
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Kunming Dianchi Water Treatment Co., Ltd., you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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Kunming Dianchi Water Treatment Co., Ltd.

昆明滇池水务股份有限公司

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 3768)

MAJOR TRANSACTION DISPOSAL OF EQUITY INTERESTS IN SUBSIDIARIES

A letter from the Board of the Company is set out on pages 4 to 30 of this circular.

The transaction being the subject matter of this circular has been approved by written Shareholders' approval pursuant to the Listing Rules and this circular is being despatched to the Shareholders for information only.

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“Base Date”	the base date for audit and valuation of the Disposal, being 28 February 2023
“Board”	the board of Directors of the Company
“Company”	Kunming Dianchi Water Treatment Co., Ltd. (昆明滇池水務股份有限公司), a joint stock company established in the PRC with limited liability on 23 December 2010, and its H Shares are listed on the Stock Exchange (stock code: 3768)
“Completion”	completion of the Disposal
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the consideration for the purchase of the Disposal Interest payable by the Transferee under the Equity Transfer Agreements
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Disposal”	disposal of the Disposal Interest by the Company through Public Tender
“Disposal Interest”	80% equity interest in Zhaotong Dianchi Water, 80% equity interest in Yiliang Dianchi Water and 80% equity interest in Suijiang Dianchi Water held by the Company
“Equity Transfer Agreements”	Equity Transfer Agreement I, Equity Transfer Agreement II and Equity Transfer Agreement III
“Equity Transfer Agreement I”	an equity transfer agreement dated 29 December 2023 entered into among the Company, Sichuan Development Guorun Water and Zhaotong Dianchi Water in respect of the disposal of 80% equity interest in Zhaotong Dianchi Water
“Equity Transfer Agreement II”	an equity transfer agreement dated 29 December 2023 entered into among the Company, Sichuan Development Guorun Water and Yiliang Dianchi Water in respect of the disposal of 80% equity interest in Yiliang Dianchi Water

DEFINITIONS

“Equity Transfer Agreement III”	an equity transfer agreement dated 29 December 2023 entered into among the Company, Sichuan Development Guorun Water and Suijiang Dianchi Water in respect of the disposal of 80% equity interest in Suijiang Dianchi Water
“Group”	the Company and its subsidiaries
“KUEX”	Kunming United Equity Exchange Co., Ltd.* (昆明聯合產權交易所有限公司), a wholly state-owned company established with capital from the State-owned Assets Supervision and Administration Commission of the Kunming People’s Government (昆明市人民政府國有資產監督管理委員會)
“Kunming Bangke Asset Appraisal”	Kunming Bangke Land and Real Estate Asset Appraisal Co., Ltd.* (昆明幫克土地房地產資產評估有限公司), a company incorporated in the PRC with limited liability, which provides valuation services for the value of the entire equity interests in each of the Target Companies involved in the Disposal and is a third party independent of the Company and its connected persons
“Kunming Dianchi Investment”	Kunming Dianchi Investment Co. Ltd.* (昆明滇池投資有限責任公司), a company established in Yunnan Province, PRC with limited liability on 13 October 2004, which is a controlling shareholder of the Company
“Latest Practicable Date”	1 February 2024, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“PRC”	the People’s Republic of China
“Public Tender”	the public tender for the Disposal through KUEX
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	shareholder(s) of the Company
“Sichuan Development Guorun Water” or “Transferee”	Sichuan Development Guorun Water Investment Co., Ltd* (四川發展國潤水務投資有限公司), a company incorporated in the PRC with limited liability and a third party independent of the Company and its connected persons
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the same meaning ascribed to it under the Listing Rules

DEFINITIONS

“Suijiang Dianchi Water” or “Target Company III”	Suijiang Dianchi Water Treatment Co., Ltd.* (綏江滇池水務有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company before completion of disposal of its 80% equity interest
“Target Companies”	Zhaotong Dianchi Water, Yiliang Dianchi Water and Suijiang Dianchi Water, all of which were wholly-owned subsidiaries of the Company before completion of disposal of 80% equity interest in each of the Target Companies
“transaction security deposit”	the transaction security deposit paid by the Transferee upon the bidding for the Disposal of RMB120,000,000 in total
“Working Day(s)”	a day other than Saturday, Sunday and statutory holiday in the PRC, on which commercial banks in the PRC are open for normal business
“Yiliang Dianchi Water” or “Target Company II”	Yiliang Dianchi Water Treatment Co., Ltd.* (彝良滇池水務有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company before completion of disposal of its 80% equity interest
“Zhaotong Dianchi Water” or “Target Company I”	Zhaotong Dianchi Water Treatment Co., Ltd.* (昭通滇池水務有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company before completion of disposal of its 80% equity interest
“%”	per cent.

LETTER FROM THE BOARD



Kunming Dianchi Water Treatment Co., Ltd. **昆明滇池水务股份有限公司**

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 3768)

Board of Directors:

Executive Directors:

Mr. Zeng Feng (*Chairperson*)
Mr. Chen Changyong (*General Manager*)
Mr. Miao Xianjun

Non-executive Directors:

Mr. Xu Jingdong
Mr. Zhou Jianbo
Mr. Zhang Yang

Independent non-executive Directors:

Mr. Zha Guiliang
Ms. Zheng Dongyu
Mr. Ong King Keung

Registered office and headquarters in the PRC:

Wastewater Treatment Plant No. 7
Kunming Dianchi Tourist Resort
Yunnan Province
the PRC

Principal place of business in Hong Kong:

Room 1901, 19/F, Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

8 February 2024

To the Shareholders

Dear Sirs and Madams,

MAJOR TRANSACTION **DISPOSAL OF EQUITY INTERESTS IN SUBSIDIARIES**

1. INTRODUCTION

References are made to the announcement of the Company dated 5 September 2023 in relation to the proposed disposal of 80% equity interest in each of the Target Companies held by the Company through Public Tender and the announcement dated 29 December 2023 in relation to entering into the Equity Transfer Agreements by the Company with the Transferee and the Target Companies on 29 December 2023, pursuant to which the Company has conditionally agreed to sell and the Transferee has conditionally agreed to purchase the Disposal Interest.

The principal terms of the Equity Transfer Agreements are set out below.

The purpose of this circular is to provide you with (i) the details of the Equity Transfer Agreements and the arrangements for the Disposal; and (ii) other information required to be disclosed under the Listing Rules.

LETTER FROM THE BOARD

2. DETAILS OF THE EQUITY TRANSFER AGREEMENTS

The principal terms of the Equity Transfer Agreements are summarized below:

(1) Equity Transfer Agreement I

- Date:** 29 December 2023 (after trading hours)
- Parties:**
- (i) the Company (as the Transferor);
 - (ii) Sichuan Development Guorun Water (as the Transferee);
and
 - (iii) Zhaotong Dianchi Water (as the Target Company I).
- Subject of the Disposal:** The Company has conditionally agreed to sell and the Transferee has conditionally agreed to purchase 80% equity interest in Zhaotong Dianchi Water. Zhaotong Dianchi Water was a wholly-owned subsidiary of the Company before completion of disposal of its 80% equity interest. For details of Zhaotong Dianchi Water, please refer to the section headed “Information on the Target Companies” in this circular.
- Consideration:** The Consideration is approximately RMB202,606,800, which comprises (i) the equity transfer price of approximately RMB200,364,200; and (ii) interest of approximately RMB2,242,600 as agreed to be calculated based on the price to be paid by the Transferee in instalments.
- Payment of Consideration:** The payment shall be made in three instalments (the payment term shall not exceed one year), of which:
- (i) the first instalment is RMB76,602,080 and shall be paid by the Transferee within 2 Working Days upon signing the Equity Transfer Agreement I, which shall be paid with the transaction security deposit. After the Transferee pays the first instalment, it shall provide a legal and valid performance guarantee recognised by the Company that is no less than the remaining Consideration amount payable;

LETTER FROM THE BOARD

- (ii) the second instalment is RMB83,689,248 and shall be paid by the Transferee within 3 Working Days upon the completion of the change of the industrial and commercial registration of the equity. The amount shall be paid with the transaction security deposit. The shortfall of the transaction security deposit shall be made up by the Transferee. During the period from the next day following the payment of the first instalment to the date on which the Transferee actually pays the second instalment, the interest shall be calculated based on the second instalment at the latest loan prime rate for 1-year RMB loans issued by the National Interbank Funding Center on the date of signing the Equity Transfer Agreement I (i.e. 3.45% per year), and such interest shall be paid to the Company together with the second instalment; and

- (iii) the third instalment is RMB40,072,832 and shall be paid by the Transferee within 5 Working Days upon the completion of the audit for transitional period. During the period from the next day following the payment of the first instalment to the date on which the Transferee actually pays the third instalment, the interest shall be calculated based on the third instalment at the latest loan prime rate for 1-year RMB loans issued by the National Interbank Funding Center on the date of signing the Equity Transfer Agreement I (i.e. 3.45% per year), and such interest shall be paid to the Company together with the third instalment.

The payment of the above second and third instalments is subject to the satisfaction of all conditions precedent as stipulated in the Equity Transfer Agreement I, and shall be made no later than 1 year after the signing of the Equity Transfer Agreement I, whichever is earlier.

The Consideration shall be settled through the fund supervision account of KUEX. KUEX will notify the Company upon receipt of the Consideration paid by the Transferee and acknowledgement of its receipt of the trading service fees (pursuant to the Property Transfer Entrustment Contract entered into between the Company and KUEX, such trading service fees shall be paid in full by the Transferee, and the Company is not required to pay any trading service fees). Upon receipt of such notice, the Company will issue a written transfer instruction to KUEX, and KUEX will transfer the Consideration to the bank account designated by the Company within 5 Working Days from the date of receipt of the transfer instruction from the Company.

LETTER FROM THE BOARD

**Conditions precedent
to Completion:**

Completion of the transaction is based on the fulfillment of all the following conditions:

- (i) the Transferee shall obtain a written consent document from the local government of Zhaotong Dianchi Water or its authorised competent department on the transfer of 80% equity interest in Zhaotong Dianchi Water to the Transferee and the franchise right within 20 Working Days upon receipt of the notification from KUEX and the fulfillment of the conventions of conditions precedent (iii) below;
- (ii) the Company has obtained approval from the State-owned Assets Supervision and Administration Commission of the Kunming People's Government for the disposal of 80% equity interest in Zhaotong Dianchi Water, and has completed the internal procedures (including but not limited to shareholders' approval), approval, application for approval in accordance with the relevant requirements; and
- (iii) all equity pledges with the equity interests in Zhaotong Dianchi Water as the subject of pledge have been fully released, and the equity interests in Zhaotong Dianchi Water are free from any other encumbrances, seizure or freezing and other mandatory measures.

If the above agreed conditions precedent cannot be fulfilled within 6 months after signing the Equity Transfer Agreement I, and the Company and the Transferee are unable to make changes through negotiation, both parties shall have the right to terminate the Equity Transfer Agreement I without any liability for breach of the agreement. The Company shall refund the transaction security deposit paid by the Transferee (excluding the trading service fees charged by KUEX) in full within 3 Working Days after the termination of the Equity Transfer Agreement I. During the period from the next day following the payment of the transaction security deposit by the Transferee to the date on which the Company returns the transaction security deposit to the Transferee, the interest shall be calculated and paid based on the amount of the transaction security deposit after deducting the trading service fees at the latest loan prime rate for 1-year RMB loans issued by the National Interbank Funding Center on the date of signing the Equity Transfer Agreement I (i.e. 3.45% per year). Both parties may also choose to continue to perform the Equity Transfer Agreement I after negotiation and wait for the fulfillment of all the conditions precedent.

LETTER FROM THE BOARD

As of the Latest Practicable Date, conditions precedent (i) and (ii) have been fulfilled and condition precedent (iii) is expected to be completed by February 2024.

Transfer:

After completion of payment of the first instalment by the Transferee as agreed in the Equity Transfer Agreement I, the Transferee will assign an operation and management team to take over the operation of Zhaotong Dianchi Water. Since then, the Company will no longer be responsible for the operation and management of Zhaotong Dianchi Water.

After the Transferee completes the payment of the first instalment as agreed in the Equity Transfer Agreement I and provides corresponding performance guarantee recognised by the Company, the Company and the Transferee will reach an agreement on the amendments to the articles of association of Zhaotong Dianchi Water. Within 5 Working Days after fulfillment of the conditions precedent as agreed in the Equity Transfer Agreement I, the Company and Zhaotong Dianchi Water will cooperate with the Transferee in completing the registration of change of shareholding, the changes of legal representatives and seals of Zhaotong Dianchi Water.

Within 20 Working Days after the Company receives the second instalment, the Company and the Transferee will complete the transfer of assets, finance, seals and other documents and information as agreed.

**Gains and losses
during the
transitional period:**

The transitional period shall commence on the Base Date and end on the date of completion of the registration of change of shareholding, the Company and the Transferee shall be entitled to and assume any gain or loss incurred during the transitional period in proportion to their respective equity interests in Zhaotong Dianchi Water after the completion of the transaction. Within 5 Working Days from the date of completion of the registration of change of shareholding, the Transferee will engage an audit institution recognised by the Company and the Transferee to conduct a transitional period audit on Zhaotong Dianchi Water.

LETTER FROM THE BOARD

Completion: Completion of the disposal of 80% equity interest in Zhaotong Dianchi Water shall take place on the fulfillment date of the conditions precedent or the date of completion of the registration of change of shareholding, whichever is later, as agreed in the Equity Transfer Agreement I. Upon completion, the Group will only be interested in 20% of Zhaotong Dianchi Water and Zhaotong Dianchi Water will cease to be a subsidiary of the Company and its financial results will no longer be consolidated into the Group's consolidated financial statements.

The Transferee undertakes that upon receiving the notice from the Company requesting it to acquire the remaining interest in Zhaotong Dianchi Water held by the Company in the future, the corresponding work will be commenced as soon as possible, and the specific terms shall be subject to further negotiation between both parties.

(2) Equity Transfer Agreement II

Date: 29 December 2023 (after trading hours)

Parties

- (i) the Company (as the Transferor);
- (ii) Sichuan Development Guorun Water (as the Transferee);
and
- (iii) Yiliang Dianchi Water (as the Target Company II).

Subject of the Disposal: The Company has conditionally agreed to sell and the Transferee has conditionally agreed to purchase 80% equity interest in Yiliang Dianchi Water. Yiliang Dianchi Water was a wholly-owned subsidiary of the Company before completion of disposal of its 80% equity interest. For details of Yiliang Dianchi Water, please refer to the section headed "Information on the Target Companies" in this circular.

Consideration: The Consideration is approximately RMB19,588,400, which comprises (i) the equity transfer price of approximately RMB19,510,200; and (ii) interest of approximately RMB78,200 as agreed to be calculated based on the price to be paid by the Transferee in instalments.

LETTER FROM THE BOARD

**Payment of
Consideration:**

The payment shall be made in two instalments (the payment term shall not exceed one year), of which:

- (i) the first instalment is RMB15,608,192 and shall be paid by the Transferee within 2 Working Days from the date of completion of the registration of change of shareholding (no later than 5 Working Days from the date of signing the Equity Transfer Agreement II, whichever is earlier), which shall be paid with the transaction security deposit. The shortfall of the transaction security deposit shall be made up by the Transferee. After the Transferee pays the first instalment, it shall provide a legal and valid performance guarantee recognised by the Company that is no less than the remaining Consideration amount payable; and
- (ii) the second instalment is RMB3,902,048 and shall be paid by the Transferee within 5 Working Days after the completion of the transitional period audit (no later than 1 year after the signing of the Equity Transfer Agreement II, whichever is earlier). During the period from the next day following the payment of the first instalment to the date on which the Transferee actually pays the second instalment, the interest shall be calculated based on the second instalment at the latest loan prime rate for 1-year RMB loans issued by the National Interbank Funding Center on the date of signing the Equity Transfer Agreement II (i.e. 3.45% per year), and such interest shall be paid to the Company together with the second instalment.

The Consideration shall be settled through the fund supervision account of KUEX. KUEX will notify the Company upon receipt of the Consideration paid by the Transferee and acknowledgement of its receipt of the trading service fees (pursuant to the Property Transfer Entrustment Contract entered into between the Company and KUEX, such trading service fees shall be paid in full by the Transferee, and the Company is not required to pay any trading service fees). Upon receipt of such notice, the Company will issue a written transfer instruction to KUEX, and KUEX will transfer the Consideration to the bank account designated by the Company within 5 Working Days from the date of receipt of the transfer instruction from the Company.

LETTER FROM THE BOARD

**Conditions precedent
to Completion:**

Completion of the transaction is based on the fulfillment of all the following conditions:

- (i) the Transferee shall obtain a written consent document from the local government of Yiliang Dianchi Water or its authorised competent department on the transfer of 80% equity interest in Yiliang Dianchi Water to the Transferee and the franchise right within 20 Working Days from the date of receipt of the notification from KUEX; and
- (ii) the Company has obtained approval from the State-owned Assets Supervision and Administration Commission of the Kunming People's Government for the disposal of 80% equity interest in Yiliang Dianchi Water, and has completed the internal procedures (including but not limited to shareholders' approval), approval, application for approval in accordance with the relevant requirements.

If the above agreed conditions precedent cannot be fulfilled within 6 months after signing the Equity Transfer Agreement II, and the Company and the Transferee are unable to make changes through negotiation, both parties shall have the right to terminate the Equity Transfer Agreement II without any liability for breach of the agreement. The Company shall refund the transaction security deposit paid by the Transferee (excluding the trading service fees charged by KUEX) in full within 3 Working Days after the termination of the Equity Transfer Agreement II. During the period from the next day following the payment of the transaction security deposit by the Transferee to the date on which the Company returns the transaction security deposit to the Transferee, the interest shall be calculated and paid based on the amount of the transaction security deposit after deducting the trading service fees at the latest loan prime rate for 1-year RMB loans issued by the National Interbank Funding Center on the date of signing the Equity Transfer Agreement II (i.e. 3.45% per year). Both parties may also choose to continue to perform the Equity Transfer Agreement II after negotiation and wait for the fulfillment of all the conditions precedent.

As of the Latest Practicable Date, conditions precedent (i) and (ii) have been fulfilled.

LETTER FROM THE BOARD

- Transfer:** Within 10 Working Days from the date on which the Transferee completes the payment of the first instalment as agreed in the Equity Transfer Agreement II and completes the registration of change of shareholding, the Transferee will assign an operation and management team to take over the operation of Yiliang Dianchi Water. Since then, the Company will no longer be responsible for the operation and management of Yiliang Dianchi Water.
- After signing the Equity Transfer Agreement II, the Company and the Transferee will reach an agreement on the amendments to the articles of association of Yiliang Dianchi Water. The Company and Yiliang Dianchi Water will cooperate with the Transferee in completing the registration of change of shareholding, the changes of legal representatives and seals.
- Within 20 Working Days from the date of receipt of the first instalment and completion of the registration of change of shareholding, the Company and the Transferee will complete the transfer of assets, finance, seals and other documents and information as agreed.
- Gains and losses during the transitional period:** The transitional period shall commence on the Base Date and end on the date of completion of the registration of change of shareholding, the Company and the Transferee shall be entitled to and assume any gain or loss incurred during the transitional period in proportion to their respective equity interests in Yiliang Dianchi Water after the completion of the transaction. Within 5 Working Days from the date of completion of the registration of change of shareholding, the Transferee will engage an audit institution recognised by the Company and the Transferee to conduct a transitional period audit on Yiliang Dianchi Water.
- Completion:** Completion of the disposal of 80% equity interest in Yiliang Dianchi Water shall take place on the fulfillment date of the conditions precedent or the date of completion of the registration of change of shareholding, whichever is later, as agreed in the Equity Transfer Agreement II. Upon completion, the Group will only be interested in 20% of Yiliang Dianchi Water and Yiliang Dianchi Water will cease to be a subsidiary of the Company and its financial results will no longer be consolidated into the Group's consolidated financial statements.

LETTER FROM THE BOARD

The Transferee undertakes that upon receiving the notice from the Company requesting it to acquire the remaining equity interest in Yiliang Dianchi Water held by the Company in the future, the corresponding work will be commenced as soon as possible, and the specific terms shall be subject to further negotiation between both parties.

(3) Equity Transfer Agreement III

Date: 29 December 2023 (after trading hours)

Parties:

- (i) the Company (as the Transferor);
- (ii) Sichuan Development Guorun Water (as the Transferee);
and
- (iii) Suijiang Dianchi Water (as the Target Company III).

Subject of the Disposal: The Company has conditionally agreed to sell and the Transferee has conditionally agreed to purchase 80% equity interest in Suijiang Dianchi Water. Suijiang Dianchi Water was a wholly-owned subsidiary of the Company before completion of disposal of its 80% equity interest. For details of Suijiang Dianchi Water, please refer to the section headed “Information on the Target Companies” in this circular.

Consideration: The Consideration is approximately RMB22,979,400, which comprises (i) the equity transfer price of approximately RMB22,887,700; and (ii) interest of approximately RMB91,700 as agreed to be calculated based on the price to be paid by the Transferee in instalments.

LETTER FROM THE BOARD

**Payment of
Consideration:**

The payment shall be made in two instalments (the payment term shall not exceed one year), of which:

- (i) the first instalment is RMB18,310,144 and shall be paid by the Transferee within 2 Working Days from the date of completion of the registration of change of shareholding (no later than 5 Working Days from the date of signing the Equity Transfer Agreement III, whichever is earlier), which shall be paid with the transaction security deposit. The shortfall of the transaction security deposit shall be made up by the Transferee. After the Transferee pays the first instalment, it shall provide a legal and valid performance guarantee recognised by the Company that is no less than the remaining Consideration amount payable; and
- (ii) the second instalment is RMB4,577,536 and shall be paid by the Transferee within 5 Working Days after the completion of the transitional period audit (no later than 1 year after the signing of the Equity Transfer Agreement III, whichever is earlier). During the period from the next day following the payment of the first instalment to the date on which the Transferee actually pays the second instalment, the interest shall be calculated based on the second instalment at the latest loan prime rate for 1-year RMB loans issued by the National Interbank Funding Center on the date of signing the Equity Transfer Agreement III (i.e. 3.45% per year), and such interest shall be paid to the Company together with the second instalment.

The Consideration shall be settled through the fund supervision account of KUEX. KUEX will notify the Company upon receipt of the Consideration paid by the Transferee and acknowledgement of its receipt of the trading service fees (pursuant to the Property Transfer Entrustment Contract entered into between the Company and KUEX, such trading service fees shall be paid in full by the Transferee, and the Company is not required to pay any trading service fees). Upon receipt of such notice, the Company will issue a written transfer instruction to KUEX, and KUEX will transfer the Consideration to the bank account designated by the Company within 5 Working Days from the date of receipt of the transfer instruction from the Company.

LETTER FROM THE BOARD

**Conditions precedent
to Completion:**

Completion of the transaction is based on the fulfillment of all the following conditions:

- (i) the Transferee shall obtain a written consent document from the local government of Suijiang Dianchi Water or its authorised competent department on the transfer of 80% equity interest in Suijiang Dianchi Water to the Transferee and the franchise right within 20 Working Days from the date of receipt of the notification from KUEX; and
- (ii) the Company has obtained approval from the State-owned Assets Supervision and Administration Commission of the Kunming People's Government for the disposal of 80% equity interest in Suijiang Dianchi Water, and has completed the internal procedures (including but not limited to shareholders' approval), approval, application for approval in accordance with the relevant requirements.

If the above agreed conditions precedent cannot be fulfilled within 6 months after signing the Equity Transfer Agreement III, and the Company and the Transferee are unable to make changes through negotiation, both parties shall have the right to terminate the Equity Transfer Agreement III without any liability for breach of the agreement. The Company shall refund the transaction security deposit paid by the Transferee (excluding the trading service fees charged by KUEX) in full within 3 Working Days after the termination of the Equity Transfer Agreement III. During the period from the next day following the payment of the transaction security deposit by the Transferee to the date on which the Company returns the transaction security deposit to the Transferee, the interest shall be calculated and paid based on the amount of the transaction security deposit after deducting the trading service fees at the latest loan prime rate for 1-year RMB loans issued by the National Interbank Funding Center on the date of signing the Equity Transfer Agreement III (i.e. 3.45% per year). Both parties may also choose to continue to perform the Equity Transfer Agreement III after negotiation and wait for the fulfillment of all the conditions precedent.

As of the Latest Practicable Date, conditions precedent (i) and (ii) have been fulfilled.

LETTER FROM THE BOARD

Transfer: Within 10 Working Days from the date on which the Transferee completes the payment of the first instalment as agreed in the Equity Transfer Agreement III and completes the registration of change of shareholding, the Transferee will assign an operation and management team to take over the operation of Suijiang Dianchi Water. Since then, the Company will no longer be responsible for the operation and management of Suijiang Dianchi Water.

After signing the Equity Transfer Agreement III, the Company and the Transferee will reach an agreement on the amendments to the articles of association of Suijiang Dianchi Water. The Company and Suijiang Dianchi Water will cooperate with the Transferee in completing the registration of change of shareholding, the changes of legal representatives and seals.

Within 20 Working Days from the date of receipt of the first instalment and the completion of the registration of change of shareholding, the Company and the Transferee will complete the transfer of assets, finance, seals and other documents and information as agreed.

Gains and losses during the transitional period: The transitional period shall commence on the Base Date and end on the date of completion of the registration of change of shareholding, the Company and the Transferee shall be entitled to and assume any gain or loss incurred during the transitional period in proportion to their respective equity interests in Suijiang Dianchi Water after the completion of the transaction. Within 5 Working Days from the date of completion of the registration of change of shareholding, the Transferee will engage an audit institution recognised by the Company and the Transferee to conduct a transitional period audit on Suijiang Dianchi Water.

LETTER FROM THE BOARD

Completion: Completion of the disposal of 80% equity interest in Suijiang Dianchi Water shall take place on the fulfillment date of the conditions precedent or the date of completion of the registration of change of shareholding, whichever is later, as agreed in the Equity Transfer Agreement III. Upon completion, the Group will only be interested in 20% of Suijiang Dianchi Water and Suijiang Dianchi Water will cease to be a subsidiary of the Company and its financial results will no longer be consolidated into the Group's consolidated financial statements.

The Transferee undertakes that upon receiving the notice from the Company requesting it to acquire the remaining equity interest in Suijiang Dianchi Water held by the Company in the future, the corresponding work will be commenced as soon as possible, and the specific terms shall be subject to further negotiation between both parties.

3. INFORMATION ON THE PARTIES INVOLVED

Information on the Group

The Company is a joint stock company incorporated in the PRC with limited liability, and is a leading municipal wastewater treatment and reclaimed water supply services provider in Yunnan Province, the PRC, an integrated water-related services (including running water supply service) provider and a core enterprise implementing the PRC's strategic goal to treat pollutants at Dianchi Lake.

Information on the Transferee and its Ultimate Beneficial Owners

Sichuan Development Guorun Water is a company incorporated in the PRC with limited liability and is mainly engaged in businesses of urban and rural water supply and drainage, industrial park wastewater, municipal pipeline network maintenance and water environment comprehensive management. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, based on the public information currently available to the Company, as at the date of this circular, Sichuan Development Guorun Water is held as to 100% by Beijing SPC Environment Protection Tech Co., Ltd.* (北京清新環境技術股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 002573), which is in turn held as to 41.56% by Sichuan Ecological Environmental Protection Industry Group Co., Ltd.* (四川省生態環保產業集團有限責任公司). Among them, Sichuan Ecological Environmental Protection Industry Group Co., Ltd.* (四川省生態環保產業集團有限責任公司) is ultimately held as to approximately 90% by State-owned Assets Supervision and Administration Commission of Sichuan Province.

The Transferee and its ultimate beneficial owners are third parties who are independent of the Company and its connected persons.

LETTER FROM THE BOARD

Information on the Target Companies

(1) *Zhaotong Dianchi Water (Target Company I)*

Zhaotong Dianchi Water is a company incorporated in the PRC with limited liability on 23 October 2019 with a registered capital of RMB100,000,000 and is principally engaged in the business relating to wastewater treatment and sludge treatment and disposal. As at the date of this circular, Zhaotong Dianchi Water is a wholly-owned subsidiary of the Company. Set out below is a summary of the audited financial information of Zhaotong Dianchi Water for the two years ended 31 December 2021 and 2022 and the financial information for the six months ended 30 June 2023:

	For the year ended 31 December		For the six months ended
	2021	2022	30 June
	RMB'0000	RMB'0000	2023
	(audited)	(audited)	RMB'0000
			(unaudited)
Net profit before tax	3,234.50	8,082.50	2,247.68
Net profit after tax	2,846.56	9,531.22	2,109.20

The audited net asset value of Zhaotong Dianchi Water as at the Base Date was RMB166,128,100, and the unaudited net asset value as at 30 June 2023 as confirmed based on the internal management account was approximately RMB182,955,500.

(2) *Yiliang Dianchi Water (Target Company II)*

Yiliang Dianchi Water is a company incorporated in the PRC with limited liability on 4 June 2015 with a registered capital of RMB21,000,000 and is principally engaged in the business of wastewater treatment. As at the date of this circular, Yiliang Dianchi Water is a wholly-owned subsidiary of the Company. Set out below is a summary of the audited financial information of Yiliang Dianchi Water for the two years ended 31 December 2021 and 2022 and the financial information for the six months ended 30 June 2023:

	For the year ended 31 December		For the six months ended
	2021	2022	30 June
	RMB'0000	RMB'0000	2023
	(audited)	(audited)	RMB'0000
			(unaudited)
Net profit before tax	388.24	345.91	266.89
Net profit after tax	279.01	523.30	255.36

The audited net asset value of Yiliang Dianchi Water as at the Base Date was RMB21,256,700, and the unaudited net asset value as at 30 June 2023 as confirmed based on the internal management account was approximately RMB25,662,300.

LETTER FROM THE BOARD

(3) *Suijiang Dianchi Water (Target Company III)*

Suijiang Dianchi Water is a company incorporated in the PRC with limited liability on 9 December 2015 with a registered capital of RMB22,000,000 and is principally engaged in the business of wastewater treatment. As at the date of this circular, Suijiang Dianchi Water is a wholly-owned subsidiary of the Company. Set out below is a summary of the audited financial information of Suijiang Dianchi Water for the two years ended 31 December 2021 and 2022 and the financial information for the six months ended 30 June 2023:

	For the year ended 31 December		For the six months ended
	2021	2022	30 June
	RMB'0000	RMB'0000	2023
	(audited)	(audited)	RMB'0000
			(unaudited)
Net profit before tax	377.25	419.95	177.26
Net profit after tax	354.40	477.93	169.50

The audited net asset value of Suijiang Dianchi Water as at the Base Date was RMB23,604,000, and the unaudited net asset value as at 30 June 2023 as confirmed based on the internal management account was approximately RMB25,678,000.

4. DETERMINATION OF CONSIDERATION FOR DISPOSAL

The Consideration is determined based on the final bid price of the Public Tender with reference to (i) the appraised value of the total shareholders' equity of each of the Target Companies and the corresponding appraised value of the share of the Disposal Interest as appraised by a valuer; and (ii) the interest expected to be received by the Company under the payment of the Consideration in instalments (the final amount shall be calculated at the time of actual receipt of the Consideration). According to the asset valuation reports issued by Kunming Bangke Asset Appraisal in respect of each of the Target Companies, the valuer adopted the income approach to appraise the total shareholders' equity of each of the Target Companies, and concluded that as at the Base Date, (i) the appraised value of the total shareholders' equity of Zhaotong Dianchi Water was RMB250,455,200, representing the appraised value of the equity corresponding to the 80% equity interest in Zhaotong Dianchi Water held by the Company of approximately RMB200,364,200; (ii) the appraised value of the total shareholders' equity of Yiliang Dianchi Water was RMB24,387,800, representing the appraised value of the equity corresponding to the 80% equity interest in Yiliang Dianchi Water held by the Company of approximately RMB19,510,200; and (iii) the appraised value of the total shareholders' equity of Suijiang Dianchi Water was RMB28,609,600, representing the appraised value of the equity corresponding to the 80% equity interest in Suijiang Dianchi Water held by the Company of approximately RMB22,887,700. The Board has also made reference to the above appraised value in determining the floor price for the Public Tender.

As the valuation of the entire shareholders' equity of each of the Target Companies is conducted under the income approach, which involves the calculations of discounted future estimated cash flows, it constitutes a profit forecast under Rule 14.61 of the Listing Rules. In accordance with Rule 14.60A and Rule 14.62 of the Listing Rules, the valuation assumptions are set out below (unless otherwise indicated, all the assumptions set out below are applicable to the Target Companies):

LETTER FROM THE BOARD

1. General Assumptions

(a) Transaction assumption

Transaction assumption assumes all assets to be valued are in the course of transaction and the valuation is based on simulated market including terms of transaction of the target assets. Transaction assumption is the most basic precondition for the implementation of asset valuation.

(b) Open market assumption

Open market assumption assumes that both parties to the assets transaction or the proposed assets transaction in the market are in equal position and have opportunities and time to obtain sufficient market information in order to make rational judgments on the assets including their functions, purposes and transaction prices. The basis of open market assumption is that the assets can be traded openly in the market.

(c) Assumption of continuous use of assets

The assumption of continuous use of assets means that the valuation methods, parameters and basis shall be determined correspondingly based on the fact that the assets to be appraised will continue to be used or re-used according to the current use and the model, scale, frequency and environment, etc. or used on a change basis when evaluating.

(d) Going concern assumption

The enterprise operates continually in pursuit of its operation objectives under its external environment as a business entity. The enterprise conducts lawful operation, and is able to acquire appropriate profits to maintain its capability to operate as a going concern.

(e) The valuation report only provides valuable reference opinions for the purpose of the appraisal, and does not take into account the impact of other economic activities and derived value basis on the appraisal conclusion. Therefore, the valuation report and conclusion generally cannot be applied to other appraisal purposes.

