

27 May 2022

*To the Independent Board Committee*

Dear Sirs,

**MANDATORY CONDITIONAL CASH OFFER BY  
DBS ASIA CAPITAL LIMITED AND CHINA TONGHAI CAPITAL LIMITED  
FOR AND ON BEHALF OF  
BEIJING ENTERPRISES WATER GROUP LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES OF  
BEIJING ENTERPRISES URBAN RESOURCES GROUP LIMITED  
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED  
BY BEIJING ENTERPRISES WATER GROUP LIMITED)**

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the mandatory conditional cash offer being made by DBSAC and China Tonghai for and on behalf of the Offeror to acquire all the Offer Shares. Details of the Offer are set out in the Composite Document date 27 May 2022 jointly issued by the Offeror and BEURG to the BEURG Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Composite Document unless the context otherwise requires.

As set out in the letter from the board of directors of BEURG (the “**Letter from the Board of BEURG**”) contained in the Composite Document, during the period from 30 March 2022 to 25 April 2022, the Offeror acquired a total of 114,684,000 BEURG Shares and on 25 April 2022, the Offeror acquired an additional 45,448,000 BEURG Shares. All the Acquisitions were conducted on the open market. The total consideration (excluding stamp duty and transaction levies) paid by the Offeror for the 114,684,000 BEURG Shares acquired from 30 March 2022 to 25 April 2022 amounted to HK\$84,360,126.80 (with the consideration paid per BEURG Share being HK\$0.61 to HK\$0.78). Following the Acquisition on 25 April 2022, (i) the shareholding of the Offeror in BEURG increased from approximately 29.97% to 31.23% of the issued share capital of BEURG as at the Latest Practicable Date; and (ii) the shareholding of the Offeror and parties acting in concert with it (i.e. Star Colour Investments Limited, Mr. Zhou Chen, Maolin Investments Limited, Beijing Holdings Limited and Mr. Li Haifeng) in BEURG increased from approximately 37.38% to 38.64% of the issued share capital of BEURG as at the Latest Practicable Date.

On 10 May 2022, the Offeror and the Offeror Concert Parties entered into the Acting In Concert Agreement, pursuant to which each of the Offeror Concert Parties irrevocably and unconditionally undertook to the Offeror that it would act in concert with the Offeror with respect to BEURG whereby each of the Offeror Concert Parties would vote in the same manner as the Offeror in meetings of shareholders of BEURG. As at the Latest Practicable Date, the Offeror Concert Parties were interested in an aggregate of 465,572,000 BEURG Shares, representing approximately 12.93% of the issued share capital of BEURG, and the Offeror and parties acting in concert with it (including the Offeror Concert Parties) held 1,589,856,000 BEURG Shares, representing approximately 44.16% of the issued share capital of BEURG. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make a mandatory conditional cash offer for all the issued BEURG Shares (other than those already owned or agreed to be acquired by the Offeror).

Pursuant to Rule 2.1 of the Takeovers Code, the Independent Board Committee, an independent committee of the board of BEURG comprising all the non-executive directors of BEURG who have no direct or indirect interest in the Offer, namely, Mr. Orr Ka Yeung, Kevin, Mr. Wu Tak Kong and Dr. Du Huanzheng, has been formed in accordance with Rule 2.8 of the Takeovers Code for the purpose of advising and giving recommendation to the Independent Shareholders in respect of the Offer, and in particular as to whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer. As Mr. Zhou Min, Mr. Li Haifeng and Mr. Li Li, each being a non-executive director of BEURG, is an executive director of the Offeror and therefore, party acting in concert or presumed to be acting in concert with the Offeror, they are not members of the Independent Board Committee. As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee in such regard. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee.

As at the Latest Practicable Date, Lego Corporate Finance Limited did not have any relationships or interests with BEURG, the Offeror or any other parties that could reasonably be regarded as relevant to the independence of Lego Corporate Finance Limited. As at the Latest Practicable Date, we are not associated or connected with BEURG or the Offeror, or any party acting, or presumed to be acting, in concert with any of them. During the past two years immediately preceding and up to the date of our appointment as the Independent Financial Adviser, save for this appointment as the Independent Financial Adviser in respect of the Offer, there were no other engagements between Lego Corporate Finance Limited and BEURG or the Offeror. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees or benefits from BEURG or the Offeror or any party acting, or presumed to be acting, in concert with any of them. Accordingly, we are considered eligible to give independent advice on the Offer.

## **BASIS OF OUR OPINION**

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Composite Document; (ii) the information supplied by the BEURG Group; (iii) the opinions expressed by and the representations of the directors of BEURG (the “**Directors**”); and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us by the Directors, for which they are solely and wholly responsible for, or contained or referred to in the Composite Document were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Composite Document are true at the time they were made and continue to be true as at the Latest Practicable Date and the Shareholders will be notified of any material changes to such information and representations and our opinion as soon as possible in accordance with Rule 9.1 of the Takeovers Code during the Offer Period. We have also assumed that all such statements of belief, opinions and intentions of the Directors and those as set out or referred to in the Composite Document were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the BEURG Group.

We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Composite Document and that all information or representations provided to us by the BEURG Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the Latest Practicable Date.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Composite Document so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors or the Offeror, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of BEURG, the Offeror or any of their respective subsidiaries and associates.

## PRINCIPAL TERMS OF THE OFFER

The Offer is conditional and is made by DBSAC and China Tonghai for and on behalf of the Offeror in compliance with the Takeovers Code.

