disposal has overall positive financial effects on the Group's financial position and is in the interest of the Company and the Independent Shareholders as a whole.

5. Application for the Waiver

As stated in the Board Letter, the Company has applied to the Stock Exchange for the Waiver from strict compliance with the Rules Requirements and the Stock Exchange has granted the Waiver to the Company from strict compliance with the Rules Requirements. For further details of the Waiver, please refer to the section headed "WAIVER FROM STRICT COMPLIANCE WITH RULES" in the Board Letter.

Shareholders should be fully aware of the limitation on the professional assurance with respect to the unaudited financial information of the Disposal Group. We emphasise that the unaudited financial information for FY2021 and FY2022 has not been reviewed or audited. The unaudited financial information is only based on the preliminary assessment of the Board, and is not based on any other data or information that has been audited or reviewed by the auditor of the Company. The Board and we cannot guarantee that the unaudited financial information truly reflects the financial performance and position of the Disposal Group and such information might be misleading if any potential adjustments have not been taken into account. Accordingly, Shareholders and potential investors of the Company are advised to exercise caution in placing reliance on the unaudited financial information when marking their voting decisions.

Fully informed about the grounds for applying for the Waiver, we as the Independent Financial Adviser can only opine on the reasonableness of any transaction based on the available information provided to or obtained by us during the course of preparing our recommendation. Since the latest published audited accounts for FY2020 were too outdated to be used by us to conduct any meaningful analysis, we have therefore based on the unaudited financial information (which the Board believes such be able to provide the Independent Shareholders with a broad indication of the Disposal Group's financial position and performance during FY2021 and FY2022) to conduct our analysis. However, the Independent Shareholders are reminded to exercise caution in placing reliance on the unaudited financial information and are advised to also consider other factors set out in our letter upon which we draw our opinion and advice.

We focused on whether the financial figures, even unaudited and not even reviewed by the Company's reporting accountant, can provide sufficient ground to confirm that the Disposal Group is in net deficit position and plagued by the cash flow and going concern issues and hence to form our recommendation to the Independent Board Committee and the Independent Shareholders of the Company. We consider that the Independent Board Committee and the Independent Shareholders of the Company can still form a reasonable ground and view to vote given (i) their possession of information as revealed by the management accounts of the Disposal Group for the three years ended 31 December 2022 as set out in Appendix II of the Circular; (ii) the unaudited financial information of the Disposal Group has taken into account of the latest valuation of the Projects conducted by the Independent Property Valuer as set out in Appendix III to the Circular; (iii) their understanding that the Disposal Group is an enormous burden to the Group as a whole based on the aforementioned issues discussed in the section headed "3.1 Rationale of the Disposal" in this letter; (iv) their understanding that the Disposal is an essential step for the corporate rescue exercise; (v) we have conducted an interview with Prism, who is in the course of preparing the audit of the Company, confirming that after taking into account of information available and audit/review procedures performed, it is expected the Disposal Group shall remain as net deficit position as at 31 December 2022 upon completion of the review, notwithstanding that the review of the financial statements of the Disposal Group for FY2021 and FY2022 had not been completed as at the Latest Practicable Date; and (vi) there is a post-completion adjustment mechanism on the consideration of the Disposal Group to safeguard the interest of the Independent Shareholders should the Adjusted NAV of the Disposal Group reviewed by the auditors is more than RMB2.

As elaborated above, we consider that there will be sufficient information for us as well as the Independent Board Committee and the Independent Shareholders of the Company to assess the Sale and Purchase Agreement and the transactions contemplated thereunder and/or make a properly informed voting decision notwithstanding the Waiver.

RECOMMENDATION

Having taken into consideration the above principal factors and reasons, we consider that (i) the terms of the Sale and Purchase Agreement are fair and reasonable; and (ii) although the Disposal is not in the ordinary and usual course of business, it is in on normal commercial terms and the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favor of the relevant resolution(s) at the GM to approve the transactions contemplated under the Sale and Purchase Agreement.

Yours faithfully,
For and on behalf of
Maxa Capital Limited

Michael Fok
Managing Director

Dian Deng
Managing Director

Mr. Michael Fok is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Maxa Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 23 years of experience in the corporate finance industry. Ms. Dian Deng is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Maxa Capital Limited to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has over 15 years of experience in the corporate finance industry.