(f) The appraised assets are owned by the Target Companies with clear ownership, without dispute and restriction.

(g) All documents and materials provided by the Company and each of the Target Companies are true, valid and accurate.

LETTER FROM THE BOARD

- (h) Each of the Target Companies is not subject to disputes over property titles and other economic disputes, and there is no force majeure or unforeseeable factors that have a material adverse effect on the enterprise.
- (i) The impact that a particular trading method may have on the appraisal conclusion are not taken into consideration.

2. Specific Assumptions

- (a) It is assumed that there will be no material changes in the socio-economic environment of the regions where each of the appraised Target Companies is located and in the PRC, no material changes in the national laws, regulations, rules and socio-political and economic policies currently in force, and no material changes in the industry management model, industry policies, the market environment and condition of the industry in which the Target Companies are engaged.
- (b) It is assumed that the relevant credit interest rates, exchange rates, tax bases and tax rates, as well as policy-based charges will be at the level of the Evaluation Base Date, and will fluctuate within the normal range without significant changes.
- (c) The future operators of each of the Target Companies will comply with the relevant national laws and regulations, and there will be no major non-compliance that may affect the development and earnings of the company.
- (d) The present and future operators of each of the Target Companies are responsible, and the management of the company will be able to steadily proceed with the development plan of the company to maintain a good operating position.
- (e) It is assumed that the professional personnel and senior management of each of the Target Companies will remain relatively stable and there will be no significant outflow of core professional personnel in the following years.
- (f) It is assumed that the accounting policies to be adopted by each of the Target Companies in the future are substantially consistent with those adopted in the preparation of the valuation report in all material respects.
- (g) It is assumed that each of the Target Companies will continue to operate as a going concern, and the debt assets can be recovered on time and in full or form effective and equal assets to fulfill its contractual obligations in accordance with the law.
- (h) It is assumed that the cash inflow of each of the appraised Target Companies after the Evaluation Base Date will be the average inflow.
- (i) The various parameters measured in the appraisal are predicted by each of the appraised Target Companies and the principal, assuming that there will be no material changes in the forecast figures in the coming years.

LETTER FROM THE BOARD

- (j) Zhaotong Dianchi Water: According to the relevant national tax laws and policies, Zhaotong Dianchi Water enjoys the refund-upon-collection policy of value-added tax since its establishment, and adopts the policy of exemption from value-added tax from March 2022; enjoys the “three-year half exemption” policy and is subject to an enterprise income tax rate of 12.5% from 2023 to 2025, 15% from 1 January 2026 to 31 December 2030, and 25% after 1 January 2031.

Yiliang Dianchi Water: According to the relevant national tax laws and policies, Yiliang Dianchi Water enjoys the refund-upon-collection policy of value-added tax since its establishment, and adopts the policy of exemption from value-added tax from March 2022; is subject to an enterprise income tax rate of 15% from 1 January 2021 to 31 December 2030 and 25% after 1 January 2031.

Suijiang Dianchi Water: According to the relevant national tax laws and policies, Suijiang Dianchi Water enjoys the refund-upon-collection policy of value-added tax since its establishment, and adopts the policy of exemption from value-added tax from March 2022; is subject to an enterprise income tax rate of 15% from 1 January 2021 to 31 December 2030 and 25% after 1 January 2031.

3. Commercial Assumptions

3.1 *Zhaotong Dianchi Water*

- (a) According to the relevant agreements of the concession rights of Zhaotong Dianchi Water, the forecast periods of the valuation of two water plants under Zhaotong Dianchi Water have been assumed to be from 28 February 2023 to 31 December 2049 and from 28 February 2023 to 31 March 2051, respectively;
- (b) It is assumed that during the forecast period, Zhaotong Dianchi Water will only carry out business related to wastewater treatment and sludge disposal in Zhaotong City, Yunnan Province;
- (c) Assumptions related to revenue: It is assumed that the wastewater treatment fees charged by Zhaotong Dianchi Water pursuant to the relevant concession agreements during the forecast period are RMB2.759 per m³ from 28 February 2023 to 31 July 2027, RMB2.915 per m³ from 1 August 2027 to 31 March 2051, and the sludge disposal revenue is RMB278 per tonne from 28 February 2023 to 31 March 2051;
- (d) Assumptions related to operating costs: The operating costs are mainly labour costs, chemical costs, energy costs and sludge disposal costs. The annual average cost during the forecast period is approximately RMB19,117,700 per annum. During the forecast period, 2% increase in labour salary every two years is considered, and the increased unit variable cost caused by possible inflation and other reasons is not taken into account in the remaining costs;

LETTER FROM THE BOARD

- (e) Assumptions related to period expenses: The period expenses include administrative expenses, manufacturing expenses, overhaul expenses and other expenses. Based on the historical information of Zhaotong Dianchi Water, the concession agreements and the actual situation during the current operation period, the annual average expenses for the forecast period is approximately RMB8,147,900 and the provision for overhaul expenses every five years is approximately RMB36,580,300. The above expenses are calculated on a rate basis during the forecast period, assuming that the various rates remain unchanged during the forecast period. The financial expenses will no longer be required to be financed after 7 May 2036, and therefore no financial expenses will be incurred after 7 May 2036;
- (f) Depreciation and amortisation and capital expenditure: The expected useful life of fixed assets varies from 5 to 30 years depending on the category. The amortisation of intangible assets is only for long-term receivables, and the amortisation period is determined to be consistent with the operating period according to its characteristics. Capital expenditure mainly includes expenditure incurred for the renewal of fixed assets, machinery and equipment, electronic equipment and vehicles; and
- (g) The assumed annual discount rate of cash flows (post-tax) has been set at 4.62% for the first year (at an income tax rate of 12.5%), which is based on the valuation model of weighted average cost of capital, taking into account the factors such as market risks of the industries and the specific risks of the company. The annual discount rate of cash flows (post-tax) from 2036 to the end of the forecast period has been set at 7.37% for the first year (at an income tax rate of 25%) due to annual changes in interest-bearing debts and income tax rate from 2023 to 2035.

3.2 Yiliang Dianchi Water

- (a) According to the relevant concession contracts of Yiliang Dianchi Water, the forecast period of the valuation has been assumed to be from 28 February 2023 to 31 May 2045;
- (b) It is assumed that during the forecast period, Yiliang Dianchi Water will only carry out business related to wastewater treatment and sludge disposal in Yiliang County, Yunnan Province;
- (c) Assumptions related to revenue: It is assumed that the wastewater treatment fees charged by Yiliang Dianchi Water pursuant to the relevant concession contracts during the forecast period are RMB2.55 per m³, and the revenue from the sewage transfer pump station is RMB400,000 per annum;

LETTER FROM THE BOARD

- (d) Assumptions related to operating costs: The operating costs are mainly labour costs, chemical costs, energy costs and sludge transportation costs, etc. The annual average cost during the forecast period is approximately RMB2,295,000 per annum. During the forecast period, 2% increase in labour salary every two years is considered, and the increased unit variable cost caused by possible inflation and other reasons is not taken into account in the remaining costs;
- (e) Assumptions related to period expenses: The period expenses include administrative expenses, overhaul expenses and other expenses. Based on the historical information of Yiliang Dianchi Water, the concession agreements and the actual situation during the current operation period, the annual average expenses for the forecast period is approximately RMB375,700 and the provision for overhaul expenses every five years is approximately RMB2,456,800. The above expenses are calculated on a rate basis during the forecast period, assuming that the various rates remain unchanged during the forecast period. There is no financial expense as Yiliang Dianchi Water has no financing needs;
- (f) Depreciation and amortisation and capital expenditure: The expected useful life of fixed assets varies from 5 to 30 years depending on the category. The amortisation of intangible assets is only for long-term receivables, and the amortisation period is determined to be consistent with the operating period according to its characteristics. Capital expenditure mainly includes expenditure incurred for the renewal of fixed assets, machinery and equipment, electronic equipment and vehicles; and
- (g) The assumed annual discount rate of cash flows (post-tax) has been set at 7.27%, which is based on the valuation model of weighted average cost of capital, taking into account the factors such as market risks of the industries and the specific risks of the company.

3.3 *Suijiang Dianchi Water*

- (a) According to the relevant concession contracts of Suijiang Dianchi Water, the forecast period of the valuation has been assumed to be from 28 February 2023 to 8 December 2045;
- (b) It is assumed that during the forecast period, Suijiang Dianchi Water will only carry out business related to wastewater treatment and sludge disposal in Suijiang County, Yunnan Province;
- (c) Assumptions related to revenue: It is assumed that the wastewater treatment fees charged by Suijiang Dianchi Water pursuant to the relevant concession contracts during the forecast period are RMB1.7 per m³;

LETTER FROM THE BOARD

- (d) Assumptions related to operating costs: The operating costs are mainly labour costs, chemical costs, energy costs and sludge disposal costs, etc. The annual average cost during the forecast period is approximately RMB2,874,000 per annum. During the forecast period, only a 2% increase in labour salary every two years is considered, and the increased unit variable cost caused by possible inflation and other reasons is not taken into account in the remaining costs;
- (e) Assumptions related to period expenses: The period expenses include administrative expenses, overhaul expenses and other expenses. Based on the historical information of Suijiang Dianchi Water, the concession agreements and the actual situation during the current operation period, the annual average expenses for the forecast period is approximately RMB294,900 and the provision for overhaul expenses every five years is approximately RMB887,800. The above expenses are calculated on a rate basis during the forecast period, assuming that the various rates remain unchanged during the forecast period. There is no financial expense as Suijiang Dianchi Water has no financing needs;
- (f) Depreciation and amortisation and capital expenditure: The expected useful life of fixed assets varies from 5 to 30 years depending on the category. The amortisation of intangible assets is only for long-term receivables, and the amortisation period is determined to be consistent with the operating period according to its characteristics. Capital expenditure mainly includes expenditure incurred for the renewal of fixed assets, machinery and equipment, electronic equipment and vehicles; and
- (g) The assumed annual discount rate of cash flows (post-tax) has been set at 7.27%, which is based on the valuation model of weighted average cost of capital, taking into account the factors such as market risks of the industries and the specific risks of the company.

The Directors confirm that the forecasts of the discounted future estimated cash flows in the valuation report of Kunming Bangke Assets Appraisal, which constitutes a profit forecast under Rule 14.61 of the Listing Rules, were made after due and careful enquiry. A confirmation letter in respect of the valuation further issued by the Board is set out in Appendix I to this circular.

LETTER FROM THE BOARD

Pan-China Certified Public Accountants LLP (Special General Partnership) (“**Pan-China Certified Public Accountants**”) has been engaged by the Company to review the arithmetical calculation and compilation of the discounted future estimated cash flows upon which the valuation report prepared by Kunming Bangke Asset Appraisal was based. A confirmation letter issued by Pan-China Certified Public Accountants is set out in Appendix II to this circular.

EXPERTS AND CONSENTS

The followings are the qualifications of the experts who have given opinions and advice contained in this circular:

Name	Qualification
Kunming Bangke Asset Appraisal	Registered asset valuer registered with China Appraisal Society
Pan-China Certified Public Accountants	Certified Public Accountants, China

Each of Kunming Bangke Asset Appraisal and Pan-China Certified Public Accountants has given and has not withdrawn its respective written consent to the publication of this circular with the inclusion of its report/letter and all references to its name (including its qualifications) in the form and context in which they are included.

To the best knowledge, information and belief of the Board and having made all reasonable enquiries, each of Kunming Bangke Asset Appraisal and Pan-China Certified Public Accountants is a third party independent of the Group and is not a connected person of the Group. As at the Latest Practicable Date, neither Kunming Bangke Asset Appraisal nor Pan-China Certified Public Accountants has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate person(s) to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, neither Kunming Bangke Asset Appraisal nor Pan-China Certified Public Accountants had any direct or indirect interest in any assets which have been, or are proposed to be, acquired, disposed of or leased by any member of the Group since 31 December 2022, being the date of preparation of the latest published audited financial statements of the Company.

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5. REASONS FOR AND BENEFITS OF THE DISPOSAL

The Disposal will allow the Company to recover the investment in advance and realise the investment earnings, thereby providing the Company with greater flexibility in identifying and participating in other suitable investment opportunities. Based on the above reasons, at the Board meeting at which the Disposal was considered, all Directors of the Board other than Mr. Zhou Jianbo and the then Director, Ms. Wang Dongfang (the “**Dissenting Directors**”) are of the view that the Disposal will be conducted on normal commercial terms, which are fair and reasonable and in the interests of the Company and its shareholders as a whole. In particular, in the voting process of the Board, Mr. Zhou Jianbo voted against the Disposal, mainly because Mr. Zhou Jianbo considered that each of the Target Companies remained profitable for the last three years, the aggregate audited net profit of the Target Companies for the year ended 31 December 2022 accounted for approximately 30% of the Group’s consolidated net profit, the Target Companies were the Group’s core assets, and the expected transaction Consideration of the Disposal Interest will be lower than the figure calculated based on the price-to-earnings ratio of the water segment of listed peers; and Ms. Wang Dongfang abstained from voting, mainly because Ms. Wang Dongfang considered that the treatment capacity of water plants under the Target Companies was relatively large, and recommended the Company to continue to hold the Disposal Interest.

All Directors of the Board have given due and careful consideration to the Disposal and the views of the Dissenting Directors.

The aggregate sewage treatment capacity of the sewage treatment plants operated by the Target Companies is approximately 0.14 million cubic meters per day. Upon completion of the Disposal, the remaining sewage treatment capacity of the Group will be approximately 1.896 million cubic meters per day (calculated based on the data set out in the interim report of the Company for the period ended 30 June 2023). The Disposal will not result in any changes to the Group’s principal business and business model.

Save for the Dissenting Directors, all other Directors of the Board unanimously consider that although the Target Companies accounts for a certain percentage of the consolidated net profit of the Group and has a certain scale of operation, the Disposal can enable the Company to have more sufficient funds for its daily operation and to seize other investment opportunities to obtain greater investment returns. The Company’s principal businesses are sewage treatment, reclaimed water and running water supply, which are mainly financed by various means such as initial investment from investors, issuance of bonds, bank borrowings and retained earnings from the Company’s operations, all of which are affected by the overall economic environment. In view of the long financing cycle of bond issuance and the tightening of lending by banks in the PRC, and taking into account the time cost and funding cost of various financing methods, it is in the interests of the Company and the Shareholders as a whole to obtain funding by way of the Disposal. In addition, upon completion of the Disposal, the Company will still hold 20% equity interest in each of the Target Companies, which can maintain certain contribution of the Target Companies to the consolidated financial results of the Group. In determining the floor price for the Public Tender under the Disposal, the Group has made reference to the appraised value of the total shareholders’ equity of the each of the Target Companies and the corresponding appraised value of the share of the Disposal Interest as appraised by Kunming Bangke Asset Appraisal, an independent appraiser, to ensure the fairness and reasonableness of the Consideration. The Group has also taken into account the interest income that may be generated from the payment of the Consideration by instalments, which is in the interests of the Company as a whole.

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Based on the above reasons, all the remaining Directors, except for the Dissenting Directors, voted in favour and the Board resolved to approve the Disposal.

6. FINANCIAL IMPACT OF THE DISPOSAL AND USE OF ITS PROCEEDS

Upon the Completion, the Target Companies will no longer be consolidated into the Group's consolidated financial statements and the remaining 20% equity interest in the Target Companies held by the Company will be accounted for using the long-term equity investment under equity method. Assuming the Disposal will be completed on 30 November 2023, the estimated net gain before tax of the Group in respect of the Disposal is the aggregate of (i), (ii) and (iii) below, which amounts to approximately RMB41,041,300. Details are as follows:

- (i) the estimated net gain before tax from the disposal of 80% equity interest in Zhaotong Dianchi Water is approximately RMB41,735,400, which is the aggregate of (a) and (b) below:
 - (a) the difference between the sum of approximately RMB202,606,800 of the equity transfer price under the Equity Transfer Agreement I and the interest as agreed to be calculated based on the equity transfer price to be paid by the Transferee in instalments and 80% net asset value of Zhaotong Dianchi Water of approximately RMB168,769,900 as of 30 November 2023 determined in the management accounts of the Group's consolidated financial statements (i.e. the estimated net gain before tax of approximately RMB33,836,900); and
 - (b) the difference between the value of the remaining 20% equity interest in Zhaotong Dianchi Water held by the Group accounted for using the equity method in the Group's consolidated financial statements as of 30 November 2023 of approximately RMB50,091,000 and the 20% net asset value of Zhaotong Dianchi Water of approximately RMB42,192,500 as of 30 November 2023 determined in the management accounts of the Group's consolidated financial statements (i.e. the estimated net gain before tax of approximately RMB7,898,500).
- (ii) the estimated net loss before tax from the disposal of 80% equity interest in Yiliang Dianchi Water is approximately RMB2,689,400, which is the aggregate of (a) and (b) below:
 - (a) the difference between the sum of approximately RMB19,588,400 of the equity transfer price under the Equity Transfer Agreement II and the interest as agreed to be calculated based on the equity transfer price to be paid by the Transferee in instalments and 80% net asset value of Yiliang Dianchi Water of approximately RMB21,724,300 as of 30 November 2023 determined in the management accounts of the Group's consolidated financial statements (i.e. the estimated net loss before tax of approximately RMB2,135,900); and

LETTER FROM THE BOARD

- (b) the difference between the value of the remaining 20% equity interest in Yiliang Dianchi Water held by the Group accounted for using the equity method in the Group's consolidated financial statements as at 30 November 2023 of approximately RMB4,877,600 and the 20% net asset value of Yiliang Dianchi Water of approximately RMB5,431,100 as of 30 November 2023 determined in the management accounts of the Group's consolidated financial statements (i.e. the estimated net loss before tax of approximately RMB553,500).

- (iii) the estimated net gain before tax from the disposal of 80% equity interest in Suijiang Dianchi Water is approximately RMB1,995,300, which is the aggregate of (a) and (b) below:
 - (a) the difference between the sum of approximately RMB22,979,400 of the equity transfer price under the Equity Transfer Agreement III and the interest as agreed to be calculated based on the equity transfer price to be paid by the Transferee in instalments and 80% net asset value of Suijiang Dianchi Water of approximately RMB21,364,800 as of 30 November 2023 determined in the management accounts of the Group's consolidated financial statements (i.e. the estimated net gain before tax of approximately RMB1,614,600); and

 - (b) the difference between the value of the remaining 20% equity interest in Suijiang Dianchi Water held by the Group accounted for using the equity method in the Group's consolidated financial statements as at 30 November 2023 of approximately RMB5,721,900 and the 20% net asset value of Suijiang Dianchi Water of approximately RMB5,341,200 as of 30 November 2023 determined in the management accounts of the Group's consolidated financial statements (i.e. the estimated net gain before tax of approximately RMB380,700).

The above calculations are estimates for illustrative purpose only and do not represent the financial position of the Group upon the Completion. The actual financial effect of the Disposal will be determined with reference to the financial position of the Group as at the Completion Date.

The net proceeds from the Disposal will be used as general working capital of the Group.

7. LISTING RULES IMPLICATIONS

Pursuant to Rule 14.23(1) of the Listing Rules, as the Transferee of the Disposal Interest is the same party, the transactions under the Equity Transfer Agreements shall be aggregated. As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Equity Transfer Agreements and the Disposal contemplated thereunder is more than 25% but all of them are less than 75%, the Disposal constitutes a major transaction of the Company and is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

LETTER FROM THE BOARD

According to Rule 14.44 of the Listing Rules, Shareholders' approval may be obtained in the form of written Shareholders' approval in lieu of convening a general meeting. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder has a material interest in the Equity Transfer Agreements and the transactions contemplated thereunder. Accordingly, no Shareholder is required to abstain from voting if a general meeting is required to be convened to approve the entering into of the Equity Transfer Agreements and the transactions contemplated thereunder.

As at the date of this circular, Kunming Dianchi Investment directly holds 660,266,893 shares of the Company (representing approximately 64.16% of the total number of issued shares of the Company). As the Company has obtained a written approval from Kunming Dianchi Investment, according to Rule 14.44 of the Listing Rules, the Company will not convene an extraordinary general meeting for the purpose of approving the entering into of the Equity Transfer Agreements and the transactions contemplated thereunder.

8. RECOMMENDATIONS

As stated in the section headed "5. Reasons for and Benefits of the Disposal" in this circular, the Disposal will allow the Company to recover the investment in advance and realise the investment earnings, thereby providing the Company with greater flexibility in identifying and participating in other suitable investment opportunities. Upon completion of the Disposal, the Company will still hold 20% equity interest in each of the Target Companies, which can maintain certain contribution of the Target Companies to the consolidated financial results of the Group. In addition, in determining the floor price for the Public Tender under the Disposal, the Group has made reference to the appraised value of the total shareholders' equity of each of the Target Companies and the corresponding appraised value of the share of the Disposal Interest as appraised by Kunming Bangke Asset Appraisal, an independent appraiser, to ensure the fairness and reasonableness of the Consideration. The Group has also taken into account the interest income that may be generated from the payment of the Consideration by instalments, which is in the interests of the Company as a whole.

Accordingly, if a general meeting is convened to approve the entering into of the Equity Transfer Agreements and the transactions contemplated thereunder, all Directors other than the Dissenting Directors will recommend the Shareholders to vote in favour of the resolution to approve the entering into of the Equity Transfer Agreements and the transactions contemplated thereunder at the relevant general meeting.

9. ADDITIONAL INFORMATION

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

On behalf of the Board
Kunming Dianchi Water Treatment Co., Ltd.
Zeng Feng
Chairperson and executive Director

29 December 2023

The Listing Division
The Stock Exchange of Hong Kong Limited
12th Floor, One International Finance Centre
1 Harbour View Street
Central, Hong Kong

Dear Sirs and Madams,

**MAJOR TRANSACTION IN RELATION TO DISPOSAL OF
EQUITY INTERESTS IN SUBSIDIARIES**

Reference are made to the Asset Valuation Report on the Valuation Project of the Value of the Entire Shareholders' Equity Interests of Zhaotong Dianchi Water Treatment Co., Ltd. (《昭通滇池水務有限公司股東全部權益價值評估項目資產評估報告》), the Asset Valuation Report on the Valuation Project of the Value of the Entire Shareholders' Equity Interests of Yiliang Dianchi Water Treatment Co., Ltd. (《彝良滇池水務有限公司股東全部權益價值評估項目資產評估報告》) and the Asset Valuation Report on the Valuation Project of the Value of the Entire Shareholders' Equity Interests of Suijiang Dianchi Water Treatment Co., Ltd. (《綏江滇池水務有限公司股東全部權益價值評估項目資產評估報告》) (collectively, the "**Valuation Reports**") all dated 29 November 2023 prepared by Kunming Bangke Land and Real Estate Asset Appraisal Co., Ltd.* (昆明幫克土地房地產資產評估有限公司) in relation to the valuation of 100% shareholders' equity interests of Zhaotong Dianchi Water Treatment Co., Ltd.* (昭通滇池水務有限公司), Yiliang Dianchi Water Treatment Co., Ltd.* (彝良滇池水務有限公司) and Suijiang Dianchi Water Treatment Co., Ltd.* (綏江滇池水務有限公司) as at 28 February 2023 (the "**Valuations**"), respectively. The Valuations have been prepared in accordance with the income approach, which involves the calculation of the discounted future estimated cash flows and therefore constitutes a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

We have reviewed the bases and assumptions upon which the Valuations have been prepared and have reviewed the Valuations for which Kunming Bangke Land and Real Estate Asset Appraisal Co., Ltd.* (昆明幫克土地房地產資產評估有限公司) is responsible. We have also considered the confirmation letter issued by Pan-China Certified Public Accountants LLP (Special General Partnership) engaged by the Company as to whether the Valuations have been properly prepared for the purpose of the calculation. We hereby confirm that the calculations of the discounted future estimated cash flows for the Valuations have been made after due and careful enquiry.

Yours faithfully,
On behalf of the Board
Kunming Dianchi Water Treatment Co., Ltd.
Zeng Feng
Chairperson and executive Director

* For identification purpose only

**REPORT ON DISCOUNTED FUTURE CASH FLOWS ON
THE VALUATION OF EQUITY INTEREST IN THE TARGET COMPANIES****TO THE BOARD OF DIRECTORS OF KUNMING DIANCHI WATER TREATMENT CO., LTD.**

We have checked the calculations of the discounted future estimated cash flows on which the valuation (the “**Valuation**”) prepared by Kunming Bangke Land and Real Estate Asset Appraisal Co., Ltd.* (昆明幫克土地房地產資產評估有限公司) on 29 November 2023 in respect of the equity interests in Zhaotong Dianchi Water Treatment Co., Ltd.* (昭通滇池水務有限公司), Yiliang Dianchi Water Treatment Co., Ltd.* (彝良滇池水務有限公司) and Suijiang Dianchi Water Treatment Co., Ltd.* (綏江滇池水務有限公司) (collectively, the “**Target Companies**”) as at 28 February 2023 is based. The Valuation is set out in the announcement issued by Kunming Dianchi Water Treatment Co., Ltd. (the “**Company**”) dated 29 December 2023 (the “**Announcement**”). The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

DIRECTORS' RESPONSIBILITIES FOR THE DISCOUNTED FUTURE ESTIMATED CASH FLOWS

The directors (the “**Directors**”) of the Target Companies are solely responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions (the “**Assumptions**”) determined by the Directors and set out in the Announcement. This responsibility includes performing appropriate procedures in relation to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making reasonable estimates in the circumstances.

OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”), which are formulated based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior. Our firm applies Hong Kong Standard on Quality Management 1 “Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements”, which requires firms to design, implement and operate a quality management system, including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

REPORTING ACCOUNTANTS' RESPONSIBILITIES

Our responsibility is to express an opinion, as required by Rule 14.62(2) of the Listing Rules, on whether the calculations of the discounted future estimated cash flows have been properly prepared in all material respects in accordance with the Assumptions on which the Valuation is based and to report our opinion to the Company, and for no other purpose. We do not assume or accept any responsibility to any other person for the contents of this report.

We have conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether the calculations of the discounted future estimated cash flows have been properly prepared in accordance with the Assumptions. Our work was primarily limited to making inquiries with the Company's management, considering the analyses and assumptions on which the discounted future estimated cash flows are based and checking the arithmetic accuracy of the preparation of the discounted future estimated cash flows. Our work does not constitute any valuation of the Target Companies.

Because the Valuation relates to the discounted future estimated cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypotheses about future events and management actions which are unlikely to be ascertained and verified in the same way as past results and may or may not occur. Even if the anticipated events and actions do occur, actual results are still likely to be different from the Valuation and the differences may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and validity of the Assumptions and do not express any opinion thereon.

OPINION

In our opinion, based on the foregoing, so far as the calculations are concerned, the discounted future estimated cash flows have been properly prepared in all material respects in accordance with the Assumptions set out in the Valuation.

Pan-China Certified Public Accountants LLP (Special General Partnership)

Hangzhou, the PRC
29 December 2023

* *For identification purpose only*

1. FINANCIAL INFORMATION OF THE GROUP

Details of the audited consolidated financial information of the Group for each of the three years ended 31 December 2020, 2021 and 2022 and the unaudited consolidated financial information for the six months ended 30 June 2023 are disclosed in the following annual reports of the Company for the years ended 31 December 2020, 2021 and 2022 and the interim report for the six months ended 30 June 2023 respectively, which have been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kmdcwt.com) and are available for inspection:

- (i) The Group's annual report for the year ended 31 December 2020 published on 13 April 2021 (available at <https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0413/2021041300254.pdf>), particularly as shown in pages 167 to 311.
- (ii) The Group's annual report for the year ended 31 December 2021 published on 8 April 2022 (available at <https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0408/2022040800345.pdf>), particularly as shown in pages 176 to 318.
- (iii) The Group's annual report for the year ended 31 December 2022 published on 24 April 2023 (available at <https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0424/2023042400933.pdf>), particularly as shown in pages 160 to 310.
- (iii) The Group's interim report for the six months ended 30 June 2023 published on 19 September 2023 (available at <https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0919/2023091900434.pdf>), particularly as shown in pages 57 to 128.

2. INDEBTEDNESS OF THE GROUP

As at the close of business on 31 December 2023, being the latest practicable date for ascertaining the indebtedness of the Group prior to the printing of this circular, the Group mainly had (i) unsecured current borrowings of approximately RMB876 million, unsecured non-current borrowings of approximately RMB169 million; (ii) secured current borrowings of approximately RMB2,391 million, secured non-current borrowings of approximately RMB1,836 million, all of which were secured by charges over mainly the Group's revenue from sewage treatment, together with the property, plant and equipment with carrying value of approximately RMB745 million; (iii) financial liability of approximately RMB1,217 million, which was secured by charges over bill deposits of approximately RMB43 million (as a guarantee amount for the bill payables of the financial liability); and (iv) capital expenditure contracted for but not yet transpired in respect of property, plant and equipment of approximately RMB14 million and commitment for concession projects and construction projects contracted for but not yet transpired of approximately RMB727 million.

Save as disclosed above and apart from intra-group liabilities and normal trade payables in the ordinary course of business, at the close of business on 31 December 2023, the Group did not have any other loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, and authorised or otherwise created but unissued and term loans of other borrowings, indebtedness in the nature of borrowings, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities.

3. WORKING CAPITAL OF THE GROUP

The Directors believe that, after taking into account the existing cash and bank balances, other internal resources and available existing unutilised credit facilities, the Group has sufficient working capital for its present requirements and to satisfy its requirements for at least the next 12 months from the date of publication of this circular in the absence of unforeseen circumstances.

Pursuant to Rule 14.66(12) of the Listing Rules, the Company has received a letter of confirmation from the auditors regarding the statement on the adequacy of the Group's working capital.

4. FINANCIAL AND TRADING PROSPECT OF THE GROUP

The Group is a leading municipal wastewater treatment and reclaimed water supply services provider in Yunnan Province, the PRC, an integrated water-related services (including running water supply service) provider and a core enterprise implementing the PRC's strategic goal to treat pollutants at Dianchi Lake. The Company's main businesses are wastewater treatment and supply of reclaimed water and running water, with its industrial chain extending from urban wastewater treatment to treatment of industrial wastewater and wastewater in towns and villages, running water supply, use of reclaimed water, sludge resource utilization, disposal of garbage and solid waste, water purification chemicals and water conservation.

For wastewater treatment business, as of 30 June 2023, the Group had a total of 40 wastewater treatment plants in operation (including 14 in the main city of Kunming and 26 in other areas of China), with a total wastewater treatment capacity of 2.04 million cubic meters per day. With our technologically advanced facilities, independently developed patents and strong management skills, we have been able to maintain low costs while providing high-quality wastewater treatment services. In the future, the Group will continue to maintain its advantages, continue to improve the quality of operational management services and strengthen the development of its high-quality wastewater projects.

For reclaimed water supply business, as of 30 June 2023, we had 12 wastewater treatment plants producing reclaimed water, with a total designed daily production capacity of 237,000 cubic meters. Benefiting from the Company's technological foundation, we are able to produce and supply different high-quality reclaimed water based on the different needs of our customers and increase economic benefits. In recent years, with the increase in market demand and as the government attaches great importance to the use of reclaimed water, the amount of reclaimed water used has been increasing year by year.

For running water supply business, as of 30 June 2023, we had 8 running water plants in operation in the PRC. The Company's running water supply business has also been growing steadily in recent years.

In the future, the Company will continue to cultivate its main wastewater treatment business, put efforts in high-quality projects, actively explore solid waste treatment and disposal, continue to develop new strategic businesses such as comprehensive use of high-quality reclaimed water and continue to build up its professional system service capability in the water industry. We will focus on stabilising operations, improving performance, grasping projects, expanding financing, promoting reform, strengthening the team, consolidating inventories, improving the quality of new projects, and coordinating sustainable development of the Company.

5. NO MATERIAL ADVERSE CHANGE

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

The following contents are extracted from the report of Kunming Bangke Land and Real Estate Asset Appraisal Co., Ltd., an independent valuer, prepared for inclusion in this circular, which is relevant to the valuation as at 28 February 2023.

Case Ref: Kunming Bangke Zi Ping (2023) Bao Zi No. 2039

Dear Sir/Madam,

**RE: APPRAISAL OF THE VALUE OF THE ENTIRE SHAREHOLDERS’
INTERESTS IN ZHAOTONG DIANCHI WATER TREATMENT CO., LTD. IN
RELATION TO THE PROPOSED PUBLIC TRANSFER OF EQUITY INTERESTS
IN ZHAOTONG DIANCHI WATER TREATMENT CO., LTD. BY KUNMING
DIANCHI WATER TREATMENT CO., LTD.**

Kunming Bangke Land and Real Estate Asset Appraisal Co., Ltd. was commissioned by Kunming Dianchi Water Treatment Co., Ltd. to conduct an appraisal of the market value of the entire shareholders’ interests in Zhaotong Dianchi Water Treatment Co., Ltd. on 28 February 2023 in relation to the proposed public transfer of the equity interest in Zhaotong Dianchi Water Treatment Co., Ltd. by Kunming Dianchi Water Treatment Co., Ltd. using the asset-based approach and income approach in accordance with relevant PRC laws, regulations, asset appraisal standards, and asset appraisal principles and following the necessary valuation procedures.