As at the Latest Practicable Date, there are 3,600,000,000 BEURG Shares in issue and BEURG does not have any outstanding options, warrants or derivatives or convertible rights convertible into BEURG Shares. The Offeror was interested in 1,124,284,000 BEURG Shares, representing approximately 31.23% of the issued share capital of BEURG, as at the Latest Practicable Date and such BEURG Shares will not be subject to the Offer. Accordingly, 2,475,716,000 BEURG Shares will be subject to the Offer and the Offer will be made to the Independent Shareholders. Based on the offer price of HK\$0.78 per Offer Share, the total consideration for the Offer would be HK\$1,931,058,480.

The Offer Shares to be acquired under the Offer shall be fully paid and free from any Encumbrance and together with all rights and benefits attached thereto including, the right to receive all dividends and other distribution declared, made or paid on or after the date on which the Offer is made, that is, the date of despatch of the Composite Document. Save for the Dividend of HK\$0.03 per BEURG Share recommended by the board of directors of BEURG, details of which are set out in the announcement of BEURG dated 29 March 2022, BEURG confirms that as at the Latest Practicable Date, it does not intend to declare, pay, make, or agree to pay or make any dividends on or after the date of the Composite Document and up to closing of the Offer. The Offer Price will not be adjusted for the Dividend.

## PRINCIPAL FACTORS AND REASONS CONSIDERED FOR THE OFFER

In formulating our opinion and recommendations with regard to the Offer, we have taken into account the following principal factors and reasons:

### 1. Background information of the BEURG Group

#### 1.1. *Principal businesses and information on the BEURG Group*

The BEURG Group is principally engaged in the provision of environmental hygiene services, hazardous waste treatment services and waste electrical and electronic equipment treatment services.

## 1.2. Historical financial information

The following table is an extract of the consolidated statement of profit or loss and other comprehensive income of the BEURG Group for the years ended 31 December 2019, 2020 and 2021 as extracted from the annual reports of BEURG for the year ended 31 December 2020 (the “2020 Annual Report”) and for the year ended 31 December 2021 (the “2021 Annual Report”).

	For the year ended 31 December		
	2019	2020	2021
	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)
Continuing operations			
Revenue	2,711,228	3,520,047	4,450,165
Gross profit	783,445	1,086,704	1,162,158
Profit before tax from			
continuing operations	433,360	703,777	719,058
Profit for the year from			
continuing operations	345,868	540,412	582,165
Discontinued operation			
Profit for the year from a			
discontinued operation	6,146	–	–
Profit for the year	352,014	540,412	582,165
Profit for the year attributable to			
BEURG Shareholders	281,328	426,829	502,033

### (i) Revenue

The revenue of the BEURG Group increased by approximately 29.8% from approximately HK\$2,711.2 million for the year ended 31 December 2019 to approximately HK\$3,520.0 million for the year ended 31 December 2020. As stated in the 2020 Annual Report, the increase in revenue was mainly due to increased revenue from the BEURG Group’s environmental hygiene services projects. As at 31 December 2020, the BEURG Group had a total of 113 environmental hygiene services projects, compared to that of 97 projects as at 31 December 2019.

The revenue of the BEURG Group for the year ended 31 December 2021 further increased by approximately 26.4% from approximately HK\$3,520.0 million to approximately HK\$4,450.2 million. As disclosed in the 2021 Annual Report, the increase in revenue was mainly driven by (i) increased revenue from the BEURG Group's environmental hygiene services and hazardous waste treatment projects; and (ii) the recovery of the PRC economy. As at 31 December 2021, the BEURG Group had 128 environmental hygiene services projects and 8 hazardous waste treatment projects in operation.

(ii) Gross profit and gross profit margin

The gross profit of the BEURG Group increased from approximately HK\$783.4 million for the year ended 31 December 2019 to approximately HK\$1,086.7 million for the year ended 31 December 2020. The increase in gross profit was primarily attributable to the increase in revenue. The gross profit margin of the BEURG Group improved from approximately 28.9% for the year ended 31 December 2019 to approximately 30.9% for the year ended 31 December 2020. The improvement was mainly due to the increase in the value-added tax relief and other relief granted by the local government in the PRC in connection with the environmental hygiene services projects due to the COVID-19 pandemic.

The gross profit of the BEURG Group for the year ended 31 December 2021 increased by approximately 6.9% to approximately HK\$1,162.2 million. The increase in the gross profit was mainly attributable to the increase in revenue. However, the gross profit margin of the BEURG Group decreased to approximately 26.1% for the year ended 31 December 2021, which was primarily attributable to (i) the decrease in the value-added tax relief and other relief granted by the local government in the PRC as compared to that of 2020; (ii) the decrease in average sales price of the BEURG Group's hazard-free waste disposal projects; and (iii) the increase in the procurement costs of waste methanol and mixed alcohol during the year ended 31 December 2021.

(iii) Net profit attributable to BEURG Shareholders

The BEURG Group recorded a net profit attributable to the BEURG Shareholders of approximately HK\$426.8 million for the year ended 31 December 2020, representing an increase of approximately 51.7% as compared to that of 2019. The BEURG Group's net profit attributable to the Shareholders further increased to approximately HK\$502.0 million for the year ended 31 December 2021, representing an increase of approximately 17.6% as compared to that of 2020. The increase in net profit attributable to the Shareholders was in line with the increase in revenue.