Set out below is a summary of the valuation report dated 29 November 2023 issued by Kunming Bangke Land and Real Estate Asset Appraisal Co., Ltd. in relation to the valuation of the equity interests attributable to the owners of the Target Company as at the valuation base date:

- I. Appraised entity: Zhaotong Dianchi Water Treatment Co., Ltd.
- II. Purpose of valuation: The purpose of this valuation is to express a professional opinion on the market value of the entire shareholders’ interests in Zhaotong Dianchi Water Treatment Co., Ltd. as at 28 February 2023 in relation to the proposed public transfer of equity interests in Zhaotong Dianchi Water Treatment Co., Ltd. by Kunming Dianchi Water Treatment Co., Ltd., so as to provide the client with a value reference basis for the equity transfer.
- III. Subject of valuation: The subject of this valuation is the value of the entire shareholders’ interests in Zhaotong Dianchi Water Treatment Co., Ltd. as of 28 February 2023
- IV. Scope of valuation: The scope of this valuation is the entire audited assets and liabilities of Zhaotong Dianchi Water Treatment Co., Ltd. as of 28 February 2023. The specific content of the scope of valuation shall be subject to the “Detailed Return of Asset Valuation” filed as of 28 February 2023, being the total assets of RMB1,034,585,088.68, total liabilities of RMB868,456,958.85, and net assets of RMB166,128,129.83. The Yunnan Branch of Pan-China Certified Public Accountants LLP (Special General Partnership) has audited the accounting statements of Zhaotong Dianchi Water Treatment Co., Ltd. as of 28 February 2023 and has issued an unqualified audit report thereon (Report No.: Tian Jian Shen [2023] No. 9-122).

- V. Type of value and definition: The valuation outcome is the market value of the subject matter. Market value refers to the price at which the subject of valuation would be traded between a willing buyer and a willing seller acting reasonably at arm's length on the valuation base date, when neither is compulsory to buy or sell.
- VI. Valuation base date and valuation basis: The valuation base date was 28 February 2023. There are 5 kinds of basis for this valuation report: (1) basis of the economic activities – “Approval of the Public Transfer of 80% Equity Interests in Zhaotong Dianchi Water Treatment Co., Ltd., 80% Equity Interests in Yiliang Dianchi Water Treatment Co., Ltd. and 80% Equity Interests in Suijiang Dianchi Water Treatment Co., Ltd. held by Kunming Dianchi Water Treatment Co., Ltd.”; (2) basis of laws and regulations – including but not limited to the Asset Appraisal Law of the People's Republic of China (《中華人民共和國資產評估法》) and other relevant laws, administrative measures and implementation regulations, etc.; (3) basis of valuation standards – including but not limited to the Asset Valuation Standards (Cai Zi (2017) No. 43) and other relevant valuation guidelines and opinions; (4) relevant basis of ownership and; (5) relevant basis of pricing.
- VII. Valuation approach:

(I) SELECTION OF VALUATION APPROACH

In accordance with the “Standards of Practice for Asset Valuation – Enterprise Value”, when conducting enterprise value appraisal, an asset valuer shall analyse the applicability of the three basic approaches, namely the income approach, the market approach and the cost approach (asset-based approach), according to the relevant conditions such as purposes of valuation, subject of valuation, types of value and collection of information and choose a suitable valuation approach.

1. Market approach

We consider that the market approach is suitable for enterprise value appraisal under the condition that there are sufficient market data and comparable reference companies or transaction cases. As it is difficult to obtain transaction information on cases of equity transactions of similar companies in the PRC, and it is also difficult to identify comparable listed companies in the market that are similar to the appraised entity in terms of asset size and structure, scope of operations, profitability and risk factors, the market approach will not be adopted for valuation of the subject of valuation.

2. Asset-based approach

The asset-based approach reflects the value of an enterprise from the perspective of its acquisition and construction, and provides a basis for the operation, management and assessment of the enterprise after the realization of economic behaviour. This valuation has collected detailed information on the assets and liabilities of Zhaotong Dianchi Water Treatment Co., Ltd., which is operative for the valuation under the asset-based approach, and the asset-based approach has therefore been selected as one of the valuation approaches for this valuation.

3. Income approach

Zhaotong Dianchi Water Treatment Co., Ltd. has the ability to generate profits on an ongoing basis from its continuing operations, its future expected income can be measured in monetary terms, and its future operating risks can be quantified, thus meeting the criteria for valuation under the income approach. Therefore, the income approach has also been selected for this valuation.

(II) ASSET-BASED APPROACH

The asset-based approach is the method by which the value of the appraised entity is determined by reasonably assessing the values of each asset and liability item, both on and off balance sheet, based on the balance sheet. Taking into account the circumstances of this valuation, the appraised entity can provide and the valuer can collect externally the information required for the valuation by the asset-based approach, so that thorough investigation and valuation can be conducted on the assets and liabilities of the appraised entity. Therefore, the asset-based approach is applicable to this valuation.

Detailed valuation methods involved in this valuation are set out as follows:

In the valuation, the value of the entire shareholders' interests was reasonably determined on the basis of an appraisal of each individual asset and liability of the enterprise on the assumption that the appraised entity will operate on a going concern basis, i.e. value of the entire shareholders' interests = the sum of the appraised value of each individual asset – appraised value of the liabilities. The specific valuation methods for each individual asset and liability are set out below:

1. Valuation of current assets

(1) Valuation of monetary funds (bank deposits)

For bank deposits, on the basis of reconciling the accounts and statements of the enterprise's bank deposits, the valuer examined the bank statements and the bank deposit balance reconciliation statement provided by the enterprise and confirmed that there were no significant factors affecting the net assets, and then determined the appraised value based on the audited and verified amount as at the valuation base date.

(2) Valuation of receivables (including prepayments and other receivables)

In the valuation, on the basis of reconciling the accounts, statements and lists, the time of occurrence, specific contents, reasons for occurrence and the debtor's situation of each item were analyzed, and the valuer adopted alternative procedures such as letters of enquiry, auditing of financial books and random checking of original vouchers. After verification, the appraised value was determined after deducting from the total amount the probable loss on bad debts estimated based on the recoverable amount for each item through ageing analysis, and taking into account various factors such as the amount of receivables, reasons for default, the debtor's funds, creditability, current status of operation and management.

(3) Valuation of inventories

The inventories under appraisal are raw materials of the appraised entity, being flocculants and material spare parts, which are mainly used in the desludging process in the sewage treatment process with high mobility and quick turnover. After making market enquiries and checking the relevant procurement and payment certificates, the inventories were purchased recently from the valuation base date and the change in market value was not significant, so the appraised value was recognized at book value.

2. Valuation of non-current assets

(1) Valuation of long-term receivables

The long-term receivables under appraisal are based on the Concession Agreement of the First and Second Sewage Treatment Plant Projects TOT+BOT of Zhaotong Central City entered into between Kunming Dianchi Water Treatment Co., Ltd. and Zhaoyang District Housing and Urban-Rural Construction Bureau of Zhaotong City, which provided that "Zhaoyang District Housing and Urban-Rural Construction Bureau of Zhaotong City granted Kunming Dianchi Water Treatment Co., Ltd. and the wholly-owned project company set up by it (Zhaotong Dianchi Water Treatment Co., Ltd.) a concession for the sewage treatment and reclaimed water projects of the First and Second Sewage Treatment Plants of Zhaotong Central City, so as to invest in, construct, operate and maintain the project facilities related to the agreement, collect sewage treatment service fees and reclaimed water fees as stipulated in the agreement, recover the total investment by collecting sewage treatment fees, and hand over the project facilities in good condition to Zhaoyang District Housing and Urban-Rural Construction Bureau of Zhaotong City after the expiration of the concession period (the concession period shall be 30 years) in accordance with the provisions of the agreement"; Zhaotong Dianchi Water Treatment Co., Ltd., a wholly-owned subsidiary of Kunming Dianchi Water Treatment Co., Ltd., collects municipal sewage in Zhaotong City through management and operation of sewage treatment plants and treats the sewage using Intermittent Cyclic Extended Aeration Activated Sludge (ICEAS) process + MBR membrane process, finally discharges water passing relevant quality standards.

For the concession under appraisal, according to the Concession Agreement of the First and Second Sewage Treatment Plant Projects TOT+BOT of Zhaotong Central City entered into between Zhaotong Dianchi Water Treatment Co., Ltd. and Housing and Urban-Rural Construction Bureau of Zhaotong City, the concession period is 30 years. As the subject of valuation is the operating right (including income right), which means that the subject of valuation can generate income on an ongoing basis, the operating costs can be obtained from the client through investigations, the subject of valuation has the ability to make profits on an ongoing basis through continuous operation, the future expected income can be measured in monetary terms, and the future operating risks can be quantified, thus meeting the conditions of appraisal under the income approach, the income approach can be adopted for valuation of the operating right. The income approach was selected to forecast future net income based on the relevant historical data and policy documents provided by the client, and the net cash flow from operations was arrived at by subtracting the income generated from working capital and the cost incurred in acquiring the concession, and the present value of operating income was arrived at by adding up the present value of each year's income after selecting an appropriate discount rate, ultimately determining the value of the concession. The income approach formula is as follows:

$$V_p = \frac{A_1 - C - D}{(1 + R)^{\frac{1}{2}}} + \frac{A_2 - C}{(1 + R)^{\frac{1}{2}}} + \frac{A_3 - C}{(1 + R)^{\frac{1}{2}}} \dots \dots \frac{A_n - C}{(1 + R)^{\frac{1}{2}}}$$

- Where: V_p is the appraised value of the concession;
- A is the net cash inflow from future business operations;
- C is the income generated from working capital;
- D is the cost of acquiring the concession;
- R is the discount rate;
- t is the actual operating time at the beginning of the period;
- m is the number of years between the first and last year;
- n is the actual operating time of the year at the end of the period.

(2) *Fixed assets – Valuation of equipment*

The value of renovated and upgraded fixed assets has been included in the value of the concession, and this appraisal is only for the new assets added to the fixed assets.

① *Valuation of machinery equipment*

The appraisal of machinery equipment was mainly based on the cost approach. The cost approach is mainly based on the full replacement cost of the existing assets of the enterprise as at the valuation base date to determine the valuation results, which basically reflects the current market value of the assets of the enterprise. The calculation is as follows:

Appraised value of equipment = equipment replacement cost × (1 – physical depreciation rate) × (1 – functional depreciation rate) × (1 – economic depreciation rate);

② *Valuation of vehicles*

The calculation under the cost approach is: appraised value of vehicle = vehicle replacement cost × depreciation rate, where:

Determination of replacement cost:

For vehicles, the replacement cost is determined based on the prevailing market selling price, taking into account the vehicle purchase tax and other related expenses, and the calculation formula is as follows:

Replacement cost = vehicle purchase price + handling fee + vehicle purchase tax

The handling fee is mainly the fee for vehicle registration;

Depreciation rate: determined by the lower of the mileage rate or the on-site inspection rate.

③ *Valuation of electronic equipment*

The calculation under the cost approach is: value of equipment under the cost approach = equipment replacement cost × (1 – physical depreciation rate) × (1 – functional depreciation rate) × (1 – economic depreciation rate).

(3) *Intangible assets – Valuation of other intangible assets*

The other intangible assets are sewage discharge testing software. For the testing software, the valuer learned about the main functions and features of the software, and the software has complete property rights documents and there is no ownership dispute. In the appraisal, the use of the software was understood, the usefulness and value of the software were comprehensively analyzed, and the software was included in intangible assets – other intangible assets in the financial statements, but in fact it was a contributing asset attributable to the concession, and the above renovated and upgraded assets have been included in the scope of appraisal of the concession, which will not be appraised separately in this appraisal.

(4) *Valuation of deferred income tax assets*

For income tax assets arising from deductible temporary differences recognized under the income tax standards, the valuer checked the tax returns of assets giving rise to timing differences in respect of deferred income tax assets arising from adjustments to income tax expense in the appraisal, verified the accuracy and determined the carrying value as the appraised value.

3. Valuation of liabilities

(1) *Valuation of accounts payable, remuneration payable to employees, other payables, other current liabilities and long-term borrowings*

For accounts payable, remuneration payable to employees, other payables, other current liabilities and long-term borrowings, in the appraisal, on the basis of reconciling the accounts, statements and lists, the valuer analyzed account auditing information and other relevant information, and the appraised value of each debt was determined on the basis of the debt actually payable by the appraised entity after realizing the appraisal purpose.

(2) *Valuation of tax payable*

On the basis of reconciling the accounts, statements and lists, the valuer examined the accounts, information and tax return materials and other relevant information, all of which were debts actually payable as at the valuation base date, and determined the appraised value based on the audited and verified amount as at the valuation base date.

(III) INCOME APPROACH

The appraisal was conducted using the direct method: the value of the entire shareholders' interests was arrived at by discounting the net free cash flow of the enterprise, deducting interest-bearing debt and non-operating liabilities, and adding non-operating assets and surplus assets.

The rationale for appraisal of the value of the entire shareholders' interests under the income approach is:

1. As the operating income of Zhaotong Dianchi Water Treatment Co., Ltd. is derived solely from the Concession Agreement of the First and Second Sewage Treatment Plant Projects TOT+BOT of Zhaotong Central City entered into between Zhaotong Dianchi Water Treatment Co., Ltd. and Housing and Urban-Rural Construction Bureau of Zhaotong City, we determined the income of the enterprise based on such agreement and its supplemental agreement.
2. We determined the operating costs based on the financial information provided by the enterprise and the information obtained from interviews with the person in charge of the enterprise to forecast the future operating costs of the enterprise.
3. The free cash flow to the firm (FCFF) of an enterprise is calculated by forecasting the amount of capital expenditures and increase in working capital of the enterprise based on the enterprise's historical financial information and future development plans using the formula of "FCFF (free cash flow to the firm) = net profit + interest expense × (1 – tax rate) + net non-cash expenses (depreciation, amortization and provisions) – capital expenditures – increase in working capital".
4. The overall value of the enterprise is arrived at by adding up the free cash flow to the firm (FCFF) for each future year using the income approach formula, which is given as:

$$V_p = \frac{A_1}{(1+R)^{\frac{1}{2}}} + \frac{A_2}{(1+R)^{\frac{1}{2}}} + \frac{A_3}{(1+R)^{\frac{1}{2}}} \dots \dots \frac{A_n}{(1+R)^{\frac{1}{2}}}$$

Where: V_p is the overall appraised value of the enterprise;

A is the future free cash flow of the enterprise;

R is the discount rate;

t is the actual operating time at the beginning of the period;

m is the number of years between the first and last year;

n is the actual operating time of the year at the end of the period.

5. The value calculated through the income approach is the present value of the future cash flows of the enterprise, and in calculating the value of the entire shareholders' interests, interest-bearing debt and non-operating liabilities shall be deducted, and non-operating assets and surplus assets shall be added, that is:

Overall enterprise value – interest-bearing debts – non-operating liabilities + non-operating assets + surplus assets = value of the entire shareholders' interests as at the valuation base date.

6. Brief description of basic calculation parameters

Currently, Zhaotong Dianchi Water Treatment Co., Ltd. operates two plants, namely the first sewage treatment plant and the second sewage treatment plant, of which, the first sewage treatment plant has a sewage treatment capacity of 80,000 cubic meters per day, and the second sewage treatment plant has a sewage treatment capacity of 40,000 cubic meters per day, totalling 120,000 cubic meters per day, the price of sewage treatment is based on the Concession Agreement of the First and Second Sewage Treatment Plant Projects TOT+BOT of Zhaotong Central City. Currently, the government pays a sewage treatment service fee of RMB2.759 per cubic meter inclusive of tax, and the fee will be increased to RMB2.915 per cubic meter from 1 August 2027 onwards.

In particular, the second sewage treatment plant is responsible for sludge disposal, with a disposal volume of 100 tons per day, and the sludge disposal service fee paid by the government is RMB278 per ton pursuant to the Entrusted Operation Agreement on the Zhaotong Sewage Treatment Plant Sludge Treatment Project.

The calculation period is the operation period of 30 years under the Concession Agreement of the First and Second Sewage Treatment Plant Projects TOT+BOT of Zhaotong Central City, which shall start from the commencement of official operation of the sewage plants. The first sewage treatment plant commenced operation on 1 January 2020, and pursuant to the agreement, the operation period of Zhaotong Dianchi Water Treatment Co., Ltd. for the first sewage treatment plant shall end on 31 December 2049. Accordingly, the remaining operation period of the first sewage treatment plant is 26.86 years.

The second sewage treatment plant commenced operation on 1 April 2021, and pursuant to the agreement, the operation period of Zhaotong Dianchi Water Treatment Co., Ltd. for the second sewage treatment plant shall end on 31 March 2051. Accordingly, the remaining operation period of the second sewage treatment plant is 28.11 years.

(1) Determination of operation period

Pursuant to the provisions of 5.2 in Chapter 5 of the Concession Agreement of the First and Second Sewage Treatment Plant Projects TOT+BOT of Zhaotong Central City entered into between Zhaotong Dianchi Water Treatment Co., Ltd. and Zhaoyang District Housing and Urban-Rural Construction Bureau of Zhaotong City, the operation period shall be 30 years starting from the date of commencement of operation of each of the first and second sewage treatment plants. In particular:

The commencement date for the first sewage treatment plant shall be date of payment of the first transfer price by Zhaotong Dianchi Water Treatment Co., Ltd.

The commencement date for the second sewage treatment plant shall be ten Working Days from the connection commissioning date after meeting the connection conditions or the date on which Zhaoyang District Housing and Urban-Rural Construction Bureau of Zhaotong City requests for connection.

This calculation is based on a year of 365 days, calculated from 1 January 2023, and the plants have been in operation for 59 days up to the valuation base date of 28 February 2023, equivalent to: $59 \div 365 = 0.16$ year. Based on the assumption that payments are made on a monthly basis, the discount period calculated using 2023 as the first year of operation is: $(1 - 0.16) \div 2 = 0.42$ year.

Based on the information obtained by the valuers from relevant responsible person of Zhaotong Dianchi Water Treatment Co., Ltd., the date of commencement of operation of the first sewage treatment plant is 1 January 2020, and pursuant to the agreement, the operation period of Zhaotong Dianchi Water Treatment Co., Ltd. for the first sewage treatment plant shall end on 31 December 2049.

The date of commencement of operation of the second sewage treatment plant is 1 April 2021, and pursuant to the agreement, the operation period of Zhaotong Dianchi Water Treatment Co., Ltd. for the second sewage treatment plant shall end on 31 March 2051.

As the fees are incurred evenly, the discount period is calculated as 0.5 year in the year the fees are incurred, and the discount period for the rest of the years is calculated over the full operation period, then the discount period for the second year is $0.84 + 0.5 = 1.34$, and for the third year is $0.84 + 1 + 0.5 = 2.34$, and then each year thereafter in a similar manner, and the discount period for the first water treatment plant at the end of the period is as follows: the first year is 0.84, and the total number of years between the second year and the beginning of 2049 is 25 years, and that for 2049 is calculated on the basis of 0.5 year, and in summary, $0.84 + 25 + 0.5 = 26.34$ years.

The discount period for the second water treatment plant at the end of the period is as follows: the first year is 0.84, and the total number of years between the second year and the beginning of 2051 is 27 years, the operation period for 2051 is 0.25 year, and half of which is 0.125 year based on even occurrence, and in summary, $0.84 + 27 + 0.125 = 27.97$ years.

(2) Calculation of operating income

Pursuant to the Concession Agreement of the First and Second Sewage Treatment Plant Projects TOT+BOT of Zhaotong Central City entered into between Zhaotong Dianchi Water Treatment Co., Ltd. and Zhaoyang District Housing and Urban-Rural Construction Bureau of Zhaotong City, and based on the information obtained by the valuers from relevant responsible person of Zhaotong Dianchi Water Treatment Co., Ltd., the government currently pays a sewage treatment service fee of RMB2.759/m³ inclusive of tax, which will remain until 31 July 2027 and increase to RMB2.915/m³ from 1 August 2027 onwards. The actual sewage treatment volumes of the first and second sewage treatment plants are 80,000 m³/day and 40,000 m³/day, respectively, totalling 120,000 m³/day. Calculated based on the data provided by the client, the annual income of Zhaotong Dianchi Water Treatment Co., Ltd. is as follows:

Income from 28 February to 31 December 2023 = $\text{RMB}2.759/\text{m}^3 \times 120,000 \text{ m}^3/\text{day} \times 306 = \text{RMB}101,310,480.00$;

Income per year from 2024 to 2026 = $\text{RMB}2.759/\text{m}^3 \times 120,000 \text{ m}^3/\text{day} \times 365 = \text{RMB}120,844,200.00$;

Income for 2027 = $\text{RMB}2.759/\text{m}^3 \times 120,000 \text{ m}^3/\text{day} \times 212 + \text{RMB}2.915/\text{m}^3 \times 120,000 \text{ m}^3/\text{day} \times 153 = \text{RMB}123,708,360.00$;

Income per year from 2027 onwards = $\text{RMB}2.915/\text{m}^3 \times 120,000 \text{ m}^3/\text{day} \times 365 = \text{RMB}127,677,000.00$;

As the agreed operation period of the first sewage treatment plant will expire on 31 December 2049, and the remaining operation period of the second sewage treatment plant upon expiry of operation period of the first sewage treatment plant will be one year and 90 days, the income after expiry of operation period of the first sewage treatment plant shall be:

Income for 2050: $\text{RMB}2.915/\text{m}^3 \times 40,000 \text{ m}^3/\text{day} \times 365 = \text{RMB}52,706,000.00.$

Income for 2051: $\text{RMB}2.915/\text{m}^3 \times 40,000 \text{ m}^3/\text{day} \times 90 = \text{RMB}12,996,000.00.$

Pursuant to the Entrusted Operation Agreement on the Zhaotong Sewage Treatment Plant Sludge Treatment Project entered into between Housing and Urban-Rural Construction Bureau of Zhaotong City (Party A) and Zhaotong Dianchi Water Treatment Co., Ltd. (Party B), which is supplemental to the First and Second Sewage Treatment Plant Projects TOT+BOT of Zhaotong Central City, the sludge treatment project is a sub-project under the second sewage treatment plant project, and the agreement has set out the sludge treatment fee and treatment volume. Pursuant to the agreement, the unit price of sludge treatment is RMB278 per ton as agreed by both Party A and Party B, the treatment scale of the project is 100 tons of municipal sludge with 80% water content per day. As advised by the staff of the client, the sludge disposal capacity of the Zhaotong sewage treatment plant has reached the designed maximum treatment capacity, i.e. 100 tons per day. As the sludge disposal project is under the second sewage treatment plant, the treatment capacity will not be affected by the early expiry of the first sewage treatment plant, and the income from sludge treatment shall be:

Sludge treatment income from 28 February to 31 December 2023 = $\text{RMB}278/\text{ton} \times 100 \text{ tons}/\text{day} \times 306 \text{ days} = \text{RMB}8,506,800.00;$

Sludge treatment income per year from 2024 to 2050 = $\text{RMB}278/\text{ton} \times 100 \text{ tons}/\text{day} \times 365 \text{ days} = \text{RMB}10,147,000.00;$

Sludge treatment income from 1 January 2051 to 31 March 2051 = $\text{RMB}278/\text{ton} \times 100 \text{ tons}/\text{day} \times 90 \text{ days} = \text{RMB}2,502,000.00.$

(3) *Calculation of operating costs and expenses*

- a. **Energy cost:** Based on the relevant information provided by Zhaotong Dianchi Water Treatment Co., Ltd. and the industrial water price and annual average electricity price of Zhaoyang District of Zhaodong obtained through inquiries, the electricity charge and water charge of the two plants are calculated as follows:

First sewage treatment plant: Electricity consumed for treatment of one ton of sewage \times daily sewage treatment volume \times 365 \times average annual electricity price + water consumed for treatment of one ton of sewage \times daily sewage treatment volume \times 365 \times unit water price = $0.26 \times 80,000 \times 365 \times 0.5 + 0.00027 \times 80,000 \times 365 \times 5.6 = \text{RMB}3,840,150$ (rounded off).

Second sewage treatment plant: Electricity consumed for treatment of one ton of sewage \times daily sewage treatment volume \times 365 \times average annual electricity price + water consumed for treatment of one ton of sewage \times daily sewage treatment volume \times 365 \times unit water price = $0.39 \times 40,000 \times 365 \times 0.5 + 0.002 \times 40,000 \times 365 \times 5.6 = \text{RMB}3,010,520$ (rounded off).

The number of days can be replaced with the corresponding number of days of operation at the beginning and end of the period.

- b. **Cost of agents:** Based on the relevant information provided by Zhaotong Dianchi Water Treatment Co., Ltd. and the prices of main agents used obtained through inquiries, the cost of agents calculated based on the water treatment volume of the two plants is as follows:

First sewage treatment plant: Agents consumed for treatment of one ton of sewage \times daily sewage treatment volume \times 365 \times unit price of agents = $0.03146 \times 80,000 \times 365 \div 1,000 \times 1,100 = \text{RMB}1,010,495$.

Second sewage treatment plant: Agents consumed for treatment of one ton of sewage \times daily sewage treatment volume \times 365 \times unit price of agents = $0.03 \times 40,000 \times 365 \div 1,000 \times 1,650 = \text{RMB}722,700$.

The number of days can be replaced with the corresponding number of days of operation at the beginning and end of the period.

- c. **Labour cost:** Zhaotong Dianchi Water Treatment Co., Ltd. currently has 42 staff, including two management members, whose remuneration shall be included in management fees, therefore the labour cost shall be calculated based on 40 people. Based on different positions held and according to the Zhaotong Human Resource Market Salary Rates and Industry Labor Cost Information published by the Zhaotong Personnel Bureau, the average annual salary per person is calculated as RMB62,618 per year, the social security is paid based on five insurances and one fund, which is a total of 42.2% of the salary, and the salary growth rate is based on the lower end of 2% as set out in the Notice of the Yunnan Provincial Department of Human Resources and Social Security on the Publication of the 2018 Salary Guideline for Enterprises in Yunnan Province, subject to adjustment every two years. Based on the above, the labour cost is as follows:

Monthly average labour cost = annual average salary per person \times (1 + social security rate) \div 12 = 62,618 \times (1 + 42.2%) \div 12 = RMB7,420.25 per month.

Annual labour cost = monthly average labour cost \times number of months in the period \times number of people = 7,420.25 \times 12 \times 40 = RMB3,561,720 (rounded off).

Taking the third year as an example, the labour cost for the growth year is: monthly average labour cost for the previous year \times 1.02 \times number of months in the period \times number of people = 7,420.25 \times 1.02 \times 12 \times 40 = RMB3,633,120 (rounded off).

The number of days can be replaced with the corresponding number of days of operation at the beginning and end of the period.

- d. **Sludge disposal fee:** Pursuant to the Entrusted Operation Agreement on the Zhaotong Sewage Treatment Plant Sludge Treatment Project for Zhaotong Dianchi Water Treatment Co., Ltd. entered into between Zhaotong Dianchi Water Treatment Co., Ltd. and the service receiver, during the entrusted (trial) operation period, Zhaotong Dianchi Water Treatment Co., Ltd. shall pay the sludge disposal fee at a comprehensive unit price of RMB200 per ton. This calculation assumes that the parties will renew the agreement after expiry at the end of the entrusted (trial) operation period, and that the price will not be changed. The sludge disposal fee is as follows:

Sludge treatment cost from 28 February to 31 December 2023 = RMB200/ton \times 100 tons/day \times 306 days = RMB6,120,000.

Sludge treatment cost per year from 2024 to 2050 = RMB200/ton \times 100 tons/day \times 365 days = RMB7,300,000.

Sludge treatment cost from 1 January 2051 to 31 March 2051 = RMB200/ton × 100 tons/day × 90 days = RMB1,800,000.

- e. **Other fees:** Mainly include electrical materials, equipment materials, production supplies, laboratory supplies, labor protection supplies expenditures, etc., which is calculated at a rate of 0.85% based on the average of the last three years.
- f. **Manufacturing overhead (less depreciation and amortization):** The total manufacturing overhead of Zhaotong Dianchi Water Treatment Co., Ltd. in 2022 amounted to RMB22,114,707.94, including depreciation and amortization of RMB17,732,439.60, accounting for approximately 80% of the total manufacturing overhead, and depreciation and amortization for January to February 2023 accounted for approximately 84% of the manufacturing overhead, demonstrating that depreciation and amortization accounts for a large percentage (at least 80%) of the manufacturing overhead. As such, depreciation and amortization shall be calculated separately, and the manufacturing overhead (less depreciation and amortization) used for calculation represents 20% of the normal manufacturing overhead, and the average of which represents for 2% of the sewage treatment income, and taking into account the possible increase in costs caused by uncertainties in the future, 3% is adopted for the calculation.
- g. **Overhaul cost:** Overhaul cost is used for the replacement of large equipment and cleaning and maintenance of structures, and is generally 3%-5% of the fixed asset investment. Taking into account the maintenance of equipment and operation of Zhaotong Dianchi Water Treatment Co., Ltd., 5% is adopted for calculation of overhaul cost. Considering the serviceable life of the pumps and other equipment and the carrying load of the first and second sewage treatment plants at this stage, the overhaul cost is calculated on a five-year cycle.

Based on the valuers' analysis of the information provided by the client, it is considered that the total investment in fixed assets of Zhaotong Dianchi Water Treatment Co., Ltd. consists of three main components, namely the value of the transaction consideration for the first sewage treatment plant less the concession; the total investment in construction and renovation of the second sewage treatment plant; and the fixed asset investment for upgrading and renovation. The total amount of such three items is RMB731,606,112.26, and the overhaul cost is RMB36,580,306.00 for every five years.

- h. Management fees:** Include salary of management personnel, social security, travel expenses, consulting fees, intermediary service fees, etc. Based on the breakdown of revenue and cost of Zhaotong Dianchi Water Treatment Co., Ltd. and with reference to enterprises of similar size in the same industry, a rate of 3% is adopted for the management fees.
- i. Calculation of relevant taxes:** The taxes of Zhaotong Dianchi Water Treatment Co., Ltd. mainly include property tax, stamp duty, surcharge, land use tax, vehicle and vessel tax, and local water conservancy construction fund. The urban land use tax is levied based on the area of the land use right, and the rate is RMB7 per square meter per annum; the property tax is levied on the basis of 1.2% of 70% of the original value of the property; the local water conservancy construction fund is calculated based on the amount of electricity consumed at a rate of 2%; and the stamp duty rate is 0.03%, with the base of taxation being the income from the main business.
- j. Finance costs:** Based on the information provided by the client, the client currently has five borrowings, and pursuant to the borrowing contracts, the expected finance costs for each year during the forecast period are as follows:

							<i>RMB</i>
Year	2023	2024	2025	2026	2027	2028	2029
Finance costs	24,938,097.42	18,659,548.71	12,381,000.00	11,861,800.00	8,254,600.00	4,283,400.00	3,764,200.00
Year	2030	2031	2032	2033	2034	2035	2036
Finance costs	3,245,000.00	2,725,800.00	2,206,599.99	1,687,399.99	1,168,199.98	648,999.99	129,799.99
Year	2037 and onwards						
Finance costs	0.00						

(4) *Calculation of depreciation and amortization*

The straight-line method is used for calculation of depreciation and amortization expense, and the formula is as follows:

Monthly amortization = (original value – original value × salvage rate) ÷ useful life ÷ 12

- a. **Calculation of amortization of concession fees:** Pursuant to the Concession Agreement of the First and Second Sewage Treatment Plant Projects TOT+BOT of Zhaotong Central City, Zhaotong Dianchi Water Treatment Co., Ltd. obtained the right of use (including the right of use of equipment, buildings and structures and lands) and the concession right of the first and second sewage treatment plants at a price, and recovers the transfer consideration and make a reasonable profit by collecting sewage treatment fees. According to the special audit report, the transfer consideration is currently recognized by Zhaotong Dianchi Water Treatment Co., Ltd. under the account of long-term receivables, with an audited carrying value of RMB777,750,942.31 as at the valuation base date, which is amortized using the straight-line method in accordance with the Implementation Rules of the Enterprise Income Tax Law of the People's Republic of China. The Concession Agreement of the First and Second Sewage Treatment Plant Projects TOT+BOT of Zhaotong Central City will expire on 31 March 2051, which is 337 months from the valuation base date. As intangible assets generally do not have a salvage value, the monthly amortization expense is RMB2,307,866.30 per month. Amortization expense for wastewater discharge testing software is RMB323 per month.
- b. **Calculation of depreciation expense for each fixed asset:** The fixed assets in this case are categorized into three types, namely, machinery equipment, vehicles and electronic equipment. In accordance with the implementation rules of the Enterprise Income Tax Law of the PRC, the depreciable lives of the above fixed assets are 4 years for vehicles, 3 years for electronic equipment, and 10 years for machinery equipment, respectively. The salvage value rate is 5%.

(5) Calculation of enterprise income tax

It enjoys the “three-year half exemption” policy from 2023 to 2025 and is subject to income tax rate of 12.5%, and applies an enterprise income tax rate of 15% from 1 January 2026 to 31 December 2030, which will be returned to 25% after 1 January 2031.

(6) Calculation of capital expenditure

As part of the cost of routine maintenance and the overhaul cost have been included in the cost calculation, and Zhaotong Dianchi Water Treatment Co., Ltd. does not have any plan for renovation and expansion at present, the capital expenditure is calculated as zero.

(7) Calculation of working capital

Broadly speaking, working capital = current assets – current liabilities, and in this case we use the minimum cash on hand plus adjusted current assets minus current liabilities as the working capital. In particular, the minimum cash on hand is calculated from the estimated costs and expenses. Adjusted current assets and current liabilities are estimated by calculating the turnover rate of each relevant asset based on the past operations of the enterprise and taking into account the estimated revenues and costs.

Based on the analysis of historical data and the information obtained from the relevant personnel of Zhaotong Dianchi Water Treatment Co., Ltd., since the commencement of operation of Zhaotong Dianchi Water Treatment Co., Ltd. in 2020, except for the water price of residents paid by the government, other subsidies payable by the government have not been paid in full, resulting in the increase of the company's accounts receivable year by year, with an increase of approximately RMB70 million to RMB80 million per year. As changes in accounts receivable are crucial to the calculation of working capital, we calculate the changes in turnover rate in our estimation and used the percentage of changes in turnover rate to calculate the changes in accounts receivable, while other operating assets and liabilities do not have significant changes in the course of operation like accounts receivable, so other turnover rates remain unchanged. The change in turnover rate of accounts receivable is calculated to be -7.45%. After a certain period of growth, assuming that the government is able to make normal payments for sewage treatment services, there will be no further change in accounts receivable. The working capital for the remainder of the year is estimated by recalculating the turnover of each asset for that year. Based on the calculations, the working capital forecast is as follows:

									<i>RMB</i>
Year	2023	2024	2025	2026	2027	2028	2029	2030	
Working capital	122,452,503.06	157,180,607.86	169,722,422.71	183,250,240.09	204,304,356.87	224,749,962.69	242,709,096.01	262,109,231.76	
Increase in working capital	-83,037,748.86	34,728,104.80	12,541,814.85	13,527,817.38	21,054,116.78	20,445,605.82	17,959,133.32	19,400,135.75	
Year	2031	2032	2033	2034	2035	2036	2037	2038	
Working capital	283,075,412.39	307,856,276.49	330,201,406.75	356,643,697.52	385,219,101.52	374,216,479.55	376,354,076.18	374,221,153.53	
Increase in working capital	20,966,180.63	24,780,864.10	22,345,130.26	26,442,290.77	28,575,404.00	-11,002,621.97	2,137,596.63	-2,132,922.65	
Year	2039	2040	2041	2042	2043	2044	2045	2046	
Working capital	374,225,911.45	374,225,911.45	374,230,781.33	376,363,703.98	374,235,735.18	375,010,811.51	375,018,135.87	375,018,135.87	
Increase in working capital	4,757.92	0.00	4,869.88	2,132,922.65	-2,127,968.80	775,076.33	7,324.36	0.00	
Year	2047	2048	2049	2050	2051				
Working capital	378,109,500.71	375,025,622.09	375,033,229.73	374,124,202.74	386,330,753.78				
Increase in working capital	3,091,364.84	-3,083,878.62	7,607.64	-909,026.99	12,206,551.04				

(8) Free cash flow forecasts

According to the formula: FCFF (free cash flow to the firm) = net profit + interest expense × (1 – tax rate) + net non-cash expenses (depreciation, amortization, and various provisions) – capital expenditures – increase in working capital

Breakdown of free cash flow to the firm*Currency unit: RMB*

Year	Net profit	Interest expense	Income tax rate	Depreciation and amortization	Increase in working capital	Capital expenditures	Free cash flow to the firm
28/2/2023	33,179,727.58	24,938,097.42	12.50%	23,285,401.00	-83,037,748.86	0	161,323,712.68
2024	49,176,474.69	18,659,548.71	12.50%	27,867,726.60	34,728,104.80	0	58,643,201.61
2025	54,396,709.40	12,381,000.00	12.50%	27,805,862.60	12,541,814.85	0	80,494,132.15
2026	53,303,719.40	11,861,800.00	15%	27,782,472.60	13,527,817.38	0	77,640,904.62
2027	27,556,876.40	8,254,600.00	15%	27,694,395.60	21,054,116.78	0	41,213,565.22
2028	65,166,914.40	4,283,400.00	15%	27,694,395.60	20,445,605.82	0	76,056,594.18
2029	65,545,402.40	3,764,200.00	15%	27,694,395.60	17,959,133.32	0	78,480,234.68
2030	65,986,722.40	3,245,000.00	15%	27,694,395.60	19,400,135.75	0	77,039,232.25
2031	58,556,458.40	2,725,800.00	25%	27,694,395.60	20,966,180.63	0	67,329,023.37
2032	31,510,629.41	2,206,599.99	25%	27,694,395.60	24,780,864.10	0	36,079,110.90
2033	59,277,298.41	1,687,399.99	25%	27,694,395.60	22,345,130.26	0	65,892,113.74
2034	59,666,698.42	1,168,199.98	25%	27,694,395.60	26,442,290.77	0	61,794,953.24
2035	59,997,058.41	648,999.99	25%	27,694,395.60	28,575,404.00	0	59,602,800.00
2036	60,386,458.41	129,799.99	25%	27,694,395.60	-11,002,621.97	0	99,180,825.97
2037	32,988,459.40	0	25%	27,694,395.60	2,137,596.63	0	58,545,258.37
2038	60,423,688.40	0	25%	27,694,395.60	-2,132,922.65	0	90,251,006.65
2039	60,362,488.40	0	25%	27,694,395.60	4,757.92	0	88,052,126.08
2040	60,362,488.40	0	25%	27,694,395.60	0	0	88,056,884.00
2041	60,299,848.40	0	25%	27,694,395.60	4,869.88	0	87,989,374.12
2042	32,864,619.40	0	25%	27,694,395.60	2,132,922.65	0	58,426,092.35
2043	60,236,128.40	0	25%	27,694,395.60	-2,127,968.80	0	90,058,492.80
2044	60,236,128.40	0	25%	27,694,395.60	775,076.33	0	87,155,447.67
2045	60,170,968.40	0	25%	27,694,395.60	7,324.36	0	87,858,039.64
2046	60,170,968.40	0	25%	27,694,395.60	0	0	87,865,364.00
2047	32,669,139.40	0	25%	27,694,395.60	3,091,364.84	0	57,272,170.16
2048	60,104,368.40	0	25%	27,694,395.60	-3,083,878.62	0	90,882,642.62
2049	60,036,688.40	0	25%	27,694,395.60	7,607.64	0	87,723,476.36
2050	4,285,201.40	0	25%	27,694,395.60	-909,026.99	0	32,888,623.99
31/3/2051	-35,307,427.40	0	25%	6,923,598.40	12,206,551.04	0	-40,590,380.04
Total	1,413,610,904.33	95,954,446.07		778,330,555.60	180,840,501.86	0	2,093,205,023.38

(9) Calculation of discount rate

According to the Guideline for Asset Valuation Experts No. 12 – Measurement of Discount Rate in Valuing Enterprises Using the Income Approach (Zhong Ping Xie [2020] No. 38), the discount rate for valuation of the entire shareholders' interests in Zhaotong Dianchi Water Treatment Co., Ltd. is determined using the weighted average cost of capital (WACC) model. Under the WACC model, it is the weighted average of the expected return on equity and the income tax-adjusted return on debt. The calculation formula is as follows:

$$\text{WACC} = \text{Re} \times (\text{E} \div \text{V}) + \text{Rd} \times (1 - \text{t}) \times (\text{D} \div \text{V})$$

In the formula: Re = cost of capital, i.e., the required rate of return, which is derived using CAPM

E = Owner's equity

D = Interest-bearing debt

V = E + D

Rd = cost of debt

t = income tax rate

a. Calculation of cost of capital (Re)

The cost of capital is generally calculated using CAPM (Capital Asset Pricing Model) with the formula as follows:

$$\text{CAPM} = \text{rf} + \beta \times (\text{rm} - \text{rf}) + \text{a}$$

In the formula: rf = risk-free rate of return

β = market risk coefficient

rm = expected market rate of return

a = enterprise-specific risk adjustment coefficient

① **Risk-free rate of return:** Generally, the interest rate of medium and long term treasury bonds is selected as the risk-free rate of return. According to the data obtained by the valuers from chinabond.com.cn, the 2023 book-entry and interest-paying (four-tranche) treasury bonds were issued on 24 February 2023 with a 10-year maturity and a coupon rate of 2.88%, which is adopted as the risk-free rate of return.

② **Market risk coefficient:** The β coefficient is calculated based on the data of East Money Choice, which selected 102 listed companies in the water and water treatment related industries in the past ten years, except for those listed on the Sci-Tech Innovation Board and the ChiNext, using the following indicators:

Calculation period: year;

Yield calculation method: ordinary yield;

Target index: CSI;

Whether excluding financial leverage: excluding financial leverage based on carrying value ratio;

The average value is selected as the beta coefficient used in this calculation, which translates into a market risk coefficient of 0.7787.

③ **Expected market rate of return:** The annualized rate of return of A shares for the first ten years from the valuation base date is adopted as the expected market rate of return. Based on the data obtained from inquiries and after excluding abnormal data, the most frequently occurring interval value is selected. The enterprises within this interval account for more than half of the total, making it a representative interval. The arithmetic mean of this interval is then adopted as the expected market rate of return for this calculation, which is 8.389%.

- ④ **Enterprise-specific risk adjustment coefficient:** Zhaotong Dianchi Water Treatment Co., Ltd. commenced operation in 2020, there are no other strong competitors in the market during the validity period of the TOT agreement, and Zhaotong Dianchi Water Treatment Co., Ltd. is backed by Kunming Dianchi Water, which is a state-owned enterprise in Yunnan Province with good credit standing and government background, therefore, the specific risk coefficient is considered to be 0.2%.
- ⑤ **Cost of capital (Re):** $2.88\% + 0.7787 \times (8.389\% - 2.88\%) + 0.2\% = 7.37\%$.

b. Calculation of target capital structure ratios (i.e., $E \div V$ and $D \div V$)

Zhaotong Dianchi Water Treatment Co., Ltd. had interest-bearing debt of RMB596,142,179.97 as at the base date, which was mainly used to pay for the upgrading and renovation works, with a gearing ratio of 83%. The total interest-bearing debt accounted for over 60% of the total liabilities. We adjusted Zhaotong Dianchi Water Treatment Co., Ltd.'s capital structure year by year based on its borrowing agreements, and calculated that the coordinated borrowings of RMB250,406,465.70 will mature in June 2024, and the rest of the borrowings will mature successively in 2027 and 2036, respectively. As Zhaotong Dianchi Water Treatment Co., Ltd. is a wholly-owned subsidiary of Kunming Dianchi Water and has certain solvency, assuming that all borrowings can be repaid normally upon maturity and that no further borrowings will be made after the maturity of all debts due to the absence of plans for continuous upgrading and renovation, E at the beginning of the period is the value of the owners' equity that we have to calculate based on the valuation base date, and D is 596,142,179.97. After iterative calculation, the capital structure at the beginning of the period is $E \div V = 0.3$ and $D \div V = 0.7$, after which $E \div V$ increases and $D \div V$ decreases each year until $E \div V = 1$ and $D \div V = 0$ in 2036.

c. Calculation of cost of debt (Rd)

According to the loan prime rate (LPR) issued by the People's Bank of China on 20 February 2023, the 1-year LPR is 3.65%, and the LPR for 5 years and above is 4.3%. With reference to the market quotations of the four major state-owned banks in the PRC, which are generally 20 to 30bp above the LPR, the calculation is based on 20bp above the benchmark LPR, i.e., the cost of debt is as follows:

$4.5\% \times (1 - \text{income tax rate})$. According to the current policies, the income tax rate applicable to Zhaotong Dianchi Water Treatment Co., Ltd. is divided into three brackets by time, the first is the period of the "three-year full exemption and three-year half exemption" policy, with an applicable income tax rate of 12.5%, and the Rd for that period = $4.5\% \times (1 - 12.5\%) = 0.039375$; the second is the period of Western Development Program applicable after the expiry of the "three-year full exemption and three-year half exemption", with an income tax rate of 15%, and the Rd for that period = $4.5\% \times (1 - 15\%) = 0.03825$; the third is the period after expiry of the preferential income tax policies which is subject to an income tax rate of 25%, and the Rd for that period = $4.5\% \times (1 - 25\%) = 0.03375$.

d. Calculation of discount rate

In summary, the discount rate of Zhaotong Dianchi Water Treatment Co., Ltd. ranges from 4.62% to 7.37%, which is calculated based on r_f , β , r_m , and a for each year.

Discount rate forecast table

Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Owners' equity ratio (E ÷ V)	0.3	0.44	0.44	0.45	0.73	0.76	0.78	0.81	0.84	0.87
Interest-bearing debt ratio (D ÷ V)	0.7	0.56	0.56	0.55	0.27	0.24	0.22	0.19	0.16	0.13
t: enterprise income tax rate	12.50%	12.50%	12.50%	15.00%	15.00%	15.00%	15.00%	15.00%	25.00%	25.00%
Re derived using CAPM	0.0737	0.0737	0.0737	0.0737	0.0737	0.0737	0.0737	0.0737	0.0737	0.0737
Rd (cost of debt)										
(interest × (1 – tax rate))	0.03938	0.03938	0.03938	0.03825	0.03825	0.03825	0.03825	0.03825	0.03375	0.03375
Discount rate	4.62%	5.17%	5.17%	5.10%	6.26%	6.38%	6.46%	6.59%	6.60%	6.74%
Year	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042
Owners' equity ratio (E ÷ V)	0.9	0.94	0.98	1	1	1	1	1	1	1
Interest-bearing debt ratio (D ÷ V)	0.1	0.06	0.02	0	0	0	0	0	0	0
t: enterprise income tax rate	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%
Re derived using CAPM	0.0737	0.0737	0.0737	0.0737	0.0737	0.0737	0.0737	0.0737	0.0737	0.0737
Rd (cost of debt)										
(interest × (1 – tax rate))	0.03375	0.03375	0.03375	0.03375	0.03375	0.03375	0.03375	0.03375	0.03375	0.03375
Discount rate	6.89%	7.08%	7.27%	7.37%	7.37%	7.37%	7.37%	7.37%	7.37%	7.37%
Year	2043	2044	2045	2046	2047	2048	2049	2050	2051	
Owners' equity ratio (E÷V)	1	1	1	1	1	1	1	1	1	
Interest-bearing debt ratio (D÷V)	0	0	0	0	0	0	0	0	0	
t: enterprise income tax rate	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	
Re derived using CAPM	0.0737	0.0737	0.0737	0.0737	0.0737	0.0737	0.0737	0.0737	0.0737	
Rd (cost of debt)										
(interest × (1 – tax rate))	0.03375	0.03375	0.03375	0.03375	0.03375	0.03375	0.03375	0.03375	0.03375	
Discount rate	7.37%	7.37%	7.37%	7.37%	7.37%	7.37%	7.37%	7.37%	7.37%	

(10) Calculation of enterprise value

According to the formula:

$$V_P = \frac{A_1}{(1+R)^{\frac{1}{2}}} + \frac{A_2}{(1+R)^{\frac{1}{2}}} + \frac{A_3}{(1+R)^{\frac{1}{2}}} \dots \dots \frac{A_n}{(1+R)^{\frac{1}{2}}}$$

Where: V is the overall appraised value of the enterprise;

A is the future free cash flow of the enterprise;

R is the discount rate;

t is the actual operating time at the beginning of the period;

m is the number of years between the first and last year;

n is the actual operating time of the year at the end of the period.

Based on the above calculations, by putting the free cash flow of the enterprise and the discount rate and the corresponding discount period for each year into the formula, the overall value of the enterprise is RMB977,896,590.

(11) Liability forecasts

According to the special audit report provided by the client and the information of previous years, the increase in current liabilities is mainly due to the increase in construction costs payable. Assuming that the existing construction costs payable will be fully settled in two years and the company will maintain normal operation without further renovation and expansion, the amounts payable will not increase. Other payables also account for a relatively high percentage of current liabilities, non-current liabilities due within one year mainly include principal and interest on long-term borrowings repayable during the year, and non-current liabilities mainly include long-term borrowings. According to relevant borrowing agreements, assuming that the relevant borrowings will not be renewed upon maturity, the liability forecasts are as follows:

RMB

Liability forecasts

Year	1 March to					
	2020	2021	2022	2023/2/28	31 December 2023	2024
Current liabilities	397,749,135.16	293,385,191.97	396,531,658.68	533,516,482.68	533,516,482.68	219,382,246.37
Non-current liabilities	60,839,222.33	328,590,669.89	334,940,476.17	334,940,476.17	324,145,238.07	313,349,999.97
Total liabilities	458,588,357.49	621,975,861.86	731,472,134.85	868,456,958.85	857,661,720.75	532,732,246.34
Year	2025	2026	2027	2028	2029	2030
Current liabilities	161,358,136.96	361,358,136.96	147,642,938.25	147,642,938.25	147,642,938.25	147,642,938.25
Non-current liabilities	302,554,761.87	91,759,523.77	80,964,285.67	70,169,047.57	59,373,809.47	48,578,571.37
Total liabilities	463,912,898.83	453,117,660.73	228,607,223.92	217,811,985.82	207,016,747.72	196,221,509.62
Year	2031	2032	2033	2034	2035	2036
Current liabilities	147,642,938.25	147,642,938.25	147,642,938.25	147,642,938.25	142,245,319.12	135,497,059.05
Non-current liabilities	37,783,333.27	26,988,095.17	16,192,857.07	5,397,618.97	0	0
Total liabilities	185,426,271.52	174,631,033.42	163,835,795.32	153,040,557.22	142,245,319.12	135,497,059.05
Year	2037	2038	2039	2040	2041	2042
Current liabilities	135,497,059.05	135,497,059.05	135,497,059.05	135,497,059.05	135,497,059.05	135,497,059.05
Non-current liabilities	0	0	0	0	0	0
Total liabilities	135,497,059.05	135,497,059.05	135,497,059.05	135,497,059.05	135,497,059.05	135,497,059.05
Year	2043	2044	2045	2046	2047	2048
Current liabilities	135,497,059.05	135,497,059.05	135,497,059.05	135,497,059.05	135,497,059.05	135,497,059.05
Non-current liabilities	0	0	0	0	0	0
Total liabilities	135,497,059.05	135,497,059.05	135,497,059.05	135,497,059.05	135,497,059.05	135,497,059.05
Year	2049	2050	2051			
Current liabilities	135,497,059.05	135,497,059.05	135,497,059.05			
Non-current liabilities	0	0	0			
Total liabilities	135,497,059.05	135,497,059.05	135,497,059.05			

(12) Analysis and description of surplus assets

According to the statements of Zhaotong Dianchi Water Treatment Co., Ltd., the balance of monetary funds of Zhaotong Dianchi Water Treatment Co., Ltd. is RMB195,886.26. According to its previous statements, the minimum monthly cash expenses were approximately RMB2-4 million, therefore, such funds need to be fully used for the operation of the company. Currently, Zhaotong Dianchi Water Treatment Co., Ltd. needs to make more advances in its operation due to the delayed payment by the government, and the current cash balance and receipts are only sufficient to maintain the daily operation of the company, so there is no surplus asset.

(13) Analysis and description of non-operating assets

Non-operating assets refer to assets that are not directly involved in or serve the production and operation. According to the special audit provided by Zhaotong Dianchi Water Treatment Co., Ltd., as of the valuation base date, Zhaotong Dianchi Water Treatment Co., Ltd.'s current assets mainly included sewage and sludge disposal fees receivable, hazardous waste entrusted disposal fees paid in advance and agent inventory, which were all related to operation. The non-current assets incurred were mainly long-term receivables arising from the operation of sewage treatment plants, and equipment and buildings and structures of sewage treatment plants were also related to operation.

After verification, those not related to operation were the imputation credits, imprest loans and bank charges in other receivables, the subjects and purposes of which were not related to operation, totalling RMB58,907,294.44.

Deferred income tax assets, which are adjustments due to timing differences between the taxable income of enterprise and the total profit of enterprise and are not related to operation, amounted to RMB2,642,225.43 in total, and the two items amounted to RMB61,549,519.87 in aggregate.

(14) Description of interest-bearing debts

There are five interest-bearing debts, including four borrowings totalling RMB160.5 million from the Agricultural Bank of China, with a total book balance of RMB145,735,714.27 as at the base date; one special bond of RMB200 million, with a book balance of RMB200 million as at the base date; and one coordinated borrowing of RMB400 million, with a book balance of RMB250,406,465.70 as at the base date. The total amount is RMB596,142,179.97.

(15) Description of non-operating liabilities

According to the special audit provided by Zhaotong Dianchi Water Treatment Co., Ltd., the non-operating liabilities mainly include quality guarantee deposits and construction costs payable, totalling RMB245,713,115.89.

(16) Working capital recovered at the end of the period

The working capital advanced by the enterprise in early periods does not need to be reinvested at the end of the period due to cessation of operation, so the working capital shall be recovered at the end of the period and discounted to the valuation base date. Based on the forecast, the working capital at the end of the period shall be RMB386,330,753.78, and the working capital to be recovered shall be: $386,330,753.78 \div (1 + 7.37\%) 27.97 = \text{RMB}52,864,373.00$.

(17) Determination of results

Value of the entire shareholders' interests at the valuation base date = overall enterprise value – interest-bearing debts – non-operating liabilities + non-operating assets + surplus assets + working capital recovered

Then the value of the entire shareholders' interests at the valuation base date = RMB977,896,590.00 – RMB596,142,179.97 – RMB245,713,115.89 + RMB61,549,519.87 + RMB0 + RMB52,864,373.00 = RMB250,455,187.01 (rounded off)

VIII. Process and implementation of valuation procedures

After accepting the appraisal engagement, Kunming Bangke Land and Real Estate Asset Appraisal Co., Ltd. immediately formed an asset valuation team to formulate the valuation plan, formally entered the site and commenced the appraisal work. We conducted the appraisal of the assets within the scope of valuation in accordance with the regulations of relevant state departments on asset appraisal, and the specific steps were as follows:

(I) VALUATION PREPARATION STAGE

1. The client convened an intermediary coordination meeting for this project, at which the relevant parties agreed on the purpose of the valuation, the valuation base date and the scope of valuation, and formulated a work plan for the asset valuation.
2. Cooperating with the enterprise to carry out asset verification and fill in the detailed declaration form for asset valuation. Members of the valuation project team conducted a detailed study of the assets included in the scope of valuation, arranged for the work of asset valuation, assisted the enterprise in the declaration of assets included in the scope of valuation, and collected the documents and information required for the asset valuation.

(II) ON-SITE VALUATION STAGE

According to the overall schedule of this project, the on-site valuation phase is from March to September 2023. Based on the valuation approaches determined to be adopted for this valuation, the valuation project teams are mainly categorized into an asset-based approach team and an income approach team.

At the on-site valuation stage, the asset valuer conducted interviews with the client and relevant personnel of the appraised enterprise and made records of the interviews accordingly. The following is a description of the work performed under the asset-based approach and the income approach respectively during the on-site valuation stage:

1. The asset-based approach team focused on the verification and validation of the assets included in the scope of valuation as declared by the enterprise, with the main tasks as follows:
 - (1) To listen to introductions by the client and relevant officers of the appraised entity on the overall situation of the enterprise and the history and current status of the assets included in the scope of valuation, and understand the enterprise's financial system, operating conditions, and the technical status of the fixed assets;

- (2) To audit and authenticate the details of the asset valuation declaration form provided by the enterprise, verify them against the relevant financial records and data of the enterprise, and make adjustments in respect of the issues identified in cooperation with the enterprise;
 - (3) To conduct on-site inspection and stocktaking of physical assets in accordance with the asset valuation declaration form;
 - (4) To review and collect documents certifying the ownership of assets included in the scope of valuation, check the ownership information provided by the appraised entity and verify the ownership of the assets. To gather information on the defects of the assets and request the appraised entity to verify and confirm whether the assets belong to the enterprise and whether there are any disputes over the ownership of the assets;
 - (5) To determine the specific valuation method for each type of asset based on the actual conditions and characteristics of the assets included in the scope of valuation;
 - (6) For fixed assets, understand the management system, maintenance, alteration and expansion, and review and collect relevant information on technical data, final accounts, completion and acceptance; for generic equipment, collect pricing information mainly through market research and enquiry of relevant information;
 - (7) To make preliminary valuation estimates on the assets and liabilities within the scope of valuation after verification and validation.
2. The income approach team focused on understanding the historical operation of the enterprise and analyzing the past and present situation of the enterprise as well as the industry conditions to determine the possible trend of development of the enterprise in the future period. The main tasks are as follows:
- (1) The background of the economic behavior of the valuation, mainly the explanations provided by the client and the appraised entity in respect of the subject matter of the valuation;
 - (2) The relevant legal situation of the subject of valuation in respect of its continuing operation, mainly the relevant articles of association, investment and capital contribution agreements and contracts of the subject of valuation;
 - (3) The business premises of the subject of valuation;
 - (4) The operating capabilities of the subject of valuation;

- (5) The accounting system implemented by the subject of valuation, the method of depreciation of fixed assets, the accounting methods for cost of inventories and use of inventories;
- (6) The debt and borrowings as well as cost of debt of the subject of valuation in recent years;
- (7) The tax rate and tax payment of the subject of valuation;
- (8) The accounts receivable and payable of the subject of valuation;
- (9) Related party transactions in recent years;
- (10) The business type, historical operating results and business model of the subject of valuation;
- (11) The composition of main operating costs, occupied equipment and premises (depreciation and amortization), and staff remuneration and welfare expenses in recent years;
- (12) The composition of revenue from the main business, the rate of the main business, its proportion to the total revenue, and the distribution of major customers in recent years;
- (13) Business plans and business strategies for the coming years, including market demand, pricing strategies, sales plans, cost and expense control, capital raising and investment plans, as well as the composition of revenue and cost of the main business in the future and the trend of changes thereof;
- (14) Brief description of major competitors, including product and business positioning, pricing and market share;
- (15) Main business advantages and risks, including: national policy advantages and risks, product (technology) advantages and risks, market (industry) competitive advantages and risks, financial (debt) risks, exchange rate risks, etc;
- (16) The expected new investment plans;

- (17) For income forecasts or prospective financial information provided by the appraised entity, we have compared them with the production, income, costs and expenses and other parameters of the industry and enterprises similar to the subject enterprise, and then conducted verifications based on the specific conditions of the appraised enterprise;
- (18) Audited balance sheets, income statements, cash flow statements and breakdowns of product income and costs and expenses for recent years;
- (19) Other circumstances relevant to this valuation.

(III) VALUATION SUMMARY STAGE

We analyzed and summarized the preliminary results of each type of asset valuation and liability audit, and made necessary adjustments, modifications and improvements to the valuation results.

(IV) REPORTING STAGE

On the basis of the above work, we drafted the asset valuation report, exchanged views with the client on the valuation results, and after giving full consideration to the relevant opinions, made further revisions and corrections to the report in accordance with the valuer's internal system and procedures for reviewing asset valuation reports, and finally issued a formal asset valuation report.

IX. Valuation assumptions

The key asset valuation assumptions used for this valuation report include:

(I) GENERAL ASSUMPTIONS**1. Transaction assumption**

Transaction assumption assumes all assets to be valued are in the course of transaction and the valuation is based on simulated market including terms of transaction of the target assets. Transaction assumption is the most basic precondition for the implementation of asset valuation.

2. Open market assumption

Open market assumption assumes that both parties to the assets transaction or the proposed assets transaction in the market are in equal position and have opportunities and time to obtain sufficient market information in order to make rational judgments on the assets including their functions, purposes and transaction prices. The basis of open market assumption is that the assets can be traded openly in the market.

3. Assumption of continuous use of assets

The assumption of continuous use of assets means that the valuation methods, parameters and basis shall be determined correspondingly based on the fact that the assets to be appraised will continue to be used or re-used according to the current use and the model, scale, frequency and environment, etc. or used on a change basis when evaluating.

4. Going concern assumption

The enterprise operates continually in pursuit of its operation objectives under its external environment as a business entity. The enterprise conducts lawful operation, and is able to acquire appropriate profits to maintain its capability to operate as a going concern.

5. The valuation report only provides valuable reference opinions for the purpose of this specific appraisal, and does not take into account the impact of other economic activities and derived value basis on the appraisal conclusion. Therefore, the valuation report and valuation conclusion generally cannot be applied to other appraisal purposes.
6. The appraised assets are owned by Zhaotong Dianchi Water Treatment Co., Ltd. with clear ownership, without dispute and restriction.
7. All documents and materials provided by the client and the appraised entity are true, valid and accurate.
8. The appraised entity is not subject to disputes over property titles and other economic disputes, and there is no force majeure or unforeseeable factors that have a material adverse effect on the enterprise.
9. The impact that a particular trading method may have on the appraisal conclusion are not taken into consideration.

(II) SPECIFIC ASSUMPTIONS

1. It is assumed that there will be no material changes in the socio-economic environment of the regions where each of the appraised entity is located and in the PRC, no material changes in the national laws, regulations, rules and socio-political and economic policies currently in force, and no material changes in the industry management model, industry policies, the market environment and condition of the industry in which the appraised entity is engaged.
2. It is assumed that the relevant credit interest rates, exchange rates, tax bases and tax rates, as well as policy-based charges will be at the level of the valuation base date, and will fluctuate within the normal range without significant changes.
3. The future operators of Zhaotong Dianchi Water Treatment Co., Ltd. will comply with the relevant national laws and regulations, and there will be no major non-compliance that may affect the development and earnings of the company.
4. The present and future operators of Zhaotong Dianchi Water Treatment Co., Ltd. are responsible, and the management of the company will be able to steadily proceed with the development plan of the company to maintain a good operating position.
5. It is assumed that the professional personnel and senior management of Zhaotong Dianchi Water Treatment Co., Ltd. will remain relatively stable and there will be no significant outflow of core professional personnel in the following years.
6. It is assumed that the accounting policies to be adopted by Zhaotong Dianchi Water Treatment Co., Ltd. in the future are substantially consistent with those adopted in the preparation of the valuation report in all material respects.
7. It is assumed that Zhaotong Dianchi Water Treatment Co., Ltd. will continue to operate as a going concern, and the debt assets can be recovered on time and in full or form effective and equal assets to fulfill its contractual obligations in accordance with the law.
8. It is assumed that the cash inflow of the appraised entity after the valuation base date will be the average inflow.
9. The various parameters measured in the appraisal are predicted by the appraised entity and the client, assuming that there will be no material changes in the forecast figures in the coming years.

10. According to the Announcement of the Ministry of Finance and the State Taxation Administration on Issuing the Announcement on Improving the VAT Policy on Comprehensive Utilization of Resources (Announcement No. 40 in 2021 of the Ministry of Finance and the State Taxation Administration), taxpayers engaging in the items of 5.2 “Sewage Treatment Services” under the Catalogue may apply the VAT immediate refund policy as stipulated in “III” of this announcement, or they can choose to apply the VAT exemption policy, and Zhaotong Dianchi Water Treatment Co., Ltd. enjoyed the VAT immediate refund policy since its establishment, and chose to apply the VAT exemption policy from March 2022 onwards.
11. According to the Implementation Rules of the Law of the People’s Republic of China on Enterprise Income Tax (Draft), enterprises engaging in public sewage treatment, public garbage treatment, comprehensive development and utilization of biogas, energy-saving and emission-reduction technology renovation, seawater desalination and other relevant projects shall be given the preferential treatment of “three-year full exemption and three-year half exemption” for their income starting from the tax year in which the projects obtain the first production and operating income, and Zhaotong Dianchi Water Treatment Co., Ltd. shall enjoy the “three-year half exemption” policy from 2023 to 2025 and subject to an income tax rate of 12.5%.
12. According to Article 1 of the Announcement on the Extension of the Enterprise Income Tax Policy for the China Western Development Program (Announcement No. 23 in 2020 of the Ministry of Finance, the State Taxation Administration and the National Development and Reform Commission), “from 1 January 2021 to 31 December 2030, enterprises in the encouraged industries established in the western region of China shall be subject to a reduced enterprise income tax rate of 15%. Enterprises in the encouraged industries referred to in this article are those enterprises mainly engaged in the industrial projects specified in the Catalogue of Encouraged Industries in the Western Region with their income from the main business accounting for more than 60% of the total income of the enterprises”. Zhaotong Dianchi Water Treatment Co., Ltd. is engaged in the sewage treatment industry, and its sewage treatment income accounted for more than 60% of its income from main business operations, thus meeting the conditions of this policy. As the two tax policies shall not be enjoyed simultaneously, the more favourable policy, i.e., the “three-year full exemption and three-year half exemption” policy, will be implemented first, and the preferential policy for the “China Western Development” will be implemented after the expiration of the first policy. Zhaotong Dianchi Water Treatment Co., Ltd. commenced its operation in 2020 and its operation up to 2023 fell in the fourth year of the “three-year full exemption and three-year half exemption” policy, and it is entitled to a 50% reduction in income tax until 2025 based on an income tax rate of 12.5%. From 1 January 2026 to 31 December 2030, Zhaotong Dianchi Water Treatment Co., Ltd. will apply the enterprise income tax rate of 15% under the Announcement on the Extension of the Enterprise Income Tax Policy for the China Western Development Program. After 1 January 2031, the enterprise income tax rate will be returned to 25%.

The valuer has determined, in accordance with the requirements of the asset valuation, that these prerequisites are valid as at the valuation base date and that the valuation results herein will generally be rendered invalid in the event of significant changes in the economic environment in the future, and the valuer will not be liable for any different valuation results deduced as a result of the changes in the prerequisites.

This valuation report and the valuation conclusion are the results based on the above valuation assumptions and limitations as well as the principles, basis, conditions, methods and procedures determined in this valuation report, and will generally be invalidated automatically in the event of any changes to the above prerequisites.

X. Valuation conclusion

In accordance with relevant laws and regulations and asset valuation standards, and based on the judgment of the asset holders and the management of the enterprise on the future development trend and the business planning, the value of the entire shareholders' interests in Zhaotong Dianchi Water Treatment Co., Ltd. as at the valuation base date of 28 February 2023 has been appraised by adopting the asset-based approach and the income approach and in accordance with the required valuation procedures, and the valuation results are set out as follows:

(I) ASSET-BASED APPROACH

The valuation results derived from the asset-based approach are:

1. The carrying value of the total assets was RMB1,034,585,100 and the appraised value was RMB1,111,276,600, representing a value appreciation of RMB76,691,500 or a value appreciation rate of 7.41%; the reasons for the value appreciation mainly include the following:

- (1) Reasons for value appreciation of long-term receivables: pursuant to the Concession Agreement of the First and Second Sewage Treatment Plant Projects TOT+BOT of Zhaotong Central City entered into between Kunming Dianchi Water Treatment Co., Ltd. and Zhaoyang District Housing and Urban-Rural Construction Bureau of Zhaotong City, Zhaoyang District Housing and Urban-Rural Construction Bureau of Zhaotong City granted Kunming Dianchi Water Treatment Co., Ltd. a concession for the sewage treatment and reclaimed water projects of the First and Second Sewage Treatment Plants of Zhaotong Central City, so as to invest in, construct, operate and maintain the project facilities related to the agreement, collect sewage treatment service fees and reclaimed water fees as stipulated in the agreement, and hand over the project facilities in good condition to Zhaoyang District Housing and Urban-Rural Construction Bureau of Zhaotong City or its designated institution after the expiration of the concession period in accordance with the provisions of the agreement, and the concession period shall be 30 years, during which the total investment amount shall be recovered by collecting sewage treatment fees; Zhaotong Dianchi Water Treatment Co., Ltd. conducted original book entry based on the consideration paid under the TOT contract and the amount invested in the project, and made adjustments in accordance with the corresponding accounting standards, and used the water fees collected each year to offset the long-term receivables, so the carrying value was decreasing each year. As the long-term receivables were in fact the core assets of the concession, the valuation of the concession adopted the income approach for its intrinsic value, analyzed the operating income and operating costs, and discounted the net operating income to be generated in the future, and the value of the concession included the value of the investment in infrastructure, thus leading to value appreciation.