Sets forth below is an extract of the consolidated statement of financial position of the BEURG Group as at 31 December 2019, 2020 and 2021 extracted from the 2020 Annual Report and 2021 Annual Report:

	As at 31 December		
	2019	2020	2021
	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)
Non-current assets	2,700,459	3,579,313	4,067,461
Current assets	2,286,741	3,539,011	4,097,454
Total assets	4,987,200	7,118,324	8,164,915
Current liabilities	1,617,589	2,321,969	1,666,345
Non-current liabilities	1,112,053	1,129,290	2,277,875
Total liabilities	2,729,642	3,451,259	3,944,220
Net assets attributable to			
BEURG Shareholders	1,813,820	3,011,527	3,498,237

As at 31 December 2019, the total assets of the BEURG Group amounted to approximately HK\$4,987.2 million. Assets of the BEURG Group mainly include (i) property, plant and equipment of approximately HK\$1,748.6 million, representing approximately 35.1% of the total assets; (ii) cash and cash equivalents of approximately HK\$1,051.9 million, representing approximately 21.1% of the total assets; and (iii) trade and bills receivables of approximately HK\$800.0 million, representing approximately 16.0% of the total assets.

As at 31 December 2020, the total assets of the BEURG Group increased by approximately 42.7% to approximately HK\$7,118.3 million. Assets of the BEURG Group mainly include (i) property, plant and equipment of approximately HK\$2,283.0 million, representing approximately 32.1% of the total assets; (ii) cash and cash equivalents of approximately HK\$1,725.3 million, representing approximately 24.2% of the total assets; and (iii) trade and bills receivables of approximately HK\$1,132.2 million, representing approximately 15.9% of the total assets.

The total assets of the BEURG Group further increased to approximately HK\$8,164.9 million as at 31 December 2021. Assets of the BEURG Group mainly include (i) property, plant and equipment of approximately HK\$2,748.0 million, representing approximately 33.7% of the total assets; (ii) cash and cash equivalents of approximately HK\$1,688.9 million, representing approximately 20.7% of the total assets; and (iii) trade and bills receivables of approximately HK\$1,579.8 million, representing approximately 19.3% of the total assets.

As at 31 December 2019, the total liabilities of the BEURG Group amounted to approximately HK\$2,729.6 million. Liabilities of the BEURG Group mainly include (i) other payables and accruals of approximately HK\$942.2 million, representing approximately 34.5% of the total liabilities; and (ii) interest-bearing bank and other borrowings of (a) a current portion of approximately HK\$564.0 million, representing approximately 20.7% of the total liabilities; and (b) a non-current portion of approximately HK\$825.8 million, representing approximately 30.3% of the total liabilities.

As at 31 December 2020, the total liabilities of the BEURG Group increased to approximately HK\$3,451.3 million. Liabilities of the BEURG Group mainly include (i) other payables and accruals of approximately HK\$1,085.9 million, representing approximately 31.5% of the total liabilities; and (ii) interest-bearing bank and other borrowings of (a) a current portion of approximately HK\$986.0 million, representing approximately 28.6% of the total liabilities; and (b) a non-current portion of approximately HK\$772.6 million, representing approximately 22.4% of the total liabilities.



The total liabilities of the BEURG Group further increased to HK\$3,944.2 million as at 31 December 2021. Liabilities of the BEURG Group mainly include (i) a non-current portion of interest-bearing bank and other borrowings of approximately HK\$1,912.8 million, representing approximately 48.5% of the total liabilities; and (ii) other payables and accruals of approximately HK\$972.6 million, representing approximately 24.7% of the total liabilities.

Net asset value attributable to BEURG Shareholders amounted to approximately HK\$3,498.2 million as at 31 December 2021, with a net asset value attributable to BEURG Shareholders per BEURG Share of approximately HK\$0.97, calculated based on the net assets attributable to BEURG Shareholders of approximately HK\$3,498.2 million divided by the total number of issued BEURG Shares as at 31 December 2021 of 3,600,000,000.

1.3. *Market overview of the environmental hygiene and waste treatment industry in the PRC*

Continued growth of environmental hygiene and hazardous waste disposal industry in the PRC

According to the public information available from the National Bureau of Statistics of China (中華人民共和國國家統計局), the PRC's GDP increased from approximately RMB83,094.6 billion in 2017 to approximately RMB113,351.8 billion in 2021, representing a compound annual growth rate ("CAGR") of approximately 8.1%. The increase in the national production capacity resulted in an increase in the production of hazardous waste and therefore increased the market demand in hazardous waste treatment services. According to the National Bureau of Statistics of China, the investment in urban environmental infrastructure construction for environmental pollution control increased from approximately RMB541.2 billion in 2016 to approximately RMB684.2 billion in 2020, representing a CAGR of approximately 6.0%, indicating the increase of demand in waste treatment. In addition, the investment in urban construction for environmental hygiene in PRC increased from RMB56.1 billion in 2016 to RMB113.0 billion 2020, representing a CAGR of 19.1%. The continued surge in such investment reflected an endeavor to uphold higher standards in environmental hygiene.

## Regulatory support from the PRC government

According to “The implementation plan for strengthening the reform of supervision and utilisation of disposal capacity of hazardous waste” (強化危險廢物監管和利用處置能力改革實施方案) issued in May 2021, the State Council shall improve the ability to monitor, utilise and dispose hazardous waste, and effectively control environmental and safety risks of hazardous waste. In May 2021, the National Development and Reform Commission (國家發展和改革委員會) and other departments have also promulgated the “14th Five-Year Plan for Urban Domestic Waste Classification and Treatment Facilities Development Plan” (「十四五」城鎮生活垃圾分類和處理設施發展規劃), focusing on the sustainable development through the treatment of urban waste. As stated in the “Opinions on Promoting Green Development of Urban and Rural Construction” (關於推動城鄉建設綠色發展的意見) published by the General Office of the State Council (國務院辦公廳) in October 2021, governance in urban and rural environmental hygiene are being promoted.