- (2) Reasons for valuation impairment of fixed assets: in valuation of the fixed assets, ① the renovated and upgraded assets are assets that have been gradually renovated and upgraded by Zhaotong Dianchi Water Treatment Co., Ltd. in the course of its operation, which are necessary for maintaining the normal operation of the sewage treatment plant, and are considered to be renovated and upgraded assets, and their value has been included in the concession, which will not be appraised separately; ② for impairment of newly added fixed assets, the first reason is that the asset holder accounted for the assets at their original value and depreciated them in accordance with the relevant accounting standards, but the actual valuation work resulted in asset impairment due to the relatively short economic useful life of these assets; and the second reason is that the fixed assets were purchased at a relatively early date, have been used for a long period of time, are not efficient enough to satisfy the needs, or are outdated, resulting in asset impairment due to update and iteration after technological advancement in the market. Accordingly, the fixed assets were appraised to be impaired for the above reasons.

The above reasons for appreciation and depreciation of assets have resulted in the appreciation of total assets.

2. The carrying value of the liabilities was RMB868,457,000 and the appraised value was RMB868,457,000, representing no appreciation or impairment from valuation.
3. The carrying value of the net assets was RMB166,128,100 and the appraised value was RMB242,819,600, representing a value appreciation of RMB76,691,500 or a value appreciation rate of 46.16%.

Reasons for value appreciation: Based on analysis of the above, total assets appreciated and total liabilities remained unchanged, which ultimately resulted in appreciation of net assets.

The results of the asset valuation are summarized below in categories:

SUMMARY OF RESULTS OF VALUATION OF ZHAOTONG DIANCHI WATER TREATMENT CO., LTD. UNDER THE ASSET-BASED APPROACH

Valuation base date: 28 February 2023

Unit: RMB'0000

	Item	Carrying value	Appraised value	Appreciation	Appreciation rate %
		A	B	or impairment C=B-A	D=C/A×100%
1	Current assets	26,929.69	26,929.69	–	–
2	Non-current assets	76,528.82	84,197.97	7,669.15	10.02
2.1	Long-term receivables	75,922.71	83,860.58	7,937.87	10.46
2.2	Fixed assets	341.73	73.16	-268.57	-78.59
2.3	Intangible assets	0.16	–	-0.16	-100.00
2.4	Deferred income tax assets	264.22	264.22	–	0.00
3	Total assets	103,458.51	111,127.66	7,669.15	7.41
4	Current liabilities	53,351.65	53,351.65	–	0.00
5	Non-current liabilities	33,494.05	33,494.05	–	0.00
6	Total liabilities	86,845.70	86,845.70	–	0.00
7	Net assets (owners' equity)	16,612.81	24,281.96	7,669.15	46.16

Details of the valuation conclusions are set out in the breakdown of valuation under the asset-based approach.

After valuation under the asset-based approach, the value of the entire shareholders' interests in Zhaotong Dianchi Water Treatment Co., Ltd. as at the valuation base date of 28 February 2023 was RMB242,819,600, representing a value appreciation of RMB76,691,500 or a value appreciation rate of 46.16%.

(II) INCOME APPROACH

As at the valuation base date, the value of the entire shareholders' interests in Zhaotong Dianchi Water Treatment Co., Ltd. was RMB250,455,200 under the going concern premise, representing a value appreciation of RMB84,327,100 or a value appreciation rate of 50.76%. The income approach provides a discounted value of the estimated future income based on the operating conditions of the enterprise, which takes future income of the enterprise into full consideration and better reflects the value of the enterprise as a going concern. The reason for the appreciation is that the carrying value of an enterprise is recorded only at the value of the assets at the time of purchase or acquisition, and the simple subtraction of liabilities from assets does not reflect the value of the potential earnings of the enterprise, while the income approach reflects the operating ability (profitability) of an enterprise. For an enterprise that operates normally and makes a profit, the assets of the enterprise will continue to appreciate in value as a result of continuous operation, so the income approach results in value appreciation as opposed to the carrying value, which only reflects the relationship between the assets and liabilities of the enterprise without taking into account the profitability of the enterprise.

SUMMARY OF RESULTS OF VALUATION OF ZHAOTONG DIANCHI WATER TREATMENT CO., LTD. UNDER THE INCOME APPROACH

Valuation base date: 28 February 2023

Unit: RMB'0000

Item	Carrying value A	Appraised value B	Appreciation	Appreciation rate %
			or impairment C=B-A	D=C/A×100%
1 Current assets	26,929.69	–	–	–
2 Non-current assets	76,528.82	–	–	–
2.1 Long-term receivables	75,922.71	–	–	–
2.2 Fixed assets	341.73	–	–	–
2.3 Intangible assets	0.16	–	–	–
2.4 Deferred income tax assets	264.22	–	–	–
3 Total assets	103,458.51	–	–	–
4 Current liabilities	53,351.65	–	–	–
5 Non-current liabilities	33,494.05	–	–	–
6 Total liabilities	86,845.70	–	–	–
7 Net assets (owners' equity)	16,612.81	25,045.52	8,432.71	50.76

(III) ANALYSIS OF VALUATION CONCLUSIONS

The value of the entire shareholders' interests in Zhaotong Dianchi Water Treatment Co., Ltd. as at the valuation base date derived from the asset-based approach was: RMB242,819,600; the value of the entire shareholders' interests in Zhaotong Dianchi Water Treatment Co., Ltd. as at the valuation base date derived from the income approach was: RMB250,455,200. The appraised value under the income approach is RMB7,635,600 or 3.14% higher than the appraised value under the asset-based approach; the main reasons for the difference between the two valuation approaches are as follows:

The difference between the two valuation results is attributable to the characteristics of the valuation approaches. The asset-based approach is a valuation approach that determines the value of the subject of valuation on the basis of a reasonable valuation of each item of the assets and liabilities of the enterprise, i.e., the method of calculating the value of the shareholders' interest in the enterprise by aggregating the appraised value of the various key assets constituting the enterprise and deducting the appraised value of the liabilities. The income approach reflects the comprehensive profitability of the assets of an enterprise from the perspective of its future profitability. The value of other assets and liabilities carried at the base date under the asset-based approach is highly correlated, and the concession, being the core asset under the asset-based approach, accounts for 77% of the total. The valuation was conducted using the income approach for valuation of the operating rights and also the income approach for valuation of the equity interests. The subject company is a single business of sewage treatment. Under the income approach and asset-based approach, the calculation models of long-term receivables (concession) are similar, with the same expected income and similar values for most of the parameters, although the calculation of certain parameters is different. In particular, the finance cost in the concession is determined based on the cost of using working capital, whereas the finance cost in the equity method is determined based on the interest-bearing debt of the target company; and the income generated from working capital is deducted from the concession, whereas the income approach is based on the increase in working capital. In summary, the above factors have led to the differences in results under the two valuation approaches.

The valuation results under the income approach are recommended in the conclusion of this valuation of the entire shareholders' interests, because the income approach is based on the Concession Agreement of the First and Second Sewage Treatment Plant Projects TOT+BOT of Zhaotong Central City entered into between Zhaotong Dianchi Water Treatment Co., Ltd. and Zhaotong Municipal People's Government, and adopts the model of discounting the enterprise's net free cash flow, which takes into account key factors such as the enterprise's capability of continuous operation, the ability of asset turnover and the minimum amount of cash retained in the assets during the concession period, and better reflects the objective operating conditions of the enterprise. During the concession period, the income will remain stable, the sewage treatment volume is expected to be continuous and stable in the future as a result of the commencement of operation of the upgrading and renovation project, future operations and risks can be reasonably predicted, and the company will maintain favourable operation. The valuation results under the income approach not only take into account the impact of the above concession agreement, operations and risks, but also reflect the value of the intangible assets of the subject such as its qualifications, human resources and management team, as well as the value brought by the strengths of the public utility service providers of environmental treatment in the region. In contrast, the asset-based approach is based on historical cost, which does not objectively reflect its sustainable profitability. The valuation of the concession, which has a greater impact, is based on the idealized data in the TOT contract, and certain data differs from the idealized data to a certain extent in actual operation, and the value of other assets and liabilities carried at the base date is highly correlated. The income approach, as compared to the asset-based approach, can better reflect the value of profitability of the appraised entity under continuous operation in a comprehensive manner, and therefore, the conclusion of the income approach is adopted as the final valuation conclusion.

Accordingly, the value of the entire shareholders' interests in Zhaotong Dianchi Water Treatment Co., Ltd. as at the valuation base date of 28 February 2023 was **RMB250,455,200 (Renminbi two hundred fifty million four hundred fifty-five thousand two hundred)**.

XI. Explanations to special matters

- (i) The valuation was conducted under the principles of independence, impartiality, objectivity and reasonableness. Kunming Bangke Land and Real Estate Asset Appraisal Co., Ltd. and all personnel participating in the valuation work do not have any special interest in the economic behavior of the parties, and the valuers adhered to the professional ethics and standards in the valuation process and made sufficient efforts. The valuation conclusion is issued by Kunming Bangke Land and Real Estate Asset Appraisal Co., Ltd. and is subject to the business ability and competence of the valuer and its staff who have participated specifically in the project.
- (ii) This valuation report only provides value reference opinions for the purpose of this specific valuation, and does not consider the impact of other economic behaviors and value basis therefrom on the valuation conclusion, therefore, this valuation report and the valuation conclusion are generally not applicable to other valuation purposes.

- (iii) Zhaotong Dianchi Water Treatment Co., Ltd. shall be responsible for the truthfulness, legality and completeness of the information provided in respect of the legal ownership of the appraised assets. According to the Guiding Opinions on Legal Ownership of Asset Valuation Subjects (Zhong Ping Xie [2017] 48), the purpose of asset valuers and their professionals in conducting asset valuation business is to estimate the value of the subject of valuation and express professional opinions, pay necessary attention to the legal ownership of the subject of valuation and disclose the findings, but they do not provide any form of assurance in respect of the legal ownership and do not assume any responsibility for verifying the truthfulness, legality and completeness of the information on the legal ownership of the subject of valuation.
- (iv) In this valuation, there is an appreciation in value of the entire shareholders' interests in Zhaotong Dianchi Water Treatment Co., Ltd., which may have an impact on the deferred income tax liabilities, and the users of the report are reminded to pay attention in this regard.
- (v) Significant subsequent events
1. In case of changes in the number of assets during the valid period after the valuation base date, the amount of assets shall be adjusted accordingly under the original valuation approach;
 2. In the event that there are significant changes in asset pricing standards during the valid period after the valuation base date which significantly affect the appraised value of the assets, the client shall promptly engage a valuer to re-determine the appraised value;
 3. This valuation report may not be used directly if a significant event occurs after the valuation base date;
- Save for the above, in the course of valuation, from the valuation base date to the date of the valuation report, based on the information provided by the client and the appraised entity and on-site inspections by the valuers, the valuers have not identified any other significant subsequent events of Zhaotong Dianchi Water Treatment Co., Ltd.
- (vi) The land for construction and operation of the project is provided by Zhaoyang District Housing and Urban-Rural Construction Bureau of Zhaotong City, and the land use right is owned by Zhaoyang District Housing and Urban-Rural Construction Bureau of Zhaotong City, and the provider ensures that Kunming Dianchi Water Treatment Co., Ltd. can legally use the land for construction and operation of the sewage treatment plant without cost during the project construction period and the concession period, and that if the concession period is extended in accordance with the provisions of the agreement, the parties shall ensure that the term of the land use right of the sewage treatment site of Kunming Dianchi Water Treatment Co., Ltd. is extended accordingly.

- (vii) Pursuant to the Concession Agreement of the First and Second Sewage Treatment Plant Projects TOT+BOT of Zhaotong Central City entered into between Kunming Dianchi Water Treatment Co., Ltd. and Zhaoyang District Housing and Urban-Rural Construction Bureau of Zhaotong City, Zhaoyang District Housing and Urban-Rural Construction Bureau of Zhaotong City granted Kunming Dianchi Water Treatment Co., Ltd. a concession for the sewage treatment and reclaimed water projects of the First and Second Sewage Treatment Plants of Zhaotong Central City, so as to invest in, construct, operate and maintain the project facilities related to the agreement, collect sewage treatment service fees and reclaimed water fees as stipulated in the agreement, and hand over the project facilities in good condition to Zhaoyang District Housing and Urban-Rural Construction Bureau of Zhaotong City or its designated institution after the expiration of the concession period in accordance with the provisions of the agreement, and the concession period shall be 30 years, during which the total investment amount shall be recovered by collecting sewage treatment fees.
- (viii) The valuation conclusion is arrived at in accordance with the above principles, basis, prerequisites, methods and procedures, and is only valid under the conditions of such principles, basis and prerequisites; the valuation conclusion shall not be regarded as a guarantee of the realizable price of the subject of valuation.
- (ix) Based on the requirements of asset valuation, the valuation calculations are based partly on existing policies and terms, and partly on industry practices, statistical parameters or generic parameters commonly used in valuation. In the event of significant changes in the economic environment in the future, the valuers will not be liable for any difference from the valuation results due to changes in the prerequisites.

Users of the report are advised to pay attention to the above special matters.

XII. Limitations on use of the valuation report

- (i) This valuation report can only be used for the purposes and uses of valuation as stated in the report.

The valuation results reflect the prevailing market price of the subject of valuation for the purpose of this valuation, determined in accordance with the open market principles on the assumption that the appraised assets are intended to be traded on the open market and will be used normally and on an ongoing basis in accordance with their existing use, without taking into account the impact on the appraised price such as the possible increase or decrease in the price to be paid by a special counterparty and the impact on the asset price arising from the changes in the national macro-economic policies, force of nature and other force majeure. In the event of changes in the above conditions and other circumstances such as the principle of continuous use of assets adopted in the valuation, the valuation results will generally be invalidated.

- (ii) This valuation report may only be used by the users of the valuation report as set out in the report.
- (iii) All or part of the contents of the valuation report, when excerpted, quoted or disclosed in public media, shall be reviewed by the valuer, unless otherwise stipulated by laws and regulations or agreed by the parties concerned.
- (iv) Users of the asset valuation report shall properly interpret and use the valuation conclusion, which does not represent the realizable price of the subject of valuation and thus shall not be taken as a guarantee for such price.

- (v) Validity period for use of the valuation report:

Validity period for use of the valuation conclusion: According to the relevant laws and regulations on asset valuation, asset valuation reports involving statutory valuation business shall be used by the client after performing the supervisory and management procedures for asset valuation in accordance with the requirements of relevant laws and regulations. The valuation results shall be valid for use for one year, i.e., from 28 February 2023 to 27 February 2024.

- (vi) All or part of the contents of this report shall be interpreted by Kunming Bangke Land and Real Estate Asset Appraisal Co., Ltd.

XIII. Date of valuation report

The report date for this valuation project is 29 November 2023.

The following contents are extracted from the report of Kunming Bangke Land and Real Estate Asset Appraisal Co., Ltd., an independent valuer, prepared for inclusion in this circular, which is relevant to the valuation as at 28 February 2023.

Case Ref: Kunming Bangke Zi Ping (2023) Bao Zi No. 2040

Dear Sir/Madam,

**RE: APPRAISAL OF THE VALUE OF THE ENTIRE SHAREHOLDERS’
INTERESTS IN YILIANG DIANCHI WATER TREATMENT CO., LTD. IN
RELATION TO THE PROPOSED PUBLIC TRANSFER OF EQUITY INTERESTS
IN YILIANG DIANCHI WATER TREATMENT CO., LTD. BY KUNMING
DIANCHI WATER TREATMENT CO., LTD.**

Kunming Bangke Land and Real Estate Asset Appraisal Co., Ltd. was commissioned by Kunming Dianchi Water Treatment Co., Ltd. to conduct an appraisal of the market value of the entire shareholders’ interests in Yiliang Dianchi Water Treatment Co., Ltd. on 28 February 2023 in relation to the proposed public transfer of the equity interest in Yiliang Dianchi Water Treatment Co., Ltd. by Kunming Dianchi Water Treatment Co., Ltd. using the asset-based approach and income approach in accordance with relevant PRC laws, regulations, asset appraisal standards, and asset appraisal principles and following the necessary valuation procedures.

Set out below is a summary of the valuation report dated 29 November 2023 issued by Kunming Bangke Land and Real Estate Asset Appraisal Co., Ltd. in relation to the valuation of the equity interests attributable to the owners of the Target Company as at the valuation base date:

- I. Appraised entity: Yiliang Dianchi Water Treatment Co., Ltd.
- II. Purpose of valuation: The purpose of this valuation is to express a professional opinion on the market value of the entire shareholders’ interests in Yiliang Dianchi Water Treatment Co., Ltd. as at 28 February 2023 in relation to the proposed public transfer of equity interests in Yiliang Dianchi Water Treatment Co., Ltd. by Kunming Dianchi Water Treatment Co., Ltd., so as to provide the client with a value reference basis for the equity transfer.
- III. Subject of valuation: The subject of this valuation is the value of the entire shareholders’ interests in Yiliang Dianchi Water Treatment Co., Ltd. as of 28 February 2023.
- IV. Scope of valuation: The scope of this valuation is the entire audited assets and liabilities of Yiliang Dianchi Water Treatment Co., Ltd. as of 28 February 2023. The specific content of the scope of valuation shall be subject to the “Detailed Return of Asset Valuation” filed by Yiliang Dianchi Water Treatment Co., Ltd. as of 28 February 2023, being the total assets of RMB65,290,930.06, total liabilities of RMB44,034,273.41, and net assets of RMB21,256,656.65. Pan-China Certified Public Accountants LLP (Special General Partnership) has audited the accounting statements of Yiliang Dianchi Water Treatment Co., Ltd. as of 28 February 2023 and has issued an unqualified audit report thereon (Report No.: Tian Jian Shen [2023] No. 9-121).

- V. Type of value and definition: The valuation outcome is the market value of the subject matter. Market value refers to the price at which the subject of valuation would be traded between a willing buyer and a willing seller acting reasonably at arm's length on the valuation base date, when neither is compulsory to buy or sell.
- VI. Valuation base date and valuation basis: The valuation base date was 28 February 2023. There are 5 kinds of basis for this valuation report: (1) basis of the economic activities – “Approval of the Public Transfer of 80% Equity Interests in Zhaotong Dianchi Water Treatment Co., Ltd., 80% Equity Interests in Yiliang Dianchi Water Treatment Co., Ltd. and 80% Equity Interests in Suijiang Dianchi Water Treatment Co., Ltd. held by Kunming Dianchi Water Treatment Co., Ltd.”; (2) basis of laws and regulations – including but not limited to the Asset Appraisal Law of the People's Republic of China (《中華人民共和國資產評估法》) and other relevant laws, administrative measures and implementation regulations, etc.; (3) basis of valuation standards – including but not limited to the Asset Valuation Standards (Cai Zi (2017) No. 43) and other relevant valuation guidelines and opinions; (4) relevant basis of ownership and; (5) relevant basis of pricing.
- VII. Valuation approach:

(I) SELECTION OF VALUATION APPROACH

In accordance with the “Standards of Practice for Asset Valuation – Enterprise Value”, when conducting enterprise value appraisal, an asset valuer shall analyse the applicability of the three basic approaches, namely the income approach, the market approach and the cost approach (asset-based approach), according to the relevant conditions such as purposes of valuation, subject of valuation, types of value and collection of information and choose a suitable valuation approach.

1. Market approach

We consider that the market approach is suitable for enterprise value appraisal under the condition that there are sufficient market data and comparable reference companies or transaction cases. As it is difficult to obtain transaction information on cases of equity transactions of similar companies in the PRC, and it is also difficult to identify comparable listed companies in the market that are similar to the appraised entity in terms of asset size and structure, scope of operations, profitability and risk factors, the market approach will not be adopted for valuation of the subject of valuation.

2. Asset-based approach

The asset-based approach reflects the value of an enterprise from the perspective of its acquisition and construction, and provides a basis for the operation, management and assessment of the enterprise after the realization of economic behaviour. This valuation has collected detailed information on the assets and liabilities of Yiliang Dianchi Water Treatment Co., Ltd., which is operative for the valuation under the asset-based approach, and the asset-based approach has therefore been selected as one of the valuation approaches for this valuation.

3. Income approach

Yiliang Dianchi Water Treatment Co., Ltd. has the ability to generate profits on an ongoing basis from its continuing operations, its future expected income can be measured in monetary terms, and its future operating risks can be quantified, thus meeting the criteria for valuation under the income approach. Therefore, the income approach has also been selected for this valuation.

(II) ASSET-BASED APPROACH

The asset-based approach is the method by which the value of the appraised entity is determined by reasonably assessing the values of each asset and liability item, both on and off balance sheet, based on the balance sheet. Taking into account the circumstances of this valuation, the appraised entity can provide and the valuer can collect externally the information required for the valuation by the asset-based approach, so that thorough investigation and valuation can be conducted on the assets and liabilities of the appraised entity. Therefore, the asset-based approach is applicable to this valuation.

Detailed valuation methods involved in this valuation are set out as follows:

In the valuation, the value of the entire shareholders' interests was reasonably determined on the basis of an appraisal of each individual asset and liability of the enterprise on the assumption that the appraised entity will operate on a going concern basis, i.e. value of the entire shareholders' interests = the sum of the appraised value of each individual asset – appraised value of the liabilities. The specific valuation methods for each individual asset and liability are set out below:

1. Valuation of current assets

(1) Valuation of monetary funds (bank deposits)

For bank deposits, on the basis of reconciling the accounts and statements of the enterprise's bank deposits, the valuer examined the bank statements and the bank deposit balance reconciliation statement provided by the enterprise and confirmed that there were no significant factors affecting the net assets, and then determined the appraised value based on the audited and verified amount as at the valuation base date.

(2) Valuation of receivables (including prepayments and other receivables)

In the valuation, on the basis of reconciling the accounts, statements and lists, the time of occurrence, specific contents, reasons for occurrence and the debtor's situation of each item were analyzed, and the valuer adopted alternative procedures such as letters of enquiry, auditing of financial books and random checking of original vouchers. After verification, the appraised value was determined after deducting from the total amount the probable loss on bad debts estimated based on the recoverable amount for each item through ageing analysis, and taking into account various factors such as the amount of receivables, reasons for default, the debtor's funds, creditability, current status of operation and management.

(3) Valuation of inventories

The inventories under appraisal are raw materials of the appraised entity, being flocculants and material spare parts, which are mainly used in the desludging process in the sewage treatment process with high mobility and quick turnover. After making market enquiries and checking the relevant procurement and payment certificates, the inventories were purchased recently from the valuation base date and the change in market value was not significant, so the appraised value was recognized at book value.

2. Valuation of non-current assets

(1) Valuation of long-term receivables

The long-term receivables under appraisal are based on the Concession Agreement of the Yiliang County Center Sewage Treatment Plant Project TOT entered into between Kunming Dianchi Water Treatment Co., Ltd. and the People's Government of Yiliang County, which provided that "Yiliang Dianchi Water Treatment Co., Ltd., a wholly-owned subsidiary of Kunming Dianchi Water Treatment Co., Ltd., shall collect urban sewage in Yiliang County through the management and operation of the sewage treatment plant, treat the sewage using the A²/O+MBBR process, and finally discharge water passing relevant quality standards. Meanwhile, Yiliang Dianchi Water Treatment Co., Ltd. may settle the loan, recover the transfer consideration of the concession and make a reasonable profit by collecting sewage treatment fees." The concession period is 30 years from 1 June 2015 to 31 May 2045. The subject of valuation is the market value of the sewage treatment concession (including the income right) in Yiliang County owned by Yiliang Dianchi Water Treatment Co., Ltd. According to the research conducted by the valuer on the local market, there is no comparable case of transaction, therefore, the market approach cannot be adopted. In addition, as the subject of valuation is the operating right (including income right), which means that the subject of valuation can generate income on an ongoing basis, and the operating costs can be obtained from the client through investigations, the income approach can be adopted for valuation of the operating right. As the cost approach usually ignores the impact of future income on its value, based on the purpose and subject of the valuation, the income approach was selected to forecast future net profit based on the relevant historical data and policy documents provided by the client, and the value of the concession of the subject of valuation was arrived at by adding up the present value of each year's income after selecting an appropriate discount rate. The formula is as follows:

$$V_P = \frac{A_1 - C - D}{(1+R)^{\frac{1}{2}}} + \frac{A_2 - C}{(1+R)^{\frac{1}{2}}} + \frac{A_3 - C}{(1+R)^{\frac{1}{2}}} \dots \dots \frac{A_n - C}{(1+R)^{\frac{n}{2}}}$$

Where: V_p is the appraised value of the concession;

A is the net cash inflow from future business operations;

C is the income generated from working capital;

D is the cost of acquiring the concession;

R is the discount rate;

t is the actual operating time at the beginning of the period;

m is the number of years between the first and last year;

n is the actual operating time of the year at the end of the period.

(2) *Fixed assets – Valuation of equipment*

① *Valuation of vehicles*

The calculation under the cost approach is: appraised value of vehicle = vehicle replacement cost × depreciation rate, where:

Determination of replacement cost:

For vehicles, the replacement cost is determined based on the prevailing market selling price, taking into account the vehicle purchase tax and other related expenses, and the calculation formula is as follows:

Replacement cost = vehicle purchase price + handling fee + vehicle purchase tax

The handling fee is mainly the fee for vehicle registration;

Depreciation rate: determined by the lower of the mileage rate or the on-site inspection rate.

② *Valuation of electronic equipment*

The calculation under the cost approach is: value of equipment under the cost approach = replacement cost – physical depreciation – functional depreciation – economic depreciation rate;

Where equipment replacement cost = equipment replacement price + transportation and miscellaneous charges + installation and commissioning costs + infrastructure costs.

Replacement cost is determined by conducting market inquiry and checking the selling prices from the 2023 pricing information of electrical and mechanical products, market prices and ordering prices provided by enterprises, local market information and recent market price information on zol.com.cn and PConline to determine the price of the electronic equipment as at the valuation base date, thereby determining the full price of replacement given that the manufacturers or distributors usually provide transportation, installation and commissioning services free of charge.

(3) Valuation of deferred income tax assets

For income tax assets arising from deductible temporary differences recognized under the income tax standards, the valuer checked the tax returns of assets giving rise to timing differences in respect of deferred income tax assets arising from adjustments to income tax expense in the appraisal, verified the accuracy and determined the carrying value as the appraised value.

3. Valuation of liabilities

(1) Valuation of accounts payable, remuneration payable to employees and other payables

For accounts payable, remuneration payable to employees and other payables, in the appraisal, on the basis of reconciling the accounts, statements and lists, the valuer analyzed account auditing information and other relevant information, and the appraised value of each debt was determined on the basis of the debt actually payable by the appraised entity after realizing the appraisal purpose.

(2) Valuation of tax payable

On the basis of reconciling the accounts, statements and lists, the valuer examined the accounts, information and tax return materials and other relevant information, all of which were debts actually payable as at the valuation base date, and determined the appraised value based on the audited and verified amount as at the valuation base date.

(III) INCOME APPROACH

The method of valuation of the entire shareholders' interests under the income approach is as follows:

1. As the operating income of Yiliang Dianchi Water Treatment Co., Ltd. is derived solely from the Concession Agreement of the Yiliang County Center Sewage Treatment Plant Project TOT and its supplemental agreement entered into with the People's Government of Yiliang County, we determine the income of the enterprise based on the sewage treatment volume and water price agreed in this agreement.
2. The future operating costs of the enterprise are estimated by determining the operating costs of the enterprise based on the financial information provided by the enterprise and the information obtained from interviews with the relevant responsible persons of the enterprise.
3. Subsequently, based on the financial information of previous years and future development plan of the enterprise, we estimate the capital expenditures and increase in working capital of the enterprise and calculate the free cash flow to the firm (FCFF) by using the formula of "FCFF (free cash flow to the firm) = net profit + interest expense × (1 – tax rate) + net non-cash expenses (depreciation, amortization, and various provisions) – capital expenditures – increase in working capital".
4. The overall value of the enterprise is calculated by adding up the free cash flow to the firm (FCFF) in the future years by using the income approach formula, which is as follows:

$$V_P = \frac{A_1}{(1+R)^{\frac{1}{2}}} + \frac{A_2}{(1+R)^{\frac{1}{2}}} + \frac{A_3}{(1+R)^{\frac{1}{2}}} \dots \frac{A_n}{(1+R)^{\frac{n}{2}}}$$

Where: V_p is the overall appraised value of the enterprise;

A is the future free cash flow of the enterprise;

R is the discount rate;

t is the actual operating time at the beginning of the period;

m is the number of years between the first and last year;

n is the actual operating time of the year at the end of the period.

5. The value calculated through the income approach is the present value of the future cash flows of the enterprise, and in calculating the value of the entire shareholders' interests, interest-bearing debt and non-operating liabilities shall be deducted, and non-operating assets and surplus assets shall be added, that is:

Overall enterprise value – interest-bearing debts – non-operating liabilities + non-operating assets + surplus assets = value of the entire shareholders' interests as at the valuation base date.

6. Brief description of basic calculation parameters

Currently, Yiliang Dianchi Water Treatment Co., Ltd. operates one sewage treatment plant with a sewage treatment capacity of 10,000 m³ per day, the price of sewage treatment is based on the Concession Agreement of the Yiliang County Center Sewage Treatment Plant Project TOT. Currently, the government pays a sewage treatment service fee of RMB2.47/m³ inclusive of tax. As RMB10 million of investment in upgrading and transformation of Yiliang Dianchi Water Treatment Co., Ltd. is reimbursed by the government, the water price is adjusted to RMB2.105/m³, which is calculated according to the water price formula adjusted based on the increase or decrease in investment amount agreed in the contract.

The agreement also stipulates that a sewage transfer pumping station shall be under entrusted operation by Yiliang Dianchi Water Treatment Co., Ltd. for an operating fee of RMB400,000 per year.

Pursuant to the agreement, for sludge disposal, the transportation cost of sludge within 10 kilometers shall be borne by Yiliang Dianchi Water Treatment Co., Ltd. According to the financial information provided by Yiliang Dianchi Water Treatment Co., Ltd., sludge disposal fees from 2015 to 2022 were RMB10,600 in 2015, RMB27,350 in 2016, RMB93,400 in 2017, RMB159,500 in 2018, RMB202,400 in 2019, RMB74,000 in 2020, RMB338,600 in 2021, and RMB369,800 in 2022, respectively.

The calculation period is the operation period of 30 years under the Concession Agreement of the Yiliang County Center Sewage Treatment Plant Project TOT, with 22.25 years remaining as of the valuation base date.

(1) Determination of operation period

Pursuant to the Concession Agreement of the Yiliang County Center Sewage Treatment Plant Project TOT and its supplemental agreement, the concession period is 30 years starting from the date of the end of trial operation and the normal operation of all equipment (confirmed by both parties in writing).

This calculation is based on a year of 365 days, calculated from 1 January 2023, and the plant has been in operation for 59 days up to the valuation base date of 28 February 2023, equivalent to: $59 \div 365 = 0.16$ year. Based on the assumption that payments are made on a monthly basis, the discount period calculated using 2023 as the first year of operation is: $1 - 0.16 = 0.84$ year.

According to the confirmation letter between Yiliang County Government and Yiliang Dianchi Water Treatment Co., Ltd., the concession period shall commence from 27 May 2015 with 22.25 years remaining as of the valuation base date.

(2) Calculation of operating income

Pursuant to the Concession Agreement of the Yiliang County Center Sewage Treatment Plant Project TOT and its supplemental agreement, and based on the information obtained from Yiliang Dianchi Water Treatment Co., Ltd., the government currently pays a sewage treatment service fee of RMB2.47/m³. However, based on the information obtained from Kunming Dianchi Water Treatment Co., Ltd., such waster price is calculated based on an investment amount of RMB23.90 million, and the actual investment amount is RMB26.0243 million. As such, Article 3(2) of the Supplemental Agreement to the Concession Agreement of the Zhaotong Yiliang County Sewage Treatment Plant TOT (Upgrading and Transformation Project) provided that the major increase or decrease in investment amount shall be determined according to three formulas for increase or decrease in amortization, investment income and tax.

- a. Adjustment formula for water price affected by increase or decrease in amortization

Increase or decrease in total investment amount ÷ total water volume based on guaranteed water volume during the BOT concession period (30 years)

Currently, the designed water volume is 10,000 tons per day, the guaranteed water volume is 100% of the designed water volume, and the total investment amount increased by RMB2,124,300, then the adjustment is calculated according to the formula as follows:

$$212.43 \div (1 \times 365 \times 100\% \times 30) = \text{RMB}0.0194/\text{m}^3.$$

- b. Adjustment formula for water price affected by increase or decrease in return on investment

Annual return on investment × BOT concession period (30 years) ÷ trace water volume based on guaranteed water volume during the BOT concession period (30 years)

The guaranteed water volume during the BOT concession period (30 years) is 10,000 tons per day, and the current designed water volume is 10,000 tons per day, with the guaranteed volume being 100% of the designed water volume. Based on an increase of RMB2.1243 million in total investment amount and a return on investment of 8%, the adjustment is calculated according to the formula as follows:

$$(212.43 \times 8\% \times 30) \div (1 \times 365 \times 100\% \times 30) = \text{RMB}0.0466/\text{m}^3.$$

- c. Adjustment formula for increase or decrease in water price affecting relevant tax

Increase or decrease in water price × tax rate

The effect of increase or decrease in amortization and increase or decrease in return on investment on the water price is $\text{RMB}0.0194/\text{m}^3 + \text{RMB}0.0466/\text{m}^3 = \text{RMB}0.066/\text{m}^3$. Based on a value-added tax rate of 16% and a surcharge rate of 1.6%, the adjustment is calculated according to the formula as follows:

$$0.066 \times (16\% + 1.6\%) = \text{RMB}0.0116/\text{m}^3.$$

d. Adjusted water price

The total adjustment to water price by the items above is RMB0.0776/m³, the current water price is RMB2.47/m³. The adjusted water price is:

$$2.47 + 0.0776 = \text{RMB}2.55/\text{m}^3 \text{ (rounded to two decimal places).}$$

The actual water price after auditing and settlement of project shall be calculated as: RMB2.55/m³. The actual sewage treatment volume is 10,000 m³/day. In addition, pursuant to the Concession Agreement of the Yiliang County Center Sewage Treatment Plant Project TOT, the entrustment fee for entrusted operation of sewage transfer pumping station by Party B (Kunming Dianchi Water Treatment Co., Ltd.) is RMB400,000 per year. Based on the data provided by the entrusting party, the annual income of Yiliang Dianchi Water is as follows:

Income for the first year:

$$\text{RMB}2.55/\text{m}^3 \times 10,000 \text{ m}^3/\text{day} \times 306 + 400,000.00 = \text{RMB}8,203,000.00.$$

Income per year for the second year to the penultimate year:

$$\text{RMB}2.55/\text{m}^3 \times 10,000 \text{ m}^3/\text{day} \times 365 + 400,000.00 = \text{RMB}9,707,500.00.$$

Income for the last year:

$$\text{RMB}2.55/\text{m}^3 \times 10,000 \text{ m}^3/\text{day} \times 151 + 400,000.00 \times 0.41 = \text{RMB}4,250,500.00.$$

(3) *Calculation of operating costs and expenses*

- a. **Energy cost:** Based on the relevant information provided by Yiliang Dianchi Water Treatment Co., Ltd., the sewage treatment plant of Yiliang Dianchi Water Treatment Co., Ltd. consumes 0.66 kWh of electricity for every ton of sewage treated. Based on the electricity bill provided by Yiliang Dianchi Water Treatment Co., Ltd., it is currently exempted from paying the basic tariff and the average annual electricity price is RMB0.45 per kWh, and the electricity price calculated based on sewage treatment volume is as follows:

Electricity consumed for treatment of one ton of sewage × daily sewage treatment volume × 365 × average annual electricity price = $0.66 \times 10,000 \times 365 \times 0.45 = \text{RMB}1,084,050.00$ (rounded off).

The number of days can be replaced with the corresponding number of days of operation at the beginning and end of the period.

- b. **Cost of agents:** Based on the relevant information provided by Yiliang Dianchi Water Treatment Co., Ltd., the cost of agents calculated based on the price of main agents used and the water treatment volume is as follows:

Agents consumed for treatment of one ton of sewage × daily sewage treatment volume × 365 × unit price of agents = $0.012 \times 10,000 \times 365 \div 1,000 \times 1,650 + 0.001 \times 2 \times 10,000 \times 365 \div 1,000 \times 5,000 = \text{RMB}108,770.00$.

The number of days can be replaced with the actual number of days of operation at the beginning and end of the period.

- c. **Labour cost:** Yiliang Dianchi Water Treatment Co., Ltd. has 17 staff, including four management members, whose remuneration shall be included in management fees, therefore the labour cost shall be calculated based on 13 people. Based on different positions held and taking into account the disposable income per capita of the urban population of Yiliang County obtained from inquiries, the monthly average salary per person is calculated as RMB3,300 per month, the social security is paid based on five insurances and one fund, which is a total of 39.2% of the salary, and the salary growth rate is based on the lower end of 2% as set out in the Notice of the Yunnan Provincial Department of Human Resources and Social Security on the Publication of the 2018 Salary Guideline for Enterprises in Yunnan Province (Yun Ren She Fa [2018] No. 42), subject to adjustment every two years. Based on the above, the labour cost is as follows:

Monthly average labour cost = monthly average salary per person \times (1 + social security rate) = $3,300 \times (1 + 39.2\%) = \text{RMB}4,594$ per month (rounded off)

Annual labour cost = monthly average labour cost \times number of months in the period \times number of people = $4,594 \times 12 \times 13 = \text{RMB}716,664$ (rounded off).

Taking the third year as an example, the labour cost for the growth year is: monthly average labour cost for the previous year \times 1.02 \times number of months in the period \times number of people = $4,594 \times 1.02 \times 12 \times 13 = \text{RMB}730,860$ (rounded off).

The number of months in the year can be replaced with the actual number of months of operation at the beginning and end of the period.

- d. **Other fees:** Other fees mainly include electrical materials, equipment materials, production supplies, laboratory supplies, labor protection supplies, testing fees and other expenses. There are no specific criteria for the value of these fees, but as the amount incurred as a percentage of income has remained relatively stable over the three years, a three-year average of 1% has been adopted for the calculation.

- e. **Overhaul cost:** Overhaul cost is used for the replacement of large equipment and cleaning and maintenance of structures, and is generally 3%-5% of the fixed asset investment. Taking into account the maintenance of equipment and operation of Yiliang Dianchi Water Treatment Co., Ltd., 5% is adopted for calculation of overhaul cost. Based on the useful life of the pumps and other major equipment, the overhaul cost is calculated on a five-year cycle.

Based on the valuers' analysis of the information provided by the client, it is considered that the total investment in fixed assets of Yiliang Dianchi Water Treatment Co., Ltd. consists of three main components, namely the value of the transaction consideration for the sewage treatment plant less the concession; the fixed asset investment for upgrading and renovation; and the upgrading and transformation project. The total amount of such three items is RMB49,135,212.62, and the total overhaul cost is RMB2,456,761.00 per year.

- f. **Sludge disposal fee:** Sludge disposal fee mainly represents the sludge transportation fee within 10 kilometers as agreed in the concession agreement, the amount incurred every year increases with the increase of sewage treatment volume. As of the valuation base date, the Yiliang sewage treatment plant has almost reached the designed maximum treatment volume, the average of 4% of the last two years is therefore adopted for calculation.
- g. **Management fees:** Include salary of management personnel, social security, travel expenses, consulting fees, intermediary service fees, etc. Based on the breakdown of revenue and cost of Yiliang Dianchi Water Treatment Co., Ltd. and with reference to enterprises of similar size in the same industry, the management fees are calculated as 3% of the sewage treatment income determined based on the average of enterprises of similar size in the same industry.

- h. Calculation of relevant taxes:** The taxes of Yiliang Dianchi Water Treatment Co., Ltd. mainly include property tax, stamp duty, surcharge, land use tax, vehicle and vessel tax, and local water conservancy construction fund. The urban land use tax is levied based on the area of the land use right, and the rate is RMB6 per square meter per annum; the property tax is levied on the basis of 1.2% of the original value of the property; the local water conservancy construction fund is calculated based on the amount of electricity consumed at a rate of 2%; and the stamp duty rate is 0.03%, with the base of taxation being the income from the main business.
- i. Calculation of finance costs:** In calculating the operation right, considering that most enterprises will apply for certain loans from banks for operation use, the calculation has adopted 20BP above the market LPR for five years and above (i.e. 4.5%) as published by the People's Bank of China in February. For working capital, the out-of-pocket cost is calculated based on expected costs and expenses such as energy cost, cost of agents and labour cost, and is finally calculated as RMB2,807,382.00, which is used to calculate the minimum cash on hand of RMB233,948.50, and taking into account certain unforeseen expenses, RMB240,000.00 is adopted for calculation. As sewage treatment enterprises are in liquidity industry, the minimum cash on hand is calculated as RMB240,000.00 for one month based on the size of Yiliang Dianchi Water Treatment Co., Ltd., and the gain from working capital is as follows:

Working capital utilized \times appropriate interest rate = 240,000 \times 4.5% = RMB10,800 (rounded off)

(4) *Calculation of depreciation and amortization*

The straight-line method is used for calculation of depreciation and amortization expense, and the formula is as follows:

$$\text{Monthly amortization} = (\text{original value} - \text{original value} \times \text{salvage rate}) \div \text{useful life} \div 12$$

- a. **Calculation of amortization of intangible assets:** Pursuant to the Concession Agreement of the Yiliang County Center Sewage Treatment Plant Project TOT and its supplemental agreement, Yiliang Dianchi Water Treatment Co., Ltd. obtained the right of use and the concession right of the Yiliang County center sewage treatment plant from the People's Government of Yiliang County at a price, and recovers the transfer consideration and make a reasonable profit by collecting sewage treatment fees. According to the special audit report, the transfer consideration is currently recognized by Yiliang Dianchi Water Treatment Co., Ltd. under the account of long-term receivables, with an audited carrying value of RMB48,310,758.06 as at the valuation base date, which is amortized using the straight-line method in accordance with the Implementation Rules of the Enterprise Income Tax Law of the People's Republic of China. The Concession Agreement of the Yiliang County Center Sewage Treatment Plant Project TOT will expire on 26 May 2045, which is 267 months from the valuation base date, and the monthly amortization expense is:

$$\text{RMB}48,310,758.06 \div 266 \text{ months} = \text{RMB}180,939.17/\text{month}$$

- b. **Calculation of depreciation expense for each fixed asset:** The fixed assets in this case are categorized into three types, namely, buildings and structures, machinery equipment, vehicles and electronic equipment. The depreciable lives of the above fixed assets are 20 years for buildings and structures, 4 years for vehicles, 3 years for electronic equipment, and 10 years for machinery equipment, respectively. The salvage value rate is 5%.

(5) Calculation of income tax

The company applies an enterprise income tax rate of 15% from 1 January 2021 to 31 December 2030, which will be returned to 25% after 1 January 2031.

(6) Calculation of capital expenditure

It mainly represents expenses for equipment purchased for replacement by Yiliang Dianchi Water Treatment Co., Ltd. As part of the cost of routine maintenance and the overhaul cost have been taken into account, and assuming that Yiliang Dianchi Water Treatment Co., Ltd. does not have any plan for capacity expansion at present, basically no capital expenditure will be incurred.

(7) Calculation of working capital

Operating working capital = operating current assets – operating current liabilities

In this case, we use the minimum cash on hand plus adjusted current assets minus current liabilities as the working capital. In particular, the minimum cash on hand is calculated from the estimated costs and expenses. Adjusted current assets and current liabilities are estimated by calculating the turnover rate of each relevant asset based on the past operations of the enterprise and taking into account the estimated revenues and costs, and calculated based on the statements of previous years.

Based on the analysis of historical data and the information obtained from the relevant personnel of Yiliang Dianchi Water Treatment Co., Ltd., since the beginning of the pandemic, the government began to experience difficulties in making payment to Yiliang Dianchi Water Treatment Co., Ltd., resulting in the increase of Yiliang Dianchi Water 's accounts receivable year by year, from RMB1,616,522.19 in 2019 to RMB13,100,632.02 as of the valuation base date, representing an average annual increase of approximately RMB2,871,027.46. As changes in accounts receivable are crucial to the calculation of working capital, in our forecasts, we assume that economic conditions will not improve for a certain period of time in the future and the government will continue to experience difficulties in making payment, and use the average increase in accounts receivable as the amount of change in accounts receivable for the calculation. We assume that the accounts receivable will experience a growth period of five years and remain unchanged after five years, calculate the turnover rates based on the estimated capital structure after five years, and estimate the working capital for the remaining years using such turnover rates. Other operating assets and liabilities do not have significant changes in the course of operation like accounts receivable, so other turnover rates remain unchanged. Based on the calculations, the working capital forecast is as follows:

		<i>RMB</i>							
Year	March to	2024	2025	2026	2027	2028	2029	2030	
	December 2023								
Working capital	4,440,816.45	7,272,452.87	10,143,435.87	13,014,463.33	15,877,753.00	18,756,472.34	17,219,013.59	17,219,013.59	
Increase in working capital	-8,684,868.30	2,831,636.42	2,870,983.00	2,871,027.46	2,863,289.67	2,878,719.34	-1,537,458.75	0	
Year	2031	2032	2033	2034	2035	2036	2037	2038	
Working capital	17,218,398.98	17,118,612.78	17,217,771.68	17,217,771.68	17,217,125.38	17,217,125.38	17,116,686.55	17,216,472.74	
Increase in working capital	-614.61	-99,786.20	99,158.90	0	-646.3	0	-100,438.83	99,786.19	
Year	2039	2040	2041	2042	2043	2044	2045		
Working capital	17,215,807.44	17,215,807.44	17,215,123.13	17,115,336.93	17,214,426.15	17,214,426.15	7,449,601.98		
Increase in working capital	-665.3	0	-684.31	-99,786.20	99,089.22	0	-9,764,824.17		

(8) Forecasts of free cash flow to the firm

According to the formula: FCFF (free cash flow to the firm) = net profit + interest expense × (1 – tax rate) + net non-cash expenses (depreciation, amortization, and various provisions) – capital expenditures – increase in working capital

The overhaul cost has been taken into account in cost calculation, and based on the information obtained from Yiliang Dianchi Water Treatment Co., Ltd., in addition to regular maintenance, sewage treatment equipment indeed need to be updated or transformed after a certain period of use. As the specific timing cannot be determined, cost and expenditures are calculated based on a five-year cycle and will not be included in this case. In addition, as the net profit for this calculation has not been adjusted for depreciation and amortization, no further adjustment will be made in this regard. The free cash flow to the firm is as follows:

Forecasts of free cash flow to the firm*Currency unit: RMB*

Year	Net profit	Finance costs	Income tax rate	Increase in operating working capital	Capital expenditures	Free cash flow to the firm
2023/2/28	5,330,238.00	9,000.00	15%	-8,684,868.30	0.00	14,022,756.30
2024	6,193,159.00	10,800.00	15%	2,831,636.42	0.00	3,370,702.58
2025	6,176,565.00	10,800.00	15%	2,870,983.00	0.00	3,314,762.00
2026	6,174,179.00	10,800.00	15%	2,871,027.46	0.00	3,312,331.54
2027	4,068,833.00	10,800.00	15%	2,863,289.67	0.00	1,214,723.33
2028	6,157,080.00	10,800.00	15%	2,878,719.34	0.00	3,287,540.66
2029	6,144,350.00	10,800.00	15%	-1,537,458.75	0.00	7,690,988.75
2030	6,144,350.00	10,800.00	15%	0.00	0.00	6,153,530.00
2031	5,665,580.00	10,800.00	25%	-614.61	0.00	5,674,294.61
2032	3,823,009.00	10,800.00	25%	-99,786.20	0.00	3,930,895.20
2033	5,653,997.00	10,800.00	25%	99,158.90	0.00	5,562,938.10
2034	5,653,997.00	10,800.00	25%	0.00	0.00	5,662,097.00
2035	5,642,063.00	10,800.00	25%	-646.30	0.00	5,650,809.30
2036	5,642,063.00	10,800.00	25%	0.00	0.00	5,650,163.00
2037	3,787,441.00	10,800.00	25%	-100,438.83	0.00	3,895,979.83
2038	5,630,012.00	10,800.00	25%	99,786.19	0.00	5,538,325.81
2039	5,617,727.00	10,800.00	25%	-665.30	0.00	5,626,492.30
2040	5,617,727.00	10,800.00	25%	0.00	0.00	5,625,827.00

Year	Net profit	Finance costs	Income tax rate	Increase in operating working capital	Capital expenditures	Free cash flow to the firm
2041	5,605,091.00	10,800.00	25%	-684.31	0.00	5,613,875.31
2042	3,762,520.00	10,800.00	25%	-99,786.20	0.00	3,870,406.20
2043	5,592,221.00	10,800.00	25%	99,089.22	0.00	5,501,231.78
2044	5,592,221.00	10,800.00	25%	0.00	0.00	5,600,321.00
2045	316,994.00	4,500.00	25%	-9,764,824.17	0.00	10,085,193.17
Total	119,991,417.00	240,300.00		-5,676,082.77	0.00	125,856,184.77

(9) Calculation of discount rate

Enterprise value is generally calculated using the weighted average cost of capital (WACC) model with its formula as follows:

$$\text{WACC} = \text{Re} \times (\text{E} \div \text{V}) + \text{Rd} \times (1 - \text{t}) \times (\text{D} \div \text{V})$$

In the formula: Re = cost of capital, i.e., the required rate of return,
which is derived using CAPM

E = Owner's equity

D = Interest-bearing debt

V = E + D

Rd = cost of debt

t = income tax rate

a. Calculation of cost of capital (Re)

The cost of capital is generally calculated using CAPM (Capital Asset Pricing Model) with the formula as follows:

$$CAPM = rf + \beta \times (rm - rf) + a$$

In the formula: rf = risk-free rate of return

β = market risk coefficient

rm = expected market rate of return

a = enterprise-specific risk adjustment coefficient

① **Risk-free rate of return:** Generally, the interest rate of medium and long term treasury bonds is selected as the risk-free rate of return. According to the data obtained by the valuers from chinabond.com.cn, the 2023 book-entry and interest-paying (four-tranche) treasury bonds were issued on 24 February 2023 with a 10-year maturity and a coupon rate of 2.88%, which is adopted as the risk-free rate of return.

② **Market risk coefficient:** The β coefficient is calculated based on the data of East Money Choice, which selected 102 listed companies in the water and water treatment related industries in the past ten years, except for those listed on the Sci-Tech Innovation Board and the ChiNext, using the following indicators:

Calculation period: year;

Yield calculation method: ordinary yield;

Target index: CSI;

Whether excluding financial leverage: excluding financial leverage based on carrying value ratio;

The average value is selected as the beta coefficient used in this calculation, which translates into a market risk coefficient of 0.7787.

- ③ **Expected market rate of return:** The annualized rate of return of A shares for the first ten years from the valuation base date is adopted as the expected market rate of return. Based on the data obtained from inquiries and after excluding abnormal data, the most frequently occurring interval value is selected. The enterprises within this interval account for more than half of the total, making it a representative interval. The arithmetic mean of this interval is then adopted as the expected market rate of return for this calculation, which is 8.389%.
- ④ **Enterprise-specific risk adjustment coefficient:** This industry has a certain degree of exclusivity, meaning that during the validity period of the concession agreement, there are essentially no other competitors in the market who can take away business resources. However, there are limitations due to urban and population development, as well as national policy reasons, which make it difficult for the enterprise to develop new profitable points. Taking into account the local economic environment and the scale of the enterprise, a specific risk compensation of 0.1% is adopted in this case.
- ⑤ **Cost of capital (Re):** $2.88\% + 0.7787 \times (8.389\% - 2.88\%) + 0.1\% = 7.27\%$
- b. **Calculation of target capital structure ratios (i.e., $E \div V$ and $D \div V$)**

According to the special audit report provided by the client, Yiliang Dianchi Water Treatment Co., Ltd. had no interest-bearing debts as at the base date. Assuming that Yiliang Dianchi Water Treatment Co., Ltd. has no plans for upgrading and transformation in the future and does not need borrowings, the capital structure of Yiliang Dianchi Water Treatment Co., Ltd. is $E \div V = 1$ and $D \div V = 0$.

c. Calculation of cost of debt (Rd)

The cost of debt is the price an enterprise pays to raise funds by taking on debt (including loans from financial institutions and issuing corporate bonds). It is equal to interest \times (1 – income tax rate). According to the loan prime rate (LPR) issued by the People’s Bank of China on 20 February 2023, the 1-year LPR is 3.65%, and the LPR for 5 years and above is 4.3%. With reference to the market quotations of the four major state-owned banks in the PRC, which are generally 20 to 30bp above the LPR, the calculation is based on 20bp above the benchmark LPR, i.e., the cost of debt is as follows:

$4.5\% \times (1 - \text{income tax rate})$. According to the current policies, the income tax rate applicable to Yiliang Dianchi Water Treatment Co., Ltd. is divided into two brackets by time, the first is the period of Western Development Program with an income tax rate of 15%, and the Rd for that period = $4.5\% \times (1 - 15\%) = 0.03825$; the second is the period after expiry of the preferential income tax policies which is subject to an income tax rate of 25%, and the Rd for that period = $4.5\% \times (1 - 25\%) = 0.03375$.

d. Calculation of discount rate

Putting a, b, and c above into the formula yields:

- ① a discount rate of 7.27% at an income tax rate of 15%;
- ② a discount rate of 7.27% at an income tax rate of 25%.

(10) Calculation of enterprise value

According to the formula:

$$V_P = \frac{A_1}{(1+R)^{\frac{1}{2}}} + \frac{A_2}{(1+R)^{\frac{1}{2}}} + \frac{A_3}{(1+R)^{\frac{1}{2}}} \dots \dots \frac{A_n}{(1+R)^{\frac{1}{2}}}$$

Where: V is the overall appraised value of the enterprise;

A is the future free cash flow of the enterprise;

R is the discount rate;

t is the actual operating time at the beginning of the period;

m is the number of years between the first and last year;

n is the actual operating time of the year at the end of the period.

Based on the above calculations, by putting the free cash flow of the enterprise and the discount rate and the corresponding discount period for each year into the formula, the overall value of the enterprise is RMB62,947,961.00.

(11) Liability forecasts

Current liabilities of Yiliang Dianchi Water Treatment Co., Ltd. mainly included amounts payable for improvement project and dividend payable, and other items such as quality guarantee deposits and electricity were in small amounts, and most of them were related to operation. It is assumed that the remaining operating liabilities will remain unchanged after settlement of liabilities such as construction costs and dividend payable. Assuming that the construction costs and dividend payable will be settled in two years, the liability forecasts are as follows:

Liability forecasts

						<i>RMB</i>
						2023/3/1 to 2023/12/31
Year	2019	2020	2021	2022	2023/2/28	
Current liabilities	337,128.74	209,565.69	890,477.72	1,017,214.41	44,034,273.41	44,034,273.41
Non-current liabilities	1,613,350.36	1,815,008.97	1,888,217.32	0	0	0
Total liabilities	1,950,479.10	2,024,574.66	2,778,695.04	1,017,214.41	44,034,273.41	44,034,273.41
Year	2024	2025	2026	2027	2028	2029
Current liabilities	22,272,100.37	509,927.33	509,927.33	509,927.33	509,927.33	509,927.33
Non-current liabilities	0	0	0	0	0	0
Total liabilities	22,272,100.37	509,927.33	509,927.33	509,927.33	509,927.33	509,927.33
Year	2030	2031	2032	2033	2034	2035
Current liabilities	509,927.33	509,927.33	509,927.33	509,927.33	509,927.33	509,927.33
Non-current liabilities	0	0	0	0	0	0
Total liabilities	509,927.33	509,927.33	509,927.33	509,927.33	509,927.33	509,927.33
Year	2036	2037	2038	2039	2040	2041
Current liabilities	509,927.33	509,927.33	509,927.33	509,927.33	509,927.33	509,927.33
Non-current liabilities	0	0	0	0	0	0
Total liabilities	509,927.33	509,927.33	509,927.33	509,927.33	509,927.33	509,927.33
Year	2042	2043	2044	2045		
Current liabilities	509,927.33	509,927.33	509,927.33	509,927.33		
Non-current liabilities	0	0	0	0		
Total liabilities	509,927.33	509,927.33	509,927.33	509,927.33		

(12) Analysis and description of surplus assets

According to the statements of Yiliang Dianchi Water Treatment Co., Ltd., the balance of monetary funds of Yiliang Dianchi Water Treatment Co., Ltd. is only RMB29,726.04. As it is difficult to maintain the company's operation if the government fails to pay on time, Yiliang Dianchi Water Treatment Co., Ltd. has no surplus assets.

(13) Analysis and description of non-operating assets

Non-operating assets refer to assets that are not directly involved in or serve the production and operation. According to the special audit provided by Yiliang Dianchi Water Treatment Co., Ltd., as of the valuation base date, in its current assets, bank deposits, accounts receivable, prepayments, and inventories were all related to operations, and those that were not related to operations were four items under other receivables, totalling RMB3,326,883.80. In addition, non-current assets mainly included facilities and equipment and buildings and structures of the sewage treatment plant, and the remaining long-term receivables represented the concession of the sewage treatment plant, which were all operating assets, and the only one that was not involved in daily operations was the deferred income tax asset of RMB153,448.78.

(14) Description of interest-bearing debts

According to the special audit, Yiliang Dianchi Water Treatment Co., Ltd. currently has no interest-bearing debt, and no borrowing is expected to make in the future assuming no alteration or expansion, therefore interest-bearing debt is RMB0.

(15) Description of non-operating liabilities

According to the special audit provided by Yiliang Dianchi Water Treatment Co., Ltd., the liabilities of Yiliang Dianchi Water Treatment Co., Ltd. are divided into four items, namely accounts payable, employee compensation payable, taxes payable and other payables, of which the total amount of non-operating liabilities is RMB17,601,398.22.

(16) Working capital recovered at the end of the period

The working capital advanced by the enterprise in early periods does not need to be reinvested at the end of the period due to cessation of operation, so the working capital shall be recovered at the end of the period and discounted to the valuation base date. Based on the forecast, the working capital at the end of the period shall be RMB7,449,601.98, and the working capital to be recovered shall be: $7,449,601.98 \div (1 + 7.27\%)^{22.05} = \text{RMB}1,585,211.00$.

(17) Determination of results

The overall value of the enterprise is calculated as RMB62,947,961.00, and according to the formula:

Value of the entire shareholders' interests at the valuation base date = overall enterprise value – interest-bearing debts – non-operating liabilities + non-operating assets + surplus assets + working capital recovered

Then the value of the entire shareholders' interests at the valuation base date = RMB62,947,961.00 – RMB0 – RMB17,601,398.22 + RMB3,480,332.58 + RMB0 + RMB1,585,211.00 = RMB24,387,760.28.

VIII. Process and implementation of valuation procedures

After accepting the appraisal engagement, Kunming Bangke Land and Real Estate Asset Appraisal Co., Ltd. immediately formed an asset valuation team to formulate the valuation plan, formally entered the site and commenced the appraisal work. We conducted the appraisal of the assets within the scope of valuation in accordance with the regulations of relevant state departments on asset appraisal, and the specific steps were as follows:

(I) VALUATION PREPARATION STAGE

1. The client convened an intermediary coordination meeting for this project, at which the relevant parties agreed on the purpose of the valuation, the valuation base date and the scope of valuation, and formulated a work plan for the asset valuation.
2. Cooperating with the enterprise to carry out asset verification and fill in the detailed declaration form for asset valuation. Members of the valuation project team conducted a detailed study of the assets included in the scope of valuation, arranged for the work of asset valuation, assisted the enterprise in the declaration of assets included in the scope of valuation, and collected the documents and information required for the asset valuation.

(II) ON-SITE VALUATION STAGE

According to the overall schedule of this project, the on-site valuation phase is from March to September 2023. Based on the valuation approaches determined to be adopted for this valuation, the valuation project teams are mainly categorized into an asset-based approach team and an income approach team.

At the on-site valuation stage, the asset valuer conducted interviews with the client and relevant personnel of the appraised enterprise and made records of the interviews accordingly. The following is a description of the work performed under the asset-based approach and the income approach respectively during the on-site valuation stage:

1. The asset-based approach team focused on the verification and validation of the assets included in the scope of valuation as declared by the enterprise, with the main tasks as follows:
 - (1) To listen to introductions by the client and relevant officers of the appraised entity on the overall situation of the enterprise and the history and current status of the assets included in the scope of valuation, and understand the enterprise's financial system, operating conditions, and the technical status of the fixed assets;
 - (2) To audit and authenticate the details of the asset valuation declaration form provided by the enterprise, verify them against the relevant financial records and data of the enterprise, and make adjustments in respect of the issues identified in cooperation with the enterprise;

- (3) To conduct on-site inspection and stocktaking of physical assets in accordance with the asset valuation declaration form;
 - (4) To review and collect documents certifying the ownership of assets included in the scope of valuation, check the ownership information provided by the appraised entity and verify the ownership of the assets. To gather information on the defects of the assets and request the appraised entity to verify and confirm whether the assets belong to the enterprise and whether there are any disputes over the ownership of the assets;
 - (5) To determine the specific valuation method for each type of asset based on the actual conditions and characteristics of the assets included in the scope of valuation;
 - (6) For fixed assets, understand the management system, maintenance, alteration and expansion, and review and collect relevant information on technical data, final accounts, completion and acceptance; for generic equipment, collect pricing information mainly through market research and enquiry of relevant information;
 - (7) To make preliminary valuation estimates on the assets and liabilities within the scope of valuation after verification and validation.
2. The income approach team focused on understanding the historical operation of the enterprise and analyzing the past and present situation of the enterprise as well as the industry conditions to determine the possible trend of development of the enterprise in the future period. The main tasks are as follows:
- (1) The background of the economic behavior of the valuation, mainly the explanations provided by the client and the appraised entity in respect of the subject matter of the valuation;
 - (2) The relevant legal situation of the subject of valuation in respect of its continuing operation, mainly the relevant articles of association, investment and capital contribution agreements and contracts of the subject of valuation;
 - (3) The business premises of the subject of valuation;
 - (4) The operating capabilities of the subject of valuation;
 - (5) The accounting system implemented by the subject of valuation, the method of depreciation of fixed assets, the accounting methods for cost of inventories and use of inventories;

- (6) The debt and borrowings as well as cost of debt of the subject of valuation in recent years;
- (7) The tax rate and tax payment of the subject of valuation;
- (8) The accounts receivable and payable of the subject of valuation;
- (9) Related party transactions in recent years;
- (10) The business type, historical operating results and business model of the subject of valuation;
- (11) The composition of main operating costs, occupied equipment and premises (depreciation and amortization), and staff remuneration and welfare expenses in recent years;
- (12) The composition of revenue from the main business, the rate of the main business, its proportion to the total revenue, and the distribution of major customers in recent years;
- (13) Business plans and business strategies for the coming years, including market demand, pricing strategies, sales plans, cost and expense control, capital raising and investment plans, as well as the composition of revenue and cost of the main business in the future and the trend of changes thereof;
- (14) Brief description of major competitors, including product and business positioning, pricing and market share;
- (15) Main business advantages and risks, including: national policy advantages and risks, product (technology) advantages and risks, market (industry) competitive advantages and risks, financial (debt) risks, exchange rate risks, etc;
- (16) The expected new investment plans;
- (17) For income forecasts or prospective financial information provided by the appraised entity, we have compared them with the production, income, costs and expenses and other parameters of the industry and enterprises similar to the subject enterprise, and then conducted verifications based on the specific conditions of the appraised enterprise;
- (18) Audited balance sheets, income statements, cash flow statements and breakdowns of product income and costs and expenses for recent years;
- (19) Other circumstances relevant to this valuation.

(III) VALUATION SUMMARY STAGE

We analyzed and summarized the preliminary results of each type of asset valuation and liability audit, and made necessary adjustments, modifications and improvements to the valuation results.

(IV) REPORTING STAGE

On the basis of the above work, we drafted the asset valuation report, exchanged views with the client on the valuation results, and after giving full consideration to the relevant opinions, made further revisions and corrections to the report in accordance with the valuer's internal system and procedures for reviewing asset valuation reports, and finally issued a formal asset valuation report.

IX. Valuation assumptions

The key asset valuation assumptions used for this valuation report include:

(I) GENERAL ASSUMPTIONS**1. Transaction assumption**

Transaction assumption assumes all assets to be valued are in the course of transaction and the valuation is based on simulated market including terms of transaction of the target assets. Transaction assumption is the most basic precondition for the implementation of asset valuation.

2. Open market assumption

Open market assumption assumes that both parties to the assets transaction or the proposed assets transaction in the market are in equal position and have opportunities and time to obtain sufficient market information in order to make rational judgments on the assets including their functions, purposes and transaction prices. The basis of open market assumption is that the assets can be traded openly in the market.

3. Assumption of continuous use of assets

The assumption of continuous use of assets means that the valuation methods, parameters and basis shall be determined correspondingly based on the fact that the assets to be appraised will continue to be used or re-used according to the current use and the model, scale, frequency and environment, etc. or used on a change basis when evaluating.

4. Going concern assumption

The enterprise operates continually in pursuit of its operation objectives under its external environment as a business entity. The enterprise conducts lawful operation, and is able to acquire appropriate profits to maintain its capability to operate as a going concern.

5. The valuation report only provides valuable reference opinions for the purpose of this specific appraisal, and does not take into account the impact of other economic activities and derived value basis on the appraisal conclusion. Therefore, the valuation report and valuation conclusion generally cannot be applied to other appraisal purposes.
6. The appraised assets are owned by Yiliang Dianchi Water Treatment Co., Ltd. with clear ownership, without dispute and restriction.
7. All documents and materials provided by the client and the appraised entity are true, valid and accurate.
8. The appraised entity is not subject to disputes over property titles and other economic disputes, and there is no force majeure or unforeseeable factors that have a material adverse effect on the enterprise.
9. The impact that a particular trading method may have on the appraisal conclusion are not taken into consideration.

(II) SPECIFIC ASSUMPTIONS

1. It is assumed that there will be no material changes in the socio-economic environment of the regions where each of the appraised entity is located and in the PRC, no material changes in the national laws, regulations, rules and socio-political and economic policies currently in force, and no material changes in the industry management model, industry policies, the market environment and condition of the industry in which the appraised entity is engaged.
2. It is assumed that the relevant credit interest rates, exchange rates, tax bases and tax rates, as well as policy-based charges will be at the level of the valuation base date, and will fluctuate within the normal range without significant changes.
3. The future operators of Yiliang Dianchi Water Treatment Co., Ltd. will comply with the relevant national laws and regulations, and there will be no major non-compliance that may affect the development and earnings of the company.
4. The present and future operators of Yiliang Dianchi Water Treatment Co., Ltd. are responsible, and the management of the company will be able to steadily proceed with the development plan of the company to maintain a good operating position.