### 1.4. Prospects of the BEURG Group

Despite the COVID-19 pandemic continues to evolve in 2022 and casts uncertainty over the economic outlook of the PRC, the PRC government has been imposing precautionary measures such as injection of COVID-19 vaccines and quarantine of infected patients, to safeguard public health and to allow the resuming of normal business activities. The Directors are of the view that the overall PRC economy will continue to recover in 2022. According to the press conference held by the State Council Information Office (國務院新聞辦公室) in March 2022, it is expected that the economy shall continue to recover and the major economic indicators in January and February 2022 have rebounded, including but not limited to (i) the increase in production demand; (ii) the increase in total import and export of goods; and (iii) stable consumer price index.

According to the 2021 Annual Report, as of 31 December 2021, the treatment facilities of BEURG’s projects that are engaged in hazard-free waste disposal have reached a total designed treatment capacity of 351,016 tons per annum, representing a growth of approximately 3.6% as compared to that of 2020 and treatment facilities of projects that are engaged in recycling and reuse have a total designed treatment capacity of 250,000 tons per annum which maintained at a similar level as that of 2020. In addition, the BEURG Group also had 4 projects under construction and 4 projects planned for future construction. According to the management of BEURG, these projects will further increase the overall designed treatment capacity of the BEURG Group upon completion.

Taking into consideration (i) the prospect of continuous growth of the PRC economy, leading to surging demand in waste treatment and pollution control services; (ii) the promotion of hazardous waste disposal industry by the PRC government; (iii) the forthcoming increase in the overall capacity of hazardous waste treatment services of the BEURG Group as a result of the aforementioned projects under construction/planned for future construction; and (iv) the intention of the BEURG Group to participate in more tendering process for new environmental hygiene service projects, we are of the view that the BEURG Group is expected to benefit from the growth of the industry in the PRC.

## **2. Background information of the Offeror and the Offeror Concert Parties**

### *The Offeror*

The Offeror is a company incorporated in Bermuda with limited liability, and the shares of which are listed on the main board of the Stock Exchange (stock code: 371). The Offeror is an investment holding company. The Offeror, through its subsidiaries, is principally engaged in construction of sewage and reclaimed water treatment plants and seawater desalination plants, and provision of construction services for comprehensive renovation projects in the PRC, Malaysia, Australia and Republic of Botswana; provision of sewage and reclaimed water treatment services in the PRC, the Republic of Singapore, the Portuguese Republic, Australia and New Zealand; distribution and sale of piped water in the PRC, the Portuguese Republic and Australia; provision of technical and consultancy services and sale of machineries related to sewage treatment and construction services for comprehensive renovation projects in the PRC and Australia; and the licensing of technical know-how related to sewage treatment in the PRC.

As at the Latest Practicable Date, apart from (i) an aggregate of 4,153,717,070 shares of the Offeror (representing approximately 40.98% of the issued share capital of the Offeror) are held by Beijing Enterprises Environmental Construction Limited; (ii) an aggregate of 1,588,495,436 shares of the Offeror (representing approximately 15.67% of the issued share capital of the Offeror) are owned or deemed to be interested by Three Gorges Capital Holdings (HK) Co., Limited, Three Gorges Capital Holding Co., Ltd, Yangtze Ecology and Environment (HK) Investment Limited, Yangtze Ecology and Environment Co., Ltd. and China Three Gorges Corporation, each being a substantial shareholder of the Offeror; and (iii) an aggregate of 389,225,376 shares of the Offeror (representing approximately 3.84% of the issued share capital of the Offeror) are owned or deemed to be interested by certain directors of the Offeror, the remaining 4,004,383,989 shares of the Offeror (representing approximately 39.51% of the issued share capital of the Offeror) are held by public shareholders.

*Star Colour Investments Limited*

Star Colour Investments Limited is a company incorporated in the BVI with limited liability, holding 104,820,000 BEURG Shares, representing approximately 2.91% of the issued shares of BEURG as at the Latest Practicable Date. Star Colour Investments Limited is principally engaged in investment holding. Mr. Zhou Min, a non-executive director and the chairman of BEURG and an executive director and the chief executive officer of BEWG, is the sole shareholder and sole director of Star Colour Investments Limited.

*Zhihua Investments Limited*

Zhihua Investments Limited is a company incorporated in the BVI with limited liability, holding 97,920,000 BEURG Shares, representing approximately 2.72% of the issued shares of BEURG as at the Latest Practicable Date. Zhihua Investments Limited is principally engaged in investment holding. Mr. Hu Xiaoyong is the sole shareholder and sole director of Zhihua Investments Limited.

*Mr. Zhou Chen*

Mr. Zhou Chen, an executive director of BEURG and a son of Mr. Zhou Min, holds 71,140,000 BEURG Shares, representing approximately 1.98% of the issued shares of BEURG as at the Latest Practicable Date.

*ZGC International Holding Limited*

ZGC International Holding Limited is a company incorporated in Hong Kong with limited liability, holding 60,972,000 BEURG Shares, representing approximately 1.69% of the issued shares of BEURG as at the Latest Practicable Date. ZGC International Holding Limited is principally engaged in investment and asset management, provision of technology intermediary services and financial services. The ultimate beneficial owner of ZGC International Holding Limited is the People's Government of Beijing Municipality. The directors of ZGC International Holding Limited are Mr. Zhao Xiaopeng, Mr. Li Tianlong and Mr. Qiu Lijing.

*Maolin Investments Limited and Mr. Li Haifeng*

Maolin Investments Limited is a company incorporated in the BVI with limited liability, holding 48,960,000 BEURG Shares, representing approximately 1.36% of the issued shares of BEURG as at the Latest Practicable Date. Maolin Investments Limited is principally engaged in investment holding. Maolin Investments Limited is wholly-owned by Mr. Li Haifeng, a non-executive director of BEURG and an executive director of BEWG, is the sole shareholder and sole director of Maolin Investments Limited. Mr. Li Haifeng holds 1,840,000 BEURG Shares, representing approximately 0.05% of the issued shares of BEURG as at the Latest Practicable Date.

*Beijing Holdings Limited*

Beijing Holdings Limited is a company incorporated in Hong Kong with limited liability, holding 40,000,000 BEURG Shares, representing approximately 1.11% of the issued shares of BEURG as at the Latest Practicable Date. Beijing Holdings Limited is principally engaged in investment holding. The ultimate beneficial owner of Beijing Holdings Limited is the People's Government of Beijing Municipality. The directors of Beijing Holdings Limited are Ms. Chang Ling, Mr. Yang Zhichang, Mr. Liu Yong, Mr. Cong Chunshui, Mr. Zhang Yuzhuang and Mr. Yan Feng.

*Long March Holdings Limited*

Long March Holdings Limited is a company incorporated in the BVI with limited liability, holding 39,920,000 BEURG Shares, representing approximately 1.11% of the issued shares of BEURG as at the Latest Practicable Date. Long March Holdings Limited is principally engaged in investment holding. Mr. Zhao Kexi, an executive director and the chief executive officer of BEURG, is the sole shareholder and sole director of Long March Holdings Limited.

**3. Intentions of the Offeror regarding the BEURG Group**

According to the letter from DBSAC and China Tonghai in the Composite Document (the "**Letter from DBSAC and China Tonghai**"), the management of BEWG believes that if BEURG becomes a subsidiary of BEWG, there would be a synergy effect which could in turn help the overall image and business of BEURG and BEWG. As such, BEWG proceeded with the Acquisitions and subsequently, entered into the AIC Agreement with the Offeror Concert Parties to facilitate BEWG to seek to consolidate its control over BEURG.

It is noted that the principal businesses of the BEWG Group include operations in water treatment plants, and provision of construction and technical services for the water environmental renovation. According to the annual report of BEWG for the year ended 31 December 2021, with an extensive business coverage, the BEWG Group's water plants have extended to 20 provinces, 5 autonomous regions and 4 municipalities all across Mainland China. In addition, we understand from the management of BEURG that, given the businesses of both the BEWG Group and BEURG Group belong to the environmental protection industry, in the event that BEURG becomes a subsidiary of BEWG, BEURG could benefit from the extensive business network of BEWG in developing more business opportunities, such as tagging along with the large-scale tender projects which require integrated services including environmental hygiene and waste treatment services, and therefore benefiting the business development of the BEURG Group as a whole.

We understand from the management of BEWG that, BEWG will also be able to better utilise BEURG as one of its platforms in the overall strategic development of the businesses of BEWG in the environmental protection industry, specialising in the treatment of household and industrial waste, thereby reinforcing BEWG's leading market position in the industry. In addition, the financial position of BEWG will be enhanced if the financial results of BEURG can be consolidated into the consolidated financial statements of BEWG.

In addition, according to the Letter from DBSAC and China Tonghai, it is the intention of the Offeror to continue with the BEURG Group's existing principal business following the close of the Offer. The Offeror does not intend to introduce any major changes to the existing business and operation of the BEURG Group following the close of the Offer. As at the Latest Practicable Date, the Offeror had not entered into any agreement, arrangement or understanding pursuant to which the Offeror will transfer, charge or pledge any Offer Shares to be purchased by it under the Offer to any other person, and the Offeror has no intention to discontinue the employment of the employees or to dispose of or re-deploy the material assets of the BEURG Group. The Offeror will continue to ensure good corporate governance, monitor and review the BEURG Group's business and operations from time to time, and may take steps that it deems necessary or appropriate to optimise the value of the BEURG Group.

Based on the above, we consider that BEWG's consolidation of control over BEURG is beneficial to the prospects of both BEWG and BEURG on the view that they, as a group, can develop more effective business development strategies by pulling each other's resources together and whereby creating synergies and more business opportunities.