5. It is assumed that the professional personnel and senior management of Yiliang Dianchi Water Treatment Co., Ltd. will remain relatively stable and there will be no significant outflow of core professional personnel in the following years.
6. It is assumed that the accounting policies to be adopted by Yiliang Dianchi Water Treatment Co., Ltd. in the future are substantially consistent with those adopted in the preparation of the valuation report in all material respects.
7. It is assumed that Yiliang Dianchi Water Treatment Co., Ltd. will continue to operate as a going concern, and the debt assets can be recovered on time and in full or form effective and equal assets to fulfill its contractual obligations in accordance with the law.
8. It is assumed that the cash inflow of the appraised entity after the valuation base date will be the average inflow.
9. The various parameters measured in the appraisal are predicted by the appraised entity and the client, assuming that there will be no material changes in the forecast figures in the coming years.
10. According to the Announcement of the Ministry of Finance and the State Taxation Administration on Issuing the Announcement on Improving the VAT Policy on Comprehensive Utilization of Resources (Announcement No. 40 in 2021 of the Ministry of Finance and the State Taxation Administration), taxpayers engaging in the items of 5.2 “Sewage Treatment Services” under the Catalogue may apply the VAT immediate refund policy as stipulated in “III” of this announcement, or they can choose to apply the VAT exemption policy, and Yiliang Dianchi Water Treatment Co., Ltd. enjoyed the VAT immediate refund policy since its establishment, and chose to apply the VAT exemption policy from March 2022 onwards.
11. According to Article 1 of the Announcement on the Extension of the Enterprise Income Tax Policy for the China Western Development Program (Announcement No. 23 in 2020 of the Ministry of Finance, the State Taxation Administration and the National Development and Reform Commission), “from 1 January 2021 to 31 December 2030, enterprises in the encouraged industries established in the western region of China shall be subject to a reduced enterprise income tax rate of 15%. Enterprises in the encouraged industries referred to in this article are those enterprises mainly engaged in the industrial projects specified in the Catalogue of Encouraged Industries in the Western Region with their income from the main business accounting for more than 60% of the total income of the enterprises”. Sewage treatment industry is within the prescribed catalogue, and the sewage treatment income accounted for more than 60% of the income from main business operations of Yiliang Dianchi Water Treatment Co., Ltd., thus meeting the conditions of this policy. Accordingly, Yiliang Dianchi Water Treatment Co., Ltd. is subject to an enterprise income tax rate of 15% from 1 January 2021 to 31 December 2030, and the enterprise income tax rate will be returned to 25% after 1 January 2031.

The valuer has determined, in accordance with the requirements of the asset valuation, that these prerequisites are valid as at the valuation base date and that the valuation results herein will generally be rendered invalid in the event of significant changes in the economic environment in the future, and the valuer will not be liable for any different valuation results deduced as a result of the changes in the prerequisites.

This valuation report and the valuation conclusion are the results based on the above valuation assumptions and limitations as well as the principles, basis, conditions, methods and procedures determined in this valuation report, and will generally be invalidated automatically in the event of any changes to the above prerequisites.

X. Valuation conclusion

In accordance with relevant laws and regulations and asset valuation standards, and based on the judgment of the asset holders and the management of the enterprise on the future development trend and the business planning and the prerequisites of coordination in business operation, management and finance, the value of the entire shareholders' interests in Yiliang Dianchi Water Treatment Co., Ltd. as at the valuation base date of 28 February 2023 has been appraised in accordance with relevant laws and regulations and the asset valuation standards by adopting the asset-based approach and the income approach and performing the required valuation procedures, and the valuation results are set out as follows:

(I) ASSET-BASED APPROACH

The valuation results derived from the asset-based approach are:

1. The carrying value of the total assets was RMB65,290,900 and the appraised value was RMB68,344,500, representing a value appreciation of RMB3,053,600 or a value appreciation rate of 4.68%, the reasons for the value appreciation are as follows:

- (1) Reasons for value appreciation of long-term receivables and intangible assets: according to the Concession Agreement of the Yiliang County Center Sewage Treatment Plant Project TOT entered into between Kunming Dianchi Water Treatment Co., Ltd. and the People's Government of Yiliang County, the long-term receivables and intangible assets in the valuation are included in the concession, thus the analysis of appreciation and impairment for these two items is presented on a combined basis. Yiliang Dianchi Water Treatment Co., Ltd. conducted original book entry based on the consideration paid under the TOT contract and the amount invested in the project, and made adjustments in accordance with the corresponding accounting standards, and used the water fees collected each year to offset the long-term receivables, so the carrying value was decreasing each year. The valuation of the concession adopted the income approach for its intrinsic value, analyzed the income and costs, and discounted the net income to be generated in the future. The value of other assets and liabilities carried at the base date is highly correlated, and the concession, being the core asset under the asset-based approach, accounts for 70% of the total. The value under the asset-based approach was affected by the value of the concession, and the total investment amount of the concession is recovered by collecting sewage treatment fees. After transfer of the Yiliang sewage treatment plant, the upgrading and renovation works were carried out using self-raised funds, which increased the total investment amount, resulting in an increase in the carrying value of long-term receivables, together with the corresponding adjustment in water price income, leading to the value appreciation.
- (2) Reasons for valuation impairment of fixed assets: in valuation of the fixed assets, ① the renovated and upgraded assets are assets that have been gradually renovated and upgraded by Yiliang Dianchi Water Treatment Co., Ltd. in the course of its operation, which are necessary for maintaining the normal operation of the sewage treatment plant, and are considered to be renovated and upgraded assets, and their value has been included in the concession, which will not be appraised separately; ② for impairment of newly added fixed assets, the first reason is that the asset holder accounted for the assets at their original value and depreciated them in accordance with the relevant accounting standards, but the actual valuation work resulted in asset impairment due to the relatively short economic useful life of these assets; and the second reason is that the fixed assets were purchased at a relatively early date, have been used for a long period of time, are not efficient enough to satisfy the needs, or are outdated, resulting in asset impairment due to update and iteration after technological advancement in the market. Accordingly, the fixed assets were appraised to be impaired for the above reasons.

The above reasons for appreciation and depreciation of assets have resulted in the appreciation of total assets.

2. The carrying value of the liabilities was RMB44,034,300 and the appraised value was RMB44,034,300, representing no appreciation or impairment from valuation.
3. The carrying value of the net assets was RMB21,256,600 and the appraised value was RMB24,310,200, representing a value appreciation of RMB3,053,600 or a value appreciation rate of 14.37%. Reasons for value appreciation: Based on analysis of the above, total assets appreciated and total liabilities remained unchanged, which ultimately resulted in appreciation of net assets.

The results of the asset valuation are summarized below in categories:

SUMMARY OF RESULTS OF ASSET VALUATION OF YILIANG DIANCHI WATER TREATMENT CO., LTD.

Valuation base date: 28 February 2023

Unit: RMB'0000

	Item	Carrying value	Appraised value	Appreciation or impairment	Appreciation rate %
		A	B	C=B-A	D=C/A×100%
1	Current assets	1,647.78	1,647.78	0.00	0.00
2	Non-current assets	4,881.31	5,186.67	305.36	6.26
2.1	Long-term receivables	4,371.68	5,140.05	768.37	17.58
2.2	Intangible assets	225.36	–	–225.36	-100.00
2.3	Fixed assets	268.93	31.28	–237.65	-88.37
2.4	Deferred income tax assets	15.34	15.34	0.00	0.00
3	Total assets	6,529.09	6,834.45	305.36	4.68
4	Current liabilities	4,403.43	4,403.43	0.00	0.00
5	Non-current liabilities	–	–	–	–
6	Total liabilities	4,403.43	4,403.43	0.00	0.00
7	Net assets (owners' equity)	2,125.66	2,431.02	305.36	14.37

Details of the valuation conclusions are set out in the breakdown of valuation under the asset-based approach.

After valuation under the asset-based approach, the value of the entire shareholders' interests in Yiliang Dianchi Water Treatment Co., Ltd. as at the valuation base date of 28 February 2023 was RMB24,310,200, representing a value appreciation of RMB3,053,600 or a value appreciation rate of 14.37%.

(II) INCOME APPROACH

As at the valuation base date, the value of the entire shareholders' interests in Yiliang Dianchi Water Treatment Co., Ltd. was RMB24,387,800 under the going concern premise, representing a value appreciation of RMB3,131,200 or a value appreciation rate of 14.73%. The income approach provides a discounted value of the estimated future income based on the operating conditions of the enterprise, which takes future income of the enterprise into full consideration and better reflects the value of the enterprise as a going concern. The reason for the appreciation is that the carrying value of an enterprise is recorded only at the value of the assets at the time of purchase or acquisition, and the simple subtraction of liabilities from assets does not reflect the value of the potential earnings of the enterprise, while the income approach reflects the operating ability (profitability) of an enterprise. For an enterprise that operates normally and makes a profit, the assets of the enterprise will continue to appreciate in value as a result of continuous operation, so the income approach results in value appreciation as opposed to the carrying value, which only reflects the relationship between the assets and liabilities of the enterprise without taking into account the profitability of the enterprise.

**SUMMARY OF RESULTS OF ASSET VALUATION
(UNDER INCOME APPROACH)**

Item	Carrying value	Appraised value	Appreciation	
			or impairment	Appreciation rate %
	A	B	C=B-A	D=C/A×100%
1 Current assets	1,647.78	-	-	-
2 Non-current assets	4,881.31	-	-	-
2.1 Long-term receivables	4,371.68	-	-	-
2.2 Fixed assets	225.36	-	-	-
2.3 Intangible assets	268.93	-	-	-
2.4 Deferred income tax assets	15.34	-	-	-
3 Total assets	6,529.09	-	-	-
4 Current liabilities	4,403.43	-	-	-
5 Non-current liabilities	-	-	-	-
6 Total liabilities	4,403.43	-	-	-
7 Net assets (owners' equity)	2,125.66	2,438.78	313.12	14.73

(III) ANALYSIS OF VALUATION CONCLUSIONS

The value of the entire shareholders' interests in Yiliang Dianchi Water Treatment Co., Ltd. as at the valuation base date derived from the asset-based approach was: RMB24,310,200; the value of the entire shareholders' interests in Yiliang Dianchi Water Treatment Co., Ltd. as at the valuation base date derived from the income approach was: RMB24,387,800. The appraised value under the income approach is RMB77,600 or 0.32% higher than the appraised value under the asset-based approach. The main reasons for the difference between the two valuation approaches are as follows:

The difference between the two valuation results is attributable to the characteristics of the valuation approaches. The asset-based approach is a valuation approach that determines the value of the subject of valuation on the basis of a reasonable valuation of each item of the assets and liabilities of the enterprise, i.e., the method of calculating the value of the shareholders' interest in the enterprise by aggregating the appraised value of the various key assets constituting the enterprise and deducting the appraised value of the liabilities. The income approach reflects the comprehensive profitability of the assets of an enterprise from the perspective of its future profitability. The value of other assets and liabilities carried at the base date under the asset-based approach is highly correlated, and the concession, being the core asset under the asset-based approach, accounts for 70% of the total. The valuation was conducted using the income approach for valuation of the operating rights and also the income approach for valuation of the equity interests. The subject company is a single business of sewage treatment. Under the income approach and asset-based approach, the calculation models of long-term receivables (concession) are similar, with the same expected income and similar values for most of the parameters, although the calculation of certain parameters is different. In particular, the finance cost in the concession is determined based on the cost of using working capital, whereas the finance cost in the equity method is determined based on the interest-bearing debt of the target company; and the income generated from working capital is deducted from the concession, whereas the income approach is based on the increase in working capital. In summary, the above factors have led to the differences in results under the two valuation approaches.

The valuation results under the income approach are recommended in the conclusion of this valuation of the entire shareholders' interests, because the income approach is based on the Concession Agreement of the Yiliang County Center Sewage Treatment Plant Project TOT entered into between Yiliang Dianchi Water Treatment Co., Ltd. and the People's Government of Yiliang County, and adopts the model of discounting the enterprise's net free cash flow, which takes into account key factors such as the enterprise's capability of continuous operation, the ability of asset turnover and the minimum amount of cash retained in the assets during the concession period, and better reflects the objective operating conditions of the enterprise. During the concession period, the income will remain stable, the sewage treatment volume is expected to be continuous and stable in the future as a result of the commencement of operation of the upgrading and renovation project, future operations and risks can be reasonably predicted, and the company will maintain favourable operation. The valuation results under the income approach not only take into account the impact of the above concession agreement, operations and risks, but also reflect the value of the intangible assets of the subject such as its qualifications, human resources and management team, as well as the value brought by the strengths of the public utility service providers of environmental treatment in the region. In contrast, the asset-based approach is based on historical cost, which does not objectively reflect its sustainable profitability. The valuation of the concession, which has a greater impact, is based on the idealized data in the TOT contract, and certain data differs from the idealized data to a certain extent in actual operation, and the value of other assets and liabilities carried at the base date is highly correlated. The income approach, as compared to the asset-based approach, can better reflect the value of profitability of the appraised entity under continuous operation in a comprehensive manner, and therefore, the conclusion of the income approach is adopted as the final valuation conclusion.

Accordingly, the value of the entire shareholders' interests in Yiliang Dianchi Water Treatment Co., Ltd. as at the valuation base date of 28 February 2023 was **RMB24,387,800 (Renminbi twenty-four million three hundred eighty-seven thousand eight hundred)**.

XI. Explanations to special matters

- (i) The valuation was conducted under the principles of independence, impartiality, objectivity and reasonableness. Kunming Bangke Land and Real Estate Asset Appraisal Co., Ltd. and all personnel participating in the valuation work do not have any special interest in the economic behavior of the parties, and the valuers adhered to the professional ethics and standards in the valuation process and made sufficient efforts. The valuation conclusion is issued by Kunming Bangke Land and Real Estate Asset Appraisal Co., Ltd. and is subject to the business ability and competence of the valuer and its staff who have participated specifically in the project.
- (ii) This valuation report only provides value reference opinions for the purpose of this specific valuation, and does not consider the impact of other economic behaviors and value basis therefrom on the valuation conclusion, therefore, this valuation report and the valuation conclusion are generally not applicable to other valuation purposes.

- (iii) Yiliang Dianchi Water Treatment Co., Ltd. shall be responsible for the truthfulness, legality and completeness of the information provided in respect of the legal ownership of the appraised assets. According to the Guiding Opinions on Legal Ownership of Asset Valuation Subjects (Zhong Ping Xie [2017] 48), the purpose of asset valuers and their professionals in conducting asset valuation business is to estimate the value of the subject of valuation and express professional opinions, pay necessary attention to the legal ownership of the subject of valuation and disclose the findings, but they do not provide any form of assurance in respect of the legal ownership and do not assume any responsibility for verifying the truthfulness, legality and completeness of the information on the legal ownership of the subject of valuation.
- (iv) In this valuation, there is an appreciation in value of the entire shareholders' interests in Yiliang Dianchi Water Treatment Co., Ltd., which may have an impact on the deferred income tax liabilities, and the users of the report are reminded to pay attention in this regard.
- (v) Significant subsequent events
1. In case of changes in the number of assets during the valid period after the valuation base date, the amount of assets shall be adjusted accordingly under the original valuation approach;
 2. In the event that there are significant changes in asset pricing standards during the valid period after the valuation base date which significantly affect the appraised value of the assets, the client shall promptly engage a valuer to re-determine the appraised value;
 3. This valuation report may not be used directly if a significant event occurs after the valuation base date;
- Save for the above, in the course of valuation, from the valuation base date to the date of the valuation report, based on the information provided by the client and the appraised entity and on-site inspections by the valuers, the valuers have not identified any other significant subsequent events of Yiliang Dianchi Water Treatment Co., Ltd.
- (vi) The necessary roads involved in the project and the land occupied by the project are on granted land, and during the concession period of the project operated by Yiliang Dianchi Water Treatment Co., Ltd., the People's Government of Yiliang County agreed to grant the land to Yiliang Dianchi Water Treatment Co., Ltd. for use free of charge for the same term as the concession period, i.e., from 1 June 2015 to 31 May 2045.

- (vii) Pursuant to the Concession Agreement of the Yiliang County Center Sewage Treatment Plant Project TOT entered into between Kunming Dianchi Water Treatment Co., Ltd. and the People's Government of Yiliang County, the People's Government of Yiliang County authorized Kunming Dianchi Water Treatment Co., Ltd. and its wholly-owned project company (Yiliang Dianchi Water Treatment Co., Ltd.) to adopt the transfer-operate-transfer (TOT) concession model for the Yiliang County Center Sewage Treatment Plant Project, whereby the People's Government of Yiliang County transferred the Yiliang County Center Sewage Treatment Plant Project, which meets the contractual requirements and the operational needs of Yiliang Dianchi Water Treatment Co., Ltd., to Kunming Dianchi Water Treatment Co., Ltd. for a consideration, and granted Kunming Dianchi Water Treatment Co., Ltd. the concession of the project for a certain period of time, under which Yiliang Dianchi Water Treatment Co., Ltd. has the right to settle the loan, recover the transfer consideration and make a reasonable profit by collecting sewage treatment fees. The concession period is 30 years from 1 June 2015 to 31 May 2045. Upon expiry of the concession period, Yiliang Dianchi Water Treatment Co., Ltd. shall transfer the project to the People's Government of Yiliang County at nil consideration.
- (viii) Kunming Dianchi Water Treatment Co., Ltd. and the People's Government of Yiliang County entered into the Supplemental Agreement (II) to the Concession Agreement of the Yiliang County Sewage Treatment Plant TOT (Upgrading and Renovation Project) on 26 November 2020, pursuant to which the People's Government of Yiliang County allocated RMB10 million raised from special bonds to Kunming Dianchi Water Treatment Co., Ltd. for the construction of the upgrading project, which was used as the project construction funds of the People's Government of Yiliang County to invest in project construction, and shall be repaid by the People's Government of Yiliang County on its own upon maturity. At the time of allocation of the funds, Kunming Dianchi Water Treatment Co., Ltd. had basically completed the investment and construction work of the upgrading project of the Yiliang sewage treatment plant with an estimated investment amount of approximately RMB26.02 million (subject to final audit), the funds raised from special bonds were therefore used to offset the investment amount made by Kunming Dianchi Water Treatment Co., Ltd., and the water price shall be adjusted and audited based on the actual capital investment made by Kunming Dianchi Water Treatment Co., Ltd. after final audit.
- (ix) The valuation conclusion is arrived at in accordance with the above principles, basis, prerequisites, methods and procedures, and is only valid under the conditions of such principles, basis and prerequisites; the valuation conclusion shall not be regarded as a guarantee of the realizable price of the subject of valuation.
- (x) Based on the requirements of asset valuation, the valuation calculations are based partly on existing policies and terms, and partly on industry practices, statistical parameters or generic parameters commonly used in valuation. In the event of significant changes in the economic environment in the future, the valuers will not be liable for any difference from the valuation results due to changes in the prerequisites.

Users of the report are advised to pay attention to the above special matters.

XII. Limitations on use of the valuation report

- (i) This valuation report can only be used for the purposes and uses of valuation as stated in the report.

The valuation results reflect the prevailing market price of the subject of valuation for the purpose of this valuation, determined in accordance with the open market principles on the assumption that the appraised assets are intended to be traded on the open market and will be used normally and on an ongoing basis in accordance with their existing use, without taking into account the impact on the appraised price such as the possible increase or decrease in the price to be paid by a special counterparty and the impact on the asset price arising from the changes in the national macro-economic policies, force of nature and other force majeure. In the event of changes in the above conditions and other circumstances such as the principle of continuous use of assets adopted in the valuation, the valuation results will generally be invalidated.

- (ii) This valuation report may only be used by the users of the valuation report as set out in the report.
- (iii) All or part of the contents of the valuation report, when excerpted, quoted or disclosed in public media, shall be reviewed by the valuer, unless otherwise stipulated by laws and regulations or agreed by the parties concerned.
- (iv) Users of the asset valuation report shall properly interpret and use the valuation conclusion, which does not represent the realizable price of the subject of valuation and thus shall not be taken as a guarantee for such price.
- (v) Validity period for use of the valuation report:

Validity period for use of the valuation conclusion: According to the relevant laws and regulations on asset valuation, asset valuation reports involving statutory valuation business shall be used by the client after performing the supervisory and management procedures for asset valuation in accordance with the requirements of relevant laws and regulations. The valuation results shall be valid for use for one year, i.e., from 28 February 2023 to 27 February 2024.

- (vi) All or part of the contents of this report shall be interpreted by Kunming Bangke Land and Real Estate Asset Appraisal Co., Ltd.

XIII. Date of valuation report

The report date for this valuation project is 29 November 2023.

The following contents are extracted from the report of Kunming Bangke Land and Real Estate Asset Appraisal Co., Ltd., an independent valuer, prepared for inclusion in this circular, which is relevant to the valuation as at 28 February 2023.

Case Ref: Kunming Bangke Zi Ping (2023) Bao Zi No. 2041

Dear Sir/Madam,

**RE: APPRAISAL OF THE VALUE OF THE ENTIRE SHAREHOLDERS’
INTERESTS IN SUIJIANG DIANCHI WATER TREATMENT CO., LTD. IN
RELATION TO THE PROPOSED PUBLIC TRANSFER OF EQUITY INTERESTS
IN SUIJIANG DIANCHI WATER TREATMENT CO., LTD. BY KUNMING
DIANCHI WATER TREATMENT CO., LTD.**

Kunming Bangke Land and Real Estate Asset Appraisal Co., Ltd. was commissioned by Kunming Dianchi Water Treatment Co., Ltd. to conduct an appraisal of the market value of the entire shareholders’ interests in Suijiang Dianchi Water Treatment Co., Ltd. on 28 February 2023 in relation to the proposed public transfer of the equity interest in Suijiang Dianchi Water Treatment Co., Ltd. by Kunming Dianchi Water Treatment Co., Ltd. using the asset-based approach and income approach in accordance with relevant PRC laws, regulations, asset appraisal standards, and asset appraisal principles and following the necessary valuation procedures.

Set out below is a summary of the valuation report dated 29 November 2023 issued by Kunming Bangke Land and Real Estate Asset Appraisal Co., Ltd. in relation to the valuation of the equity interests attributable to the owners of the Target Company as at the valuation base date:

- I. Appraised entity: Suijiang Dianchi Water Treatment Co., Ltd.
- II. Purpose of valuation: The purpose of this valuation is to express a professional opinion on the market value of the entire shareholders’ interests in Suijiang Dianchi Water Treatment Co., Ltd. as at 28 February 2023 in relation to the proposed public transfer of equity interests in Suijiang Dianchi Water Treatment Co., Ltd. by Kunming Dianchi Water Treatment Co., Ltd., so as to provide the client with a value reference basis for the equity transfer.
- III. Subject of valuation: The subject of this valuation is the value of the entire shareholders’ interests in Suijiang Dianchi Water Treatment Co., Ltd. as of 28 February 2023.
- IV. Scope of valuation: The scope of this valuation is the entire audited assets and liabilities of Suijiang Dianchi Water Treatment Co., Ltd. as of 28 February 2023. The specific content of the scope of valuation shall be subject to the “Detailed Return of Asset Valuation” filed as of 28 February 2023, being the total assets of RMB41,087,151.16, total liabilities of RMB17,483,119.60, and net assets of RMB23,604,031.56. The Yunnan Branch of Pan-China Certified Public Accountants LLP (Special General Partnership) has audited the accounting statements of Suijiang Dianchi Water Treatment Co., Ltd. as of 28 February 2023 and has issued an unqualified audit report thereon (Report No.: Tian Jian Shen [2023] No. 9-125) .

- V. Type of value and definition: The valuation outcome is the market value of the subject matter. Market value refers to the price at which the subject of valuation would be traded between a willing buyer and a willing seller acting reasonably at arm's length on the valuation base date, when neither is compulsory to buy or sell.
- VI. Valuation base date and valuation basis: The valuation base date was 28 February 2023. There are 5 kinds of basis for this valuation report: (1) basis of the economic activities – “Approval of the Public Transfer of 80% Equity Interests in Zhaotong Dianchi Water Treatment Co., Ltd., 80% Equity Interests in Yiliang Dianchi Water Treatment Co., Ltd. and 80% Equity Interests in Suijiang Dianchi Water Treatment Co., Ltd. held by Kunming Dianchi Water Treatment Co., Ltd.”; (2) basis of laws and regulations – including but not limited to the Asset Appraisal Law of the People's Republic of China (《中華人民共和國資產評估法》) and other relevant laws, administrative measures and implementation regulations, etc.; (3) basis of valuation standards – including but not limited to the Asset Valuation Standards (Cai Zi (2017) No. 43) and other relevant valuation guidelines and opinions; (4) relevant basis of ownership and; (5) relevant basis of pricing.
- VII. Valuation approach:

(I) SELECTION OF VALUATION APPROACH

In accordance with the “Standards of Practice for Asset Valuation – Enterprise Value”, when conducting enterprise value appraisal, an asset valuer shall analyse the applicability of the three basic approaches, namely the income approach, the market approach and the cost approach (asset-based approach), according to the relevant conditions such as purposes of valuation, subject of valuation, types of value and collection of information and choose a suitable valuation approach.

1. Market approach

We consider that the market approach is suitable for enterprise value appraisal under the condition that there are sufficient market data and comparable reference companies or transaction cases. As it is difficult to obtain transaction information on cases of equity transactions of similar companies in the PRC, and it is also difficult to identify comparable listed companies in the market that are similar to the appraised entity in terms of asset size and structure, scope of operations, profitability and risk factors, the market approach will not be adopted for valuation of the subject of valuation.

2. Asset-based approach

The asset-based approach reflects the value of an enterprise from the perspective of its acquisition and construction, and provides a basis for the operation, management and assessment of the enterprise after the realization of economic behaviour. This valuation has collected detailed information on the assets and liabilities of Suijiang Dianchi Water Treatment Co., Ltd., which is operative for the valuation under the asset-based approach, and the asset-based approach has therefore been selected as one of the valuation approaches for this valuation.

3. Income approach

Suijiang Dianchi Water Treatment Co., Ltd. has the ability to generate profits on an ongoing basis from its continuing operations, its future expected income can be measured in monetary terms, and its future operating risks can be quantified, thus meeting the criteria for valuation under the income approach. Therefore, the income approach has also been selected for this valuation.

(II) ASSET-BASED APPROACH

The asset-based approach is the method by which the value of the appraised entity is determined by reasonably assessing the values of each asset and liability item, both on and off balance sheet, based on the balance sheet. Taking into account the circumstances of this valuation, the appraised entity can provide and the valuer can collect externally the information required for the valuation by the asset-based approach, so that thorough investigation and valuation can be conducted on the assets and liabilities of the appraised entity. Therefore, the asset-based approach is applicable to this valuation.

Detailed valuation methods involved in this valuation are set out as follows:

In the valuation, the value of the entire shareholders' interests was reasonably determined on the basis of an appraisal of each individual asset and liability of the enterprise on the assumption that the appraised entity will operate on a going concern basis, i.e. value of the entire shareholders' interests = the sum of the appraised value of each individual asset – appraised value of the liabilities. The specific valuation methods for each individual asset and liability are set out below:

1. Valuation of current assets

(1) *Valuation of monetary funds (bank deposits)*

For bank deposits, on the basis of reconciling the accounts and statements of the enterprise's bank deposits, the valuer examined the bank statements and the bank deposit balance reconciliation statement provided by the enterprise and confirmed that there were no significant factors affecting the net assets, and then determined the appraised value based on the audited and verified amount as at the valuation base date.

(2) Valuation of receivables (including prepayments and other receivables)

In the valuation, on the basis of reconciling the accounts, statements and lists, the time of occurrence, specific contents, reasons for occurrence and the debtor's situation of each item were analyzed, and the valuer adopted alternative procedures such as letters of enquiry, auditing of financial books and random checking of original vouchers. After verification, the appraised value was determined after deducting from the total amount the probable loss on bad debts estimated based on the recoverable amount for each item through ageing analysis, and taking into account various factors such as the amount of receivables, reasons for default, the debtor's funds, creditability, current status of operation and management.

(3) Valuation of inventories

The inventories under appraisal are raw materials of the appraised entity, being flocculants and material spare parts, which are mainly used in the desludging process in the sewage treatment process with high mobility and quick turnover. After making market enquiries and checking the relevant procurement and payment certificates, the inventories were purchased recently from the valuation base date and the change in market value was not significant, so the appraised value was recognized at book value.

2. Valuation of non-current assets

(1) Valuation of long-term receivables

Pursuant to the Concession Agreement of the Suijiang County Center Sewage Treatment Plant Project TOT entered into between Kunming Dianchi Water Treatment Co., Ltd. and the People's Government of Suijiang County, Kunming Dianchi Water Treatment Co., Ltd. acquired the concession of Suijiang County Sewage Treatment Plant at a consideration of RMB20.1 million for a concession period of 30 years from 9 December 2015 to 8 December 2045. Suijiang Dianchi Water Treatment Co., Ltd., a wholly-owned subsidiary of Kunming Dianchi Water Treatment Co., Ltd., shall collect urban sewage in Suijiang County through the management and operation of the sewage treatment plant, treat the sewage using Intermittent Cyclic Extended Aeration Activated Sludge (ICEAS) process + MBR membrane process, and finally discharge water passing relevant quality standards. Meanwhile, Suijiang Dianchi Water Treatment Co., Ltd. may settle the loan, recover the transfer consideration of the concession and make a reasonable profit by collecting sewage treatment fees.

The subject of valuation is the market value of the sewage treatment concession (including the income right) in Suijiang County owned by Suijiang Dianchi Water Treatment Co., Ltd. According to the research conducted by the valuer on the local market, there is no comparable case of transaction, therefore, the market approach cannot be adopted. In addition, as the subject of valuation is the operating right (including income right), which means that the subject of valuation can generate income on an ongoing basis, and the operating costs can be obtained from the client through investigations, the income approach can be adopted for valuation of the operating right. As the cost approach usually ignores the impact of future income on its value, based on the purpose and subject of the valuation, the income approach was selected to forecast future net profit based on the relevant historical data and policy documents provided by the client, and the value of the concession of the subject of valuation was arrived at by adding up the present value of each year's income after selecting an appropriate discount rate.

$$V_P = \frac{A_1 - C - D}{(1+R)^{\frac{1}{2}}} + \frac{A_2 - C}{(1+R)^{\frac{1}{2}}} + \frac{A_3 - C}{(1+R)^{\frac{1}{2}}} \dots \dots \frac{A_n - C}{(1+R)^{\frac{n}{2}}}$$

Where: V_p is the appraised value of the concession;
 A is the net cash inflow from future business operations;
 C is the income generated from working capital;
 D is the cost of acquiring the concession;
 R is the discount rate;
 t is the actual operating time at the beginning of the period;
 m is the number of years between the first and last year;
 n is the actual operating time of the year at the end of the period.

(2) ***Fixed assets – Valuation of equipment***

① *Valuation of vehicles*

The calculation under the cost approach is: appraised value of vehicle = vehicle replacement cost × depreciation rate, where:

Determination of replacement cost:

For vehicles, the replacement cost is determined based on the prevailing market selling price, taking into account the vehicle purchase tax and other related expenses, and the calculation formula is as follows:

Replacement cost = vehicle purchase price + handling fee + vehicle purchase tax

The handling fee is mainly the fee for vehicle registration;

Depreciation rate: determined by the lower of the mileage rate or the on-site inspection rate.

② *Valuation of electronic equipment*

The calculation under the cost approach is: value of equipment under the cost approach = replacement cost – physical depreciation – functional depreciation – economic depreciation rate;

Where equipment replacement cost = equipment replacement price + transportation and miscellaneous charges + installation and commissioning costs + infrastructure costs.

Replacement cost is determined by conducting market inquiry and checking the selling prices from the 2023 pricing information of electrical and mechanical products, market prices and ordering prices provided by enterprises, local market information and recent market price information on zol.com.cn and PConline to determine the price of the electronic equipment as at the valuation base date, thereby determining the full price of replacement given that the manufacturers or distributors usually provide transportation, installation and commissioning services free of charge.

(3) ***Valuation of deferred income tax assets***

For income tax assets arising from deductible temporary differences recognized under the income tax standards, the valuer checked the tax returns of assets giving rise to timing differences in respect of deferred income tax assets arising from adjustments to income tax expense in the appraisal, verified the accuracy and determined the carrying value as the appraised value.

3. Valuation of liabilities**(1) Valuation of accounts payable, remuneration payable to employees and other payables**

For accounts payable, remuneration payable to employees and other payables, in the appraisal, on the basis of reconciling the accounts, statements and lists, the valuer analyzed account auditing information and other relevant information, and the appraised value of each debt was determined on the basis of the debt actually payable by the appraised entity after realizing the appraisal purpose.

(2) Valuation of tax payable

On the basis of reconciling the accounts, statements and lists, the valuer examined the accounts, information and tax return materials and other relevant information, all of which were debts actually payable as at the valuation base date, and determined the appraised value based on the audited and verified amount as at the valuation base date.

(III) INCOME APPROACH

The method of valuation of the entire shareholders' interests under the income approach is as follows:

1. As the operating income of Suijiang Dianchi Water Treatment Co., Ltd. is derived solely from the Concession Agreement of the Suijiang County Center Sewage Treatment Plant Project TOT entered into with the People's Government of Suijiang County, we determine the income of the enterprise based on the sewage treatment volume and water price agreed in this agreement.
2. The future operating costs of the enterprise are estimated by determining the operating costs of the enterprise based on the financial information provided by the enterprise and the information obtained from interviews with the relevant responsible persons of the enterprise.
3. Subsequently, based on the financial information of previous years and future development plan of the enterprise, we estimate the capital expenditures and increase in working capital of the enterprise and calculate the free cash flow to the firm (FCFF) by using the formula of "FCFF (free cash flow to the firm) = net profit + interest expense × (1 – tax rate) + net non-cash expenses (depreciation, amortization, and various provisions) – capital expenditures – increase in working capital".