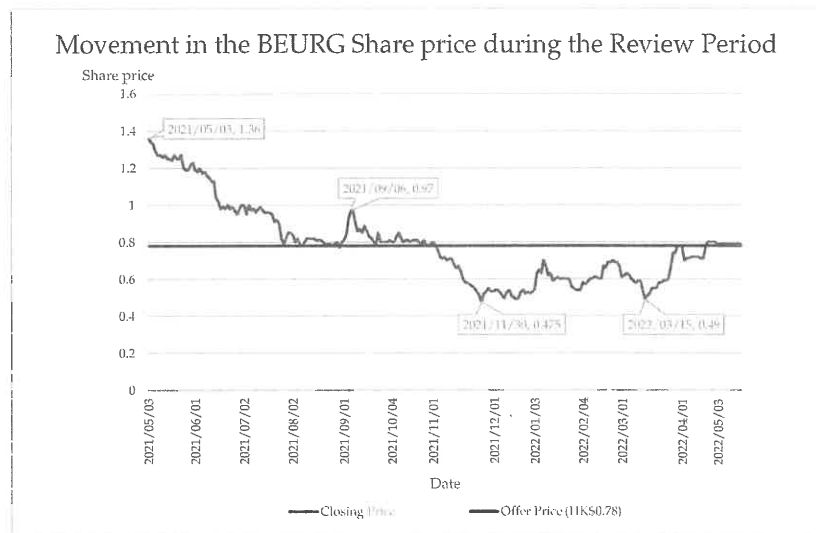
#### 4. Maintaining the listing status of BEURG

The Offeror intends to maintain the listing of the BEURG Shares on the Stock Exchange after the close of the Offer. According to the Letter from the Board of BEURG, the directors of the Offeror will jointly undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the BEURG Shares after the close of the Offer.

#### 5. Analyses of the Offer Price

##### 5.1. Historical price performance of the BEURG Shares

In order to assess the fairness and reasonableness of the Offer Price, we have reviewed the daily closing price of the BEURG Shares as quoted on the Stock Exchange from 3 May 2021 (being the first trading day of the month) up to and including the Latest Practicable Date (the “Review Period”). We consider the Review Period of approximately 12 months to be sufficient and appropriate for our analysis as the Review Period has covered the prevailing market condition as well as to illustrate a general trend of the daily closing prices and the level of movement of the BEURG Shares. The comparison of market price of the BEURG Shares and the Offer Price is illustrated as follows:



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

During the Review Period, the closing price exhibited a downward trend in general which fluctuated between (i) the highest closing price of HK\$1.36 per BEURG Share as recorded on 3 May 2021; and (ii) the lowest closing price of HK\$0.475 per BEURG Share as recorded on 30 November 2021. We have enquired with the management of BEURG and understand that they were not aware of any particular reason for the downward trend of the BEURG Share price during the Review Period; however, we noted that it was in line with the downward pattern of the Hang Seng Index, which has decreased from approximately 28,357.5 on 3 May 2021 to approximately 20,086.6 as at the Latest Practicable Date. We have also reviewed the information (including announcements and financial information) of BEURG published on the website of the Stock Exchange during the Review Period, and nothing has come to our attention that lead to the fluctuation of the BEURG Share price during the Review Period. The Offer Price of HK\$0.78 per Offer Share lies within the range of the lowest and highest closing prices of the BEURG Shares as quoted on the Stock Exchange during the Review Period, which (i) represents a discount of approximately 42.6% as compared to the highest closing price of the BEURG Shares during the Review Period; (ii) represents a premium of approximately 64.2% as compared to the lowest closing price of the BEURG Shares during the Review Period; and (iii) is equivalent to the average closing price of the BEURG Shares of approximately HK\$0.78 per BEURG Share during the Review Period.

The Independent Shareholders who wish to realise part or all of their Shares in BEURG are reminded to carefully and closely monitor the market price of the Shares during the Offer Period and consider selling their Shares in the open market instead of accepting the Offer, if the net proceeds from such sale after deducting all transaction costs exceed the net amount to be received under the Offer.

#### 5.2. Offer Price comparisons

The Offer Price of HK\$0.78 per Offer Share is/represents:

- a. equivalent to the closing price of HK\$0.78 per BEURG Share as quoted on the Stock Exchange on the Last Trading Day;
- b. a premium of approximately 20.0% over the average closing price of approximately HK\$0.65 per BEURG Share as quoted on the Stock Exchange for the 30 consecutive trading days immediately prior to and including the Last Trading Day;



- c. a premium of approximately 23.5% over the average closing price of approximately HK\$0.63 per BEURG Share as quoted on the Stock Exchange for the 60 consecutive trading days immediately prior to and including the Last Trading Day;
- d. a premium of approximately 27.8% over the average closing price of approximately HK\$0.61 per BEURG Share as quoted on the Stock Exchange for the 90 consecutive trading days immediately prior to and including the Last Trading Day;
- e. a discount of approximately 1.3% to the average closing price of approximately HK\$0.79 per BEURG Share as quoted on the Stock Exchange on 24 May 2022, being the Latest Practicable Date; and
- f. a discount of approximately 19.7% to the BEURG Group's audited consolidated net asset value attributable to the BEURG Shareholders per BEURG Share of approximately HK\$0.97 as at 31 December 2021 (based on a total of 3,600,000,000 BEURG Shares as at the Latest Practicable Date and the BEURG Group's audited consolidated net asset value attributable to the BEURG Shareholders of approximately HK\$3,498,237,000 as at 31 December 2021).

During the six-month period immediately preceding and including the Latest Practicable Date:

- (a) the highest closing price of the BEURG Shares quoted on the Stock Exchange was HK\$0.80 per BEURG Share on 1 November 2021, 29 April 2022, 3 May 2022, 4 May 2022 and 5 May 2022; and
- (b) the lowest closing price of the BEURG Shares quoted on the Stock Exchange was HK\$0.475 per BEURG Share on 30 November 2021.

### 5.3. Trading liquidity

The following table sets out, among others, (i) the average daily trading volume of the BEURG Shares; (ii) the percentage of the average daily trading volume of the BEURG Shares to the total number of issued BEURG Shares; and (iii) the percentage of the average daily trading volume of the BEURG Shares to the total number of BEURG Shares held by the public BEURG Shareholders at the end of the month/period during the Review Period. We consider the Review Period of approximately 12 months to be sufficient and appropriate for our analysis on the liquidity of the BEURG Share as the Review Period has covered the prevailing market condition and reflects the latest market sentiment on the BEURG Shares:

	Total trading volume of the BEURG Shares	Number of trading days	Average daily trading volume of the BEURG Shares	Percentage of the average daily trading volume to total number of issued BEURG Shares as at the end of the month/period	Percentage of the average daily trading volume to total number of BEURG Shares held by the public BEURG Shareholders (Note)
<b>2021</b>					
May	137,612,000	20	6,880,600	0.2%	0.3%
June	130,235,000	21	6,201,667	0.2%	0.3%
July	80,310,300	21	3,824,300	0.1%	0.2%
August	54,506,194	22	2,477,554	0.1%	0.1%
September	261,872,457	21	12,470,117	0.3%	0.6%
October	86,293,000	18	4,794,056	0.1%	0.2%
November	208,931,349	22	9,496,880	0.3%	0.4%
December	151,772,000	22	6,898,727	0.2%	0.3%
<b>2022</b>					
January	188,228,000	21	8,963,238	0.2%	0.4%
February	69,124,000	17	4,066,118	0.1%	0.2%
March	189,727,178	23	8,249,008	0.2%	0.4%
April	197,328,000	15	13,155,200	0.4%	0.6%
May (up to the Latest Practicable Date)	54,912,000	15	3,660,800	0.1%	0.2%
<b>Maximum</b>			13,155,200	0.4%	0.6%
<b>Minimum</b>			2,477,554	0.1%	0.1%
<b>Average</b>			7,010,636	0.2%	0.3%

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

Note: The total number of BEURG Shares held by public BEURG Shareholders is calculated as the total issued share capital of BEURG less the BEURG Shares held by the Offeror and the Offeror Concert Parties immediately prior to the Acquisitions.

As illustrated in the above table, the average daily trading volume during the Review Period ranged from approximately 2,477,554 BEURG Shares to approximately 13,155,200 BEURG Shares, representing (i) approximately 0.1% to approximately 0.4% of the total number of BEURG Shares in issue as at the end of relevant month/period; and (ii) approximately 0.1% to approximately 0.6% of the total number of BEURG Shares held by the public BUEREG Shareholders as at the end of relevant month/period. Based on the above, we are of the view that the trading volume of the BEURG Shares was relatively thin during the Review Period. In addition, we have enquired with the management of BEURG and understand that they were not aware of any particular reason for the fluctuation in trading volume and liquidity of the BEURG Shares during the Review Period.

Since the BEURG Shares are illiquid, the disposal of large block of BEURG Shares held by the BEURG Shareholders in the open market may impose a downward pressure on the price of the BEURG Shares. There is no guarantee that the Independent Shareholders will be able to realise their investments in the BEURG Shares (especially those who are relatively sizeable shareholders) at a price which is higher than the Offer Price. As such, we consider that the Offer provides an alternative exit route for the Independent Shareholders who would like to realise their investments in the BEURG Shares.

#### *5.4. Market comparable analysis*

As part of our analyses, we have also identified an exhaustive list of four listed issuers on the Main Board of the Stock Exchange with similar principal business activities in the provision of waste management and/or environmental hygiene services, with the relevant segment revenue contributing majority of the total revenue (the “**Comparable Companies**”).

Sets forth below is the table of the Comparable Companies based on the historical price-to-earnings ratio (“P/E”) and historical price-to-book value ratio (“P/B”) of the Comparable Companies as at the Last Trading Day:

Comparable Companies	Stock code	Principal business	Market capitalisation as at the Last Trading Day (HK\$ million) (Note 1)	Historical P/E (approximate times) (Note 2)	Historical P/B (approximate times) (Note 3)
Dongjiang Environmental Co., Ltd.	895	Principally engaged in waste disposal and resource utilisation	586.4	3.14	0.10
Hong Kong Johnson Holdings Co., Ltd.	1955	Principally engaged in the provision of cleaning, janitorial and other related services	525.0	2.78	0.97
Net-a-go Technology Co., Ltd.	1483	Principally engaged in the janitorial services on streets and public areas, waste management services and facility maintenance management services	795.0	16.46 (Note 4)	1.42 (Note 4)
Winson Holdings Hong Kong Ltd.	6812	Principally engaged in the provisions of environmental hygiene, pest management, airline catering support and related services	243.0	3.29	1.27
			<b>Maximum</b>	3.29	1.32
			<b>Minimum</b>	2.78	0.11
			<b>Average</b>	3.07	0.81
<b>BEURG</b>	<b>3718</b>	<b>Principally engaged in environmental hygiene services, hazardous waste treatment business and waste electrical and electronic equipment treatment business</b>	<b>2,808.0</b>	<b>4.82</b> (Note 5)	<b>0.80</b> (Note 6)

Source: the website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. The market capitalisation was calculated based on the respective closing share price and number of shares in issue as at the Last Trading Day.
2. Historical P/E ratio was calculated based on the respective market capitalisation divided by the respective profit as extracted from respective latest annual report.
3. Historical P/B ratio was calculated based on the respective market capitalisation divided by the respective net asset value attributable to owners of the company as extracted from respective latest annual/interim report.
4. The historical P/E ratio and historical P/B ratio of the comparable company in concern are considered as outliers and are excluded in the analysis.

5. Represents the implied P/E ratio of BEURG which was calculated based on the market capitalisation of BEURG implied by the Offer Price divided by the profit for the year ended 31 December 2021.
6. Represents the implied P/B ratio of BEURG which was calculated based on the market capitalisation of BEURG implied by the Offer Price divided by the net asset value attributable to BEURG Shareholders as at 31 December 2021.
7. In the event that the presentation currency of the Comparable Companies are in RMB. For illustration purpose, any amount denominated in RMB is translated into HK\$ at the rate of RMB 1 = approximately HK\$1.2, which was published by the State Administration of Foreign Exchange on its website as at the Latest Practicable Date. Such translation should not be construed as a representation that the amounts in question have been, could have been or could be, converted at any particular rate at all.

As demonstrated by the above table, as at the Last Trading Day, the historical P/E ratios of the Comparable Companies ranged from approximately 2.78 times to approximately 3.29 times with an average of approximately 3.07 times, and the historical P/B ratios of the Comparable Companies ranged from approximately 0.11 times to approximately 1.32 times with an average of approximately 0.81 times. The implied P/E ratio of the Offer Price of approximately 4.82 times is higher than the average historical P/E ratio of the Comparable Companies and the implied P/B ratio of the Offer Price of approximately 0.80 times is comparable to the average historical P/B ratio of the Comparable Companies. In this regard, we are of the view that the Offer Price is fair and reasonable so far as the Independent Shareholders are concerned.

## RECOMMENDATION

Having considered the principal factors and reasons, in particular:

- (i) the Offer Price is equivalent to the average closing price of the BEURG Shares during the Review Period;
- (ii) the Offer Price represents a premium over the average closing price of the BEURG Share as quoted on the Stock Exchange for the respective 30, 60 and 90 consecutive trading days immediately prior to and including the Last Trading Day;
- (iii) the Offer Price represents a slight discount to the closing price of the BEURG Share as quoted on the Stock Exchange as at the Latest Practicable Date;

- (iv) the implied P/E ratio of the Offer Price is higher than the average historical P/E ratio of the Comparable Companies and the implied P/B ratio of the Offer Price is comparable to the average historical P/B ratio of the Comparable Companies; and
- (v) the trading volume of the BEURG Shares was generally thin during the Review Period and the Independent Shareholders may find it difficult to dispose of a large number of BEURG Shares in the open market without exerting a downward pressure on the share price. The Offer provides an assured opportunity to the Independent Shareholders to realise their investments in BEURG should they wish to do so,

we consider that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to accept the Offer.

Independent Shareholders (especially for those with large holdings of the BEURG Shares) who wish to realise their investments in BEURG by selling their BEURG Shares in the open market may not be able to dispose their BEURG Shares at a higher price than the Offer Price, considering disposal of large blocks of Shares by the Independent Shareholders in the open market would likely create downward pressure to the BEURG Share prices due to the thin trading liquidity of the BEURG Shares. Therefore, we would like to remind the Independent Shareholders to closely monitor the BEURG Shares price and the liquidity of the BEURG Shares during the Offer Period, and considering selling their BEURG Shares in the open market, where possible, instead of accepting the Offer, if the sales proceeds, net of all transaction costs, exceed the amount receivable under acceptance of the Offer.


On the contrary, for those Independent Shareholders who have a positive view on the prospects of the BEURG Group with BEWG increasing its control over BEURG may consider to retain their BEURG Shares in full or in part. In addition, the Independent Shareholders should note that despite we concur with the view of the board of directors of BEURG that the prospects of the BEURG Group remain positive, there are no specific committed development plans for the BEURG Group have been given by the Offeror at this time. Accordingly, the Independent Shareholders should carefully consider the relevant risks and uncertainties based on their individual risk preference and tolerance level and should also closely monitor the financial performance of the BEURG Group and the intentions of the Offeror and when there is more information available in this regard.

Independent Shareholders should also be aware that, if the number of BEURG Shares held by the public, as defined in the Listing Rules, comprises less than 25% of the issued shares of BEURG at the close of the Offer, trading in the BEURG Shares may be suspended. Should this happen, the Independent Shareholders who choose not to accept the Offer will not be able to sell their BEURG Shares on the Stock Exchange until trading in the BEURG Shares resumes.

As different Independent Shareholders would have different investment criteria, objectives and/or circumstances, we would recommend any Independent Shareholders who may require advice in relation to any aspect of the Composite Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser. Furthermore, they should carefully read the procedures for accepting the Offer as set out in the Composite Document, its appendices and the accompanying Form of Acceptance and Transfer.

Independent Shareholders should note that the BEURG Shares have been trading at levels slightly above the Offer Price subsequent to the Last Trading Day, and closed above the Offer Price as at the Latest Practicable Date. Therefore, opportunities may exist for Independent Shareholders to sell their BEURG Shares in the open market above the Offer Price and thus the Independent Shareholders are reminded that they should carefully and closely monitor the market price and the liquidity of the BEURG Shares before the end of the Offer Period and, having regard to their own circumstances and investment objectives, consider selling their BEURG Shares in the open market rather than accepting the Offer if the net proceeds from the market sale of their BEURG Shares, after deducting all transaction costs, are more than the net amount to be received under the Offer.

Yours faithfully,  
For and on behalf of  
**Lego Corporate Finance Limited**

A handwritten signature in blue ink, appearing to read 'Kristie Ho', is written over a faint, illegible stamp or watermark.

**Kristie Ho**  
*Managing Director*

*Ms. Kristie Ho is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). She has over 15 years of experience in the securities and investment banking industries.*