4. The overall value of the enterprise is calculated by adding up the free cash flow to the firm (FCFF) in the future years by using the income approach formula, which is as follows:

$$V_P = \frac{A_1 - C - D}{(1+R)^{\frac{1}{2}}} + \frac{A_2 - C}{(1+R)^{\frac{1}{2}}} + \frac{A_3 - C}{(1+R)^{\frac{1}{2}}} \dots \dots \frac{A_n - C}{(1+R)^{\frac{n}{2}}}$$

Where: V_p is the overall appraised value of the enterprise;
 A is the future free cash flow of the enterprise;
 R is the discount rate;
 t is the actual operating time at the beginning of the period;
 m is the number of years between the first and last year;
 n is the actual operating time of the year at the end of the period.

5. The value calculated through the income approach is the present value of the future cash flows of the enterprise, and in calculating the value of the entire shareholders' interests, interest-bearing debt and non-operating liabilities shall be deducted, and non-operating assets and surplus assets shall be added, that is:

Overall enterprise value – interest-bearing debts – non-operating liabilities + non-operating assets + surplus assets = value of the entire shareholders' interests as at the valuation base date.

6. Brief description of basic calculation parameters

Currently, Suijiang Dianchi Water Treatment Co., Ltd. operates one sewage treatment plant with a sewage treatment capacity of 12,000 m³ per day, the price of sewage treatment is based on the Concession Agreement of the Suijiang County Center Sewage Treatment Plant Project TOT. Currently, the government pays a sewage treatment service fee of RMB1.7/m³ inclusive of tax.

Pursuant to the agreement, for sludge disposal, the transportation cost of sludge within 30 kilometers shall be borne by Suijiang Dianchi Water Treatment Co., Ltd. According to the financial information provided by Suijiang Dianchi Water Treatment Co., Ltd., sludge disposal fees from 2016 to 2022 were RMB42,000 in 2016, RMB48,000 in 2017, RMB48,000 in 2018, RMB48,000 in 2019, RMB40,000 in 2020, RMB72,000 in 2021, and RMB119,000 in 2022, respectively.

The calculation period is the operation period of 30 years from 9 December 2015 to 8 December 2045 under the Concession Agreement of the Suijiang County Center Sewage Treatment Plant Project TOT, with 22.79 years remaining as of the valuation base date.

(1) Determination of operation period

Pursuant to the Concession Agreement of the Suijiang County Center Sewage Treatment Plant Project TOT entered into between Suijiang Dianchi Water Treatment Co., Ltd. and the People's Government of Suijiang County, the concession period is 30 years starting from the date of the end of trial operation and the normal operation of all equipment (confirmed by both parties in writing).

This calculation is based on a year of 365 days, calculated from 1 January 2023, and the plant has been in operation for 59 days up to the valuation base date of 28 February 2023, equivalent to: $59 \div 365 = 0.16$ year. Based on the assumption that payments are made on a monthly basis, the discount period calculated using 2023 as the first year of operation is: $(1 - 0.16)/2 = 0.42$ year.

Pursuant to the Concession Agreement of the Suijiang County Center Sewage Treatment Plant Project TOT, the concession period is 30 years from 9 December 2015 to 8 December 2045 with 22.79 years remaining as of the valuation base date.

As the fees are incurred evenly, the discount period is calculated as 0.5 year in the year the fees are incurred, and the discount period for the rest of the years is calculated over the full operation period, then the discount period for the second year is $0.84 + 0.5 = 1.34$, and for the third year is $0.84 + 1 + 0.5 = 2.34$, and then each year thereafter in a similar manner, and the discount period at the end of the period is as follows: the first year is 0.84, and the total number of years between the second year and the beginning of 2044 is 21 years, and that for the end of the period is 0.47 year calculated on the basis of 0.94 year, and in summary, $0.84 + 21 + 0.47 = 22.31$ years.

(2) Calculation of operating income

Pursuant to the Concession Agreement of the Suijiang County Center Sewage Treatment Plant Project TOT entered into between Suijiang Dianchi Water Treatment Co., Ltd. and the People's Government of Suijiang County, and based on the information obtained from Suijiang Dianchi Water Treatment Co., Ltd., the government currently pays a sewage treatment service fee of RMB1.7/m³, and the actual sewage treatment volume is 12,000 m³/day. Calculated based on the data provided by the client, the annual income of Suijiang Dianchi Water Treatment Co., Ltd. is: $\text{RMB}1.7/\text{m}^3 \times 12,000 \text{ m}^3/\text{day} \times 365 = \text{RMB}7,446,000.00$.

(3) *Calculation of operating costs and expenses*

- a. **Energy cost:** Based on the relevant information provided by Suijiang Dianchi Water Treatment Co., Ltd., the sewage treatment plant of Suijiang Dianchi Water Treatment Co., Ltd. consumes 0.79 kWh of electricity and 0.0008 ton of water for every ton of sewage treated. After checking, the water price for industrial use in Suijiang is RMB5.6/m³. Based on the electricity bill provided by Suijiang Dianchi Water Treatment Co., Ltd., it is currently exempted from paying the basic tariff and the average annual electricity price is RMB0.45 per kWh, and the electricity and water price calculated based on sewage treatment volume is as follows:

Electricity consumed for treatment of one ton of sewage × daily sewage treatment volume × 365 × average annual electricity price + water consumed for treatment of one ton of sewage × daily sewage treatment volume × 365 × unit water price = $0.79 \times 12,000 \times 365 \times 0.45 + 0.0008 \times 12,000 \times 365 \times 5.6 = \text{RMB}1,576,712$ (rounded off).

The number of days can be replaced with the corresponding number of days of operation at the beginning and end of the period.

- b. **Cost of agents:** Based on the relevant information provided by Suijiang Dianchi Water Treatment Co., Ltd., the cost of agents calculated based on the price of main agents used and the water treatment volume is as follows:

Agents consumed for treatment of one ton of sewage × daily sewage treatment volume × 365 × unit price of agents = $0.08 \times 12,000 \times 365 \div 1,000 \times 1,650 = \text{RMB}578,160.00$.

The number of days can be replaced with the actual number of days of operation at the beginning and end of the period.

- c. **Labour cost:** Suijiang Dianchi Water Treatment Co., Ltd. has 15 staff, including four management members, whose remuneration shall be included in management fees, therefore the labour cost shall be calculated based on 11 people. Based on different positions held and taking into account the disposable income per capita of the urban population of Suijiang County obtained from inquiries, the monthly average salary per person is calculated as RMB3,300 per month, the social security is paid based on five insurances and one fund, which is a total of 39.2% of the salary, and the salary growth rate is based on the lower end of 2% as set out in the Notice of the Yunnan Provincial Department of Human Resources and Social Security on the Publication of the 2018 Salary Guideline for Enterprises in Yunnan Province (Yun Ren She Fa [2018] No. 42), subject to adjustment every two years. Based on the above, the labour cost is as follows:

Monthly average labour cost = monthly average salary per person \times (1 + social security rate) = $3,300 \times (1 + 42.2\%) = \text{RMB}4,594$ per month (rounded off)

Annual labour cost = monthly average labour cost \times number of months in the period \times number of people = $4,594 \times 12 \times 11 = \text{RMB}606,408$ (rounded off).

Taking the third year as an example, the labour cost for the growth year is: monthly average labour cost for the previous year \times 1.02 \times number of months in the period \times number of people = $4,594 \times 1.02 \times 12 \times 11 = \text{RMB}618,420$ (rounded off).

The number of months in the year can be replaced with the actual number of months of operation at the beginning and end of the period.

- d. **Other fees:** Other fees mainly include electrical materials, equipment materials, production supplies, laboratory supplies, labor protection supplies, testing fees and other expenses. There are no specific criteria for the value of these fees, but as the amount incurred as a percentage of income has remained relatively stable over the three years, a three-year average of 1% has been adopted for the calculation.

- e. **Overhaul cost:** Overhaul cost is used for the replacement of large equipment and cleaning and maintenance of structures, and is generally 3%-5% of the fixed asset investment. Taking into account the maintenance of equipment and operation of Suijiang Dianchi Water Treatment Co., Ltd., 5% is adopted for calculation of overhaul cost. Based on the useful life of the pumps and other major equipment, the overhaul cost is calculated on a five-year cycle.

Based on the valuers' analysis of the information provided by the client, it is considered that the total investment in fixed assets of Suijiang Dianchi Water Treatment Co., Ltd. consists of two main components, namely the value of the transaction consideration for the sewage treatment plant less the concession; and the fixed asset investment for upgrading and renovation, totalling RMB17,756,063.24, and the total overhaul cost is RMB887,803.00 for every five years.

- f. **Sludge disposal fee:** Sludge disposal fee mainly represents the sludge transportation fee within 30 kilometers as agreed in the concession agreement. As the amount incurred every year is relatively stable, the average of 0.99% is adopted for calculation.
- g. **Management fees:** Include salary of management personnel, social security, travel expenses, consulting fees, intermediary service fees, etc. Based on the breakdown of revenue and cost of Suijiang Dianchi Water Treatment Co., Ltd. and with reference to enterprises of similar size in the same industry, the management fees are calculated as 3% of the sewage treatment income determined based on the average of enterprises of similar size in the same industry.
- h. **Calculation of relevant taxes:** The taxes of Suijiang Dianchi Water Treatment Co., Ltd. mainly include property tax, stamp duty, surcharge, land use tax, vehicle and vessel tax, and local water conservancy construction fund. The urban land use tax is levied based on the area of the land use right, and the rate is RMB3 per square meter per annum; the property tax is levied on the basis of 1.2% of the original value of the property; the local water conservancy construction fund is calculated based on the amount of electricity consumed at a rate of 2%; and the stamp duty rate is 0.03%, with the base of taxation being the income from the main business.

- i. **Calculation of finance costs:** In calculating the operation right, considering that most enterprises will apply for certain loans from banks for operation use, the calculation has adopted 20BP above the market LPR for five years and above (i.e. 4.5%) as published by the People's Bank of China in February. For working capital, the out-of-pocket cost is calculated based on expected costs and expenses such as energy cost, cost of agents and labour cost, and is finally calculated as RMB3,316,821.00, which is used to calculate the minimum cash on hand of RMB276,401.75, and taking into account certain unforeseen expenses, RMB280,000.00 is adopted for calculation. As sewage treatment enterprises are in liquidity industry, the minimum cash on hand is calculated as RMB280,000.00 for one month based on the size of Suijiang Dianchi Water Treatment Co., Ltd., and the gain from working capital is as follows:

Working capital utilized × appropriate interest rate = 280,000 × 4.5% = RMB12,600 (rounded off)

(4) **Calculation of depreciation and amortization**

The straight-line method is used for calculation of depreciation and amortization expense, and the formula is as follows:

$$\text{Monthly amortization} = (\text{original value} - \text{original value} \times \text{salvage rate}) \div \text{useful life} \div 12$$

- a. **Calculation of amortization of intangible assets:** Pursuant to the Concession Agreement of the Suijiang County Center Sewage Treatment Plant Project TOT, Suijiang Dianchi Water Treatment Co., Ltd. obtained the right of use and the concession right of the Suijiang County center sewage treatment plant from the People's Government of Suijiang County at a price, and recovers the transfer consideration and make a reasonable profit by collecting sewage treatment fees. According to the special audit report, the transfer consideration is currently recognized by Suijiang Dianchi Water Treatment Co., Ltd. under the account of long-term receivables, with an audited carrying value of RMB21,676,352.81 as at the valuation base date, which is amortized using the straight-line method in accordance with the Implementation Rules of the Enterprise Income Tax Law of the People's Republic of China. The Concession Agreement of the Suijiang County Center Sewage Treatment Plant Project TOT will expire on 8 December 2045, which is 273 months from the valuation base date, and the monthly amortization expense is:

$$\text{RMB}21,676,352.81 \div 273 \text{ months} = \text{RMB}79,400.56/\text{month}$$

- b. **Calculation of depreciation expense for each fixed asset:** The fixed assets in this case are categorized into three types, namely, buildings and structures, machinery equipment, vehicles and electronic equipment. The depreciable lives of the above fixed assets are 20 years for buildings and structures, 4 years for vehicles, 3 years for electronic equipment, and 10 years for machinery equipment, respectively. The salvage value rate is 5%.

(5) Calculation of income tax

The company applies an enterprise income tax rate of 15% from 1 January 2021 to 31 December 2030, which will be returned to 25% after 1 January 2031.

(6) Calculation of capital expenditure

It mainly represents expenses for equipment purchased for replacement by Suijiang Dianchi Water Treatment Co., Ltd. According to the audit report provided by it, the capital expenditures from 2018 to 2021 were RMB301,939.89, RMB509,073.16, RMB201,799.00 and RMB630,900.00, respectively. The average amount of the capital expenditures for such four years was approximately RMB410,000. As part of the cost of routine maintenance and the overhaul cost have been taken into account, and assuming that Suijiang Dianchi Water Treatment Co., Ltd. does not have any plan for capacity expansion at present, basically no capital expenditure will be incurred, and 0 is adopted for calculation.

(7) Calculation of working capital

Operating working capital = operating current assets – operating current liabilities

In this case, we use the minimum cash on hand plus adjusted current assets minus current liabilities as the working capital. In particular, the minimum cash on hand is calculated from the estimated costs and expenses. Adjusted current assets and current liabilities are estimated by calculating the turnover rate of each relevant asset based on the past operations of the enterprise and taking into account the estimated revenues and costs, and calculated based on the statements of previous years.

Based on the analysis of historical data and the information obtained from the relevant personnel of Suijiang Dianchi Water Treatment Co., Ltd., since the beginning of the pandemic, the government began to experience difficulties in making payment to Suijiang Dianchi Water Treatment Co., Ltd., resulting in the increase of Suijiang Dianchi Water 's accounts receivable year by year, from RMB1,697,148.65 in 2019 to RMB17,571,311.71 as of the valuation base date, representing an average annual increase of approximately RMB2,880,898.05. As changes in accounts receivable are crucial to the calculation of working capital, in our forecasts, we calculate the changes in turnover rates, and use the movement of turnover rates to calculate the changes in accounts receivable. Other operating assets and liabilities do not have significant changes in the course of operation like accounts receivable, so other turnover rates remain unchanged. The movement of turnover rates of accounts receivable is calculated as -7.73% . With a growth period of five years, we assume that the governmental will be able to make normal payment of sewage treatment service fees after five years, and the accounts receivable will remain unchanged since then. The working capital for the remaining period is estimated by recalculating the turnover of each asset for the growth cut-off year. Based on the calculations, the working capital forecast is as follows:

	<i>RMB</i>							
Year	2023	2024	2025	2026	2027	2028	2029	2030
Working capital	8,867,484.37	11,442,127.66	12,434,784.99	13,512,272.02	14,564,618.95	15,944,019.85	15,318,450.37	15,318,450.37
Increase in working capital	-8,173,826.05	2,574,643.29	992,657.33	1,077,487.03	1,052,346.93	1,379,400.90	-625,569.48	0
Year	2031	2032	2033	2034	2035	2036	2037	2038
Working capital	15,316,449.55	15,177,716.05	15,314,407.47	15,314,407.47	15,312,303.48	15,312,303.48	15,171,445.40	15,310,178.90
Increase in working capital	-2,000.82	-138,733.50	136,691.42	0	-2,103.99	0	-140,858.08	138,733.50
Year	2039	2040	2041	2042	2043	2044	2045	
Working capital	15,308,013.05	15,308,013.05	15,305,785.32	15,167,051.84	15,303,516.34	15,303,516.34	14,232,354.38	
Increase in working capital	-2,165.85	0	-2,227.73	-138,733.48	136,464.50	0	-1,071,161.96	

(8) Forecasts of free cash flow to the firm

According to the formula: FCFF (free cash flow to the firm) = net profit + interest expense × (1 – tax rate) + net non-cash expenses (depreciation, amortization, and various provisions) – capital expenditures – increase in working capital

The overhaul cost has been taken into account in cost calculation, and based on the information obtained from Suijiang Dianchi Water Treatment Co., Ltd., in addition to regular maintenance, sewage treatment equipment indeed need to be updated or transformed after a certain period of use. As the specific timing cannot be determined, cost and expenditures are calculated based on a five-year cycle and will not be included in this case. In addition, as the net profit for this calculation has not been adjusted for depreciation and amortization, no further adjustment will be made in this regard. The free cash flow to the firm is as follows:

Forecasts of free cash flow to the firm*Currency unit: RMB*

Year	Net profit	Finance costs	Income tax rate	Increase in working capital	Capital expenditures	Free cash flow to equity
2023/2/28	3,040,999.00	10,500.00	15%	-8,173,826.05	0.00	11,223,750.05
2024	3,649,592.00	12,600.00	15%	2,574,643.29	0.00	1,085,658.71
2025	3,637,388.00	12,600.00	15%	992,657.33	0.00	2,655,440.67
2026	3,636,923.00	12,600.00	15%	1,077,487.03	0.00	2,570,145.97
2027	2,866,624.00	12,600.00	15%	1,052,346.93	0.00	1,824,987.07
2028	3,621,256.00	12,600.00	15%	1,379,400.90	0.00	2,252,565.10
2029	3,610,485.00	12,600.00	15%	-625,569.48	0.00	4,246,764.48
2030	3,610,485.00	12,600.00	15%	0.00	0.00	3,621,195.00
2031	3,288,214.00	12,600.00	25%	-2,000.82	0.00	3,299,664.82
2032	2,622,362.00	12,600.00	25%	-138,733.50	0.00	2,770,545.50
2033	3,278,413.00	12,600.00	25%	136,691.42	0.00	3,151,171.58
2034	3,278,413.00	12,600.00	25%	0.00	0.00	3,287,863.00
2035	3,268,315.00	12,600.00	25%	-2,103.99	0.00	3,279,868.99
2036	3,268,315.00	12,600.00	25%	0.00	0.00	3,277,765.00
2037	2,592,266.00	12,600.00	25%	-140,858.08	0.00	2,742,574.08
2038	3,258,118.00	12,600.00	25%	138,733.50	0.00	3,128,834.50
2039	3,247,723.00	12,600.00	25%	-2,165.85	0.00	3,259,338.85
2040	3,247,723.00	12,600.00	25%	0.00	0.00	3,257,173.00

Year	Net profit	Finance costs	Income tax rate	Increase in working capital	Capital expenditures	Free cash flow to equity
2041	3,237,031.00	12,600.00	25%	-2,227.73	0.00	3,248,708.73
2042	2,571,179.00	12,600.00	25%	-138,733.48	0.00	2,719,362.48
2043	3,226,141.00	12,600.00	25%	136,464.50	0.00	3,099,126.50
2044	3,226,141.00	12,600.00	25%	0.00	0.00	3,235,591.00
2045	2,355,836.00	11,550.00	25%	-1,071,161.96	0.00	3,435,660.46
Total	73,639,942.00	286,650.00		-2,808,956.04	0.00	76,673,755.54

(9) Calculation of discount rate

Enterprise value is generally calculated using the weighted average cost of capital (WACC) model with its formula as follows:

$$WACC = Re \times (E \div V) + Rd \times (1 - t) \times (D \div V)$$

In the formula: Re = cost of capital, i.e., the required rate of return, which is derived using CAPM

E = Owner's equity

D = Interest-bearing debt

V = E + D

Rd = cost of debt

t = income tax rate

a. Calculation of cost of capital (Re)

The cost of capital is generally calculated using CAPM (Capital Asset Pricing Model) with the formula as follows:

$$CAPM = rf + \beta \times (rm - rf) + a$$

In the formula: rf = risk-free rate of return

β = market risk coefficient

rm = expected market rate of return

a = enterprise-specific risk adjustment coefficient

① **Risk-free rate of return:** Generally, the interest rate of medium and long term treasury bonds is selected as the risk-free rate of return. According to the data obtained by the valuers from chinabond.com.cn, the 2023 book-entry and interest-paying (four-tranche) treasury bonds were issued on 24 February 2023 with a 10-year maturity and a coupon rate of 2.88%, which is adopted as the risk-free rate of return.

② **Market risk coefficient:** The β coefficient is calculated based on the data of East Money Choice, which selected 102 listed companies in the water and water treatment related industries in the past ten years, except for those listed on the Sci-Tech Innovation Board and the ChiNext, using the following indicators:

Calculation period: year;

Yield calculation method: ordinary yield;

Target index: CSI;

Whether excluding financial leverage: excluding financial leverage based on carrying value ratio;

The average value is selected as the beta coefficient used in this calculation, which translates into a market risk coefficient of 0.7787.

- ③ **Expected market rate of return:** The annualized rate of return of A shares for the first ten years from the valuation base date is adopted as the expected market rate of return. Based on the data obtained from inquiries and after excluding abnormal data, the most frequently occurring interval value is selected. The enterprises within this interval account for more than half of the total, making it a representative interval. The arithmetic mean of this interval is then adopted as the expected market rate of return for this calculation, which is 8.389%.
- ④ **Enterprise-specific risk adjustment coefficient:** This industry has a certain degree of exclusivity, meaning that during the validity period of the concession agreement, there are essentially no other competitors in the market who can take away business resources. However, there are limitations due to urban and population development, as well as national policy reasons, which make it difficult for the enterprise to develop new profitable points. Taking into account the local economic environment and the scale of the enterprise, a specific risk compensation of 0.1% is adopted in this case.
- ⑤ **Cost of capital (Re):** $2.88\% + 0.7787 \times (8.389\% - 2.88\%) + 0.1\% = 7.27\%$
- b. **Calculation of target capital structure ratios (i.e., $E \div V$ and $D \div V$)**

According to the special audit report provided by the client, Suijiang Dianchi Water Treatment Co., Ltd. had no interest-bearing debts as at the base date. Assuming that Suijiang Dianchi Water Treatment Co., Ltd. has no plans for upgrading and transformation in the future and does not need borrowings, the capital structure of Suijiang Dianchi Water Treatment Co., Ltd. is $E \div V = 1$ and $D \div V = 0$.

c. Calculation of cost of debt (Rd)

The cost of debt is the price an enterprise pays to raise funds by taking on debt (including loans from financial institutions and issuing corporate bonds). It is equal to interest $\times (1 - \text{income tax rate})$. According to the loan prime rate (LPR) issued by the People's Bank of China on 20 February 2023, the 1-year LPR is 3.65%, and the LPR for 5 years and above is 4.3%. With reference to the market quotations of the four major state-owned banks in the PRC, which are generally 20 to 30bp above the LPR, the calculation is based on 20bp above the benchmark LPR, i.e., the cost of debt is as follows:

$4.5\% \times (1 - \text{income tax rate})$. According to the current policies, the income tax rate applicable to Suijiang Dianchi Water Treatment Co., Ltd. is divided into two brackets by time, the first is the period of Western Development Program with an income tax rate of 15%, and the Rd for that period = $4.5\% \times (1 - 15\%) = 0.03825$; the second is the period after expiry of the preferential income tax policies which is subject to an income tax rate of 25%, and the Rd for that period = $4.5\% \times (1 - 25\%) = 0.03375$.

d. Calculation of discount rate

Putting a, b, and c above into the formula yields:

- ① a discount rate of 7.27% at an income tax rate of 15%;
- ② a discount rate of 7.27% at an income tax rate of 25%.

(10) Calculation of enterprise value

According to the formula:

$$V_P = \frac{A_1}{(1+R)^{\frac{1}{2}}} + \frac{A_2}{(1+R)^{\frac{1}{2}}} + \frac{A_3}{(1+R)^{\frac{1}{2}}} \dots \dots \frac{A_n}{(1+R)^{\frac{1}{2}}}$$

- Where: V is the overall appraised value of the enterprise;
- A is the future free cash flow of the enterprise;
- R is the discount rate;
- t is the actual operating time at the beginning of the period;
- m is the number of years between the first and last year;
- n is the actual operating time of the year at the end of the period.

Based on the above calculations, by putting the free cash flow of the enterprise and the discount rate and the corresponding discount period for each year into the formula, the overall value of the enterprise is RMB40,752,158.00.

(11) Liability forecasts

The current liabilities of Suijiang Dianchi Water Treatment Co., Ltd. mainly consist of accounts payable related to operations, such as electricity bills, material costs, and cost of agents. These costs will occur as long as the enterprise is in operation. Assuming the amount remains unchanged under consistent operating conditions, the changes are mainly attributable to other accounts payable. The warranty period for heavy-duty equipment is mostly 6 to 7 years. Assuming no further occurrences after expiration, the subsequent current liabilities can be calculated by deducting the quality guarantee deposit upon expiration. Assuming that the dividend payable will be fully settled in the following year and paid annually thereafter without forming debt, the liability forecasts are as follows:

Liability forecasts

	<i>RMB</i>					
Year	2019	2020	2021	2022	2023/2/28	2023/3/1 to 2023/12/31
Current liabilities	634,030.96	1,098,845.70	1,232,803.20	1,055,943.58	17,483,119.60	17,483,119.60
Non-current liabilities	904,722.83	1,008,541.99	1,062,983.52	0	0	0
Total liabilities	1,538,753.79	2,107,387.69	2,295,786.72	1,055,943.58	17,483,119.60	17,483,119.60
Year	2024	2025	2026	2027	2028	2029
Current liabilities	954,696.39	954,696.39	954,696.39	954,696.39	949,851.39	907,530.72
Non-current liabilities	0	0	0	0	0	0
Total liabilities	954,696.39	954,696.39	954,696.39	954,696.39	949,851.39	907,530.72
Year	2030	2031	2032	2033	2034	2035
Current liabilities	907,530.72	907,530.72	907,530.72	907,530.72	907,530.72	907,530.72
Non-current liabilities	0	0	0	0	0	0
Total liabilities	907,530.72	907,530.72	907,530.72	907,530.72	907,530.72	907,530.72
Year	2036	2037	2038	2039	2040	2041
Current liabilities	907,530.72	907,530.72	907,530.72	907,530.72	907,530.72	907,530.72
Non-current liabilities	0	0	0	0	0	0
Total liabilities	907,530.72	907,530.72	907,530.72	907,530.72	907,530.72	907,530.72
Year	2042	2043	2044	2045		
Current liabilities	907,530.72	907,530.72	907,530.72	907,530.72		
Non-current liabilities	0	0	0	0		
Total liabilities	907,530.72	907,530.72	907,530.72	907,530.72		

(12) Analysis and description of surplus assets

According to the statements of Suijiang Dianchi Water Treatment Co., Ltd., the balance of monetary funds of Suijiang Dianchi Water Treatment Co., Ltd. is only RMB16,657.04. As it is difficult to maintain the company's operation if the government fails to pay on time, Suijiang Dianchi Water Treatment Co., Ltd. has no surplus assets.

(13) Analysis and description of non-operating assets

Non-operating assets refer to assets that are not directly involved in or serve the production and operation. According to the special audit provided by Suijiang Dianchi Water Treatment Co., Ltd., as of the valuation base date, in its current assets, bank deposits, accounts receivable, prepayments, and inventories were all related to operations, and those that were not related to operations were three items under other receivables, totalling RMB1,611,190.12.

(14) Description of interest-bearing debts

According to the special audit, Suijiang Dianchi Water Treatment Co., Ltd. currently has no interest-bearing debt, and no borrowing is expected to make in the future assuming no alteration or expansion, therefore interest-bearing debt is RMB0.

(15) Description of non-operating liabilities

According to the special audit report provided by Suijiang Dianchi Water Treatment Co., Ltd., the non-operating liabilities mainly include appraisal fee under accounts payable and quality guarantee deposit under other payables, totalling RMB16,727,588.88.

(16) Working capital recovered at the end of the period

The working capital advanced by the enterprise in early periods does not need to be reinvested at the end of the period due to cessation of operation, so the working capital shall be recovered at the end of the period and discounted to the valuation base date. Based on the forecast, the working capital at the end of the period shall be RMB14,232,354.38, and the working capital to be recovered shall be: $14,232,354.38 \div (1 + 7.27\%)^{22.31} = \text{RMB}2,973,763.00$.

(17) Determination of results

The overall value of the enterprise is calculated as RMB40,752,158.00, and according to the formula:

Value of the entire shareholders' interests at the valuation base date = overall enterprise value – interest-bearing debts – non-operating liabilities + non-operating assets + surplus assets + working capital recovered

Then the value of the entire shareholders' interests at the valuation base date = RMB40,752,158.00 – RMB0 – RMB16,727,588.88 + RMB1,611,190.12 + RMB0 + RMB2,973,763.00 = RMB28,609,522.24.

VIII. Process and implementation of valuation procedures

After accepting the appraisal engagement, Kunming Bangke Land and Real Estate Asset Appraisal Co., Ltd. immediately formed an asset valuation team to formulate the valuation plan, formally entered the site and commenced the appraisal work. We conducted the appraisal of the assets within the scope of valuation in accordance with the regulations of relevant state departments on asset appraisal, and the specific steps were as follows:

(I) VALUATION PREPARATION STAGE

1. The client convened an intermediary coordination meeting for this project, at which the relevant parties agreed on the purpose of the valuation, the valuation base date and the scope of valuation, and formulated a work plan for the asset valuation.
2. Cooperating with the enterprise to carry out asset verification and fill in the detailed declaration form for asset valuation. Members of the valuation project team conducted a detailed study of the assets included in the scope of valuation, arranged for the work of asset valuation, assisted the enterprise in the declaration of assets included in the scope of valuation, and collected the documents and information required for the asset valuation.

(II) ON-SITE VALUATION STAGE

According to the overall schedule of this project, the on-site valuation phase is from March to September 2023. Based on the valuation approaches determined to be adopted for this valuation, the valuation project teams are mainly categorized into an asset-based approach team and an income approach team.

At the on-site valuation stage, the asset valuer conducted interviews with the client and relevant personnel of the appraised enterprise and made records of the interviews accordingly. The following is a description of the work performed under the asset-based approach and the income approach respectively during the on-site valuation stage:

1. The asset-based approach team focused on the verification and validation of the assets included in the scope of valuation as declared by the enterprise, with the main tasks as follows:
 - (1) To listen to introductions by the client and relevant officers of the appraised entity on the overall situation of the enterprise and the history and current status of the assets included in the scope of valuation, and understand the enterprise's financial system, operating conditions, and the technical status of the fixed assets;

- (2) To audit and authenticate the details of the asset valuation declaration form provided by the enterprise, verify them against the relevant financial records and data of the enterprise, and make adjustments in respect of the issues identified in cooperation with the enterprise;
 - (3) To conduct on-site inspection and stocktaking of physical assets in accordance with the asset valuation declaration form;
 - (4) To review and collect documents certifying the ownership of assets included in the scope of valuation, check the ownership information provided by the appraised entity and verify the ownership of the assets. To gather information on the defects of the assets and request the appraised entity to verify and confirm whether the assets belong to the enterprise and whether there are any disputes over the ownership of the assets;
 - (5) To determine the specific valuation method for each type of asset based on the actual conditions and characteristics of the assets included in the scope of valuation;
 - (6) For fixed assets, understand the management system, maintenance, alteration and expansion, and review and collect relevant information on technical data, final accounts, completion and acceptance; for generic equipment, collect pricing information mainly through market research and enquiry of relevant information;
 - (7) To make preliminary valuation estimates on the assets and liabilities within the scope of valuation after verification and validation.
2. The income approach team focused on understanding the historical operation of the enterprise and analyzing the past and present situation of the enterprise as well as the industry conditions to determine the possible trend of development of the enterprise in the future period. The main tasks are as follows:
- (1) The background of the economic behavior of the valuation, mainly the explanations provided by the client and the appraised entity in respect of the subject matter of the valuation;
 - (2) The relevant legal situation of the subject of valuation in respect of its continuing operation, mainly the relevant articles of association, investment and capital contribution agreements and contracts of the subject of valuation;
 - (3) The business premises of the subject of valuation;
 - (4) The operating capabilities of the subject of valuation;

- (5) The accounting system implemented by the subject of valuation, the method of depreciation of fixed assets, the accounting methods for cost of inventories and use of inventories;
- (6) The debt and borrowings as well as cost of debt of the subject of valuation in recent years;
- (7) The tax rate and tax payment of the subject of valuation;
- (8) The accounts receivable and payable of the subject of valuation;
- (9) Related party transactions in recent years;
- (10) The business type, historical operating results and business model of the subject of valuation;
- (11) The composition of main operating costs, occupied equipment and premises (depreciation and amortization), and staff remuneration and welfare expenses in recent years;
- (12) The composition of revenue from the main business, the rate of the main business, its proportion to the total revenue, and the distribution of major customers in recent years;
- (13) Business plans and business strategies for the coming years, including market demand, pricing strategies, sales plans, cost and expense control, capital raising and investment plans, as well as the composition of revenue and cost of the main business in the future and the trend of changes thereof;
- (14) Brief description of major competitors, including product and business positioning, pricing and market share;
- (15) Main business advantages and risks, including: national policy advantages and risks, product (technology) advantages and risks, market (industry) competitive advantages and risks, financial (debt) risks, exchange rate risks, etc;
- (16) The expected new investment plans;

- (17) For income forecasts or prospective financial information provided by the appraised entity, we have compared them with the production, income, costs and expenses and other parameters of the industry and enterprises similar to the subject enterprise, and then conducted verifications based on the specific conditions of the appraised enterprise;
- (18) Audited balance sheets, income statements, cash flow statements and breakdowns of product income and costs and expenses for recent years;
- (19) Other circumstances relevant to this valuation.

(III) VALUATION SUMMARY STAGE

We analyzed and summarized the preliminary results of each type of asset valuation and liability audit, and made necessary adjustments, modifications and improvements to the valuation results.

(IV) REPORTING STAGE

On the basis of the above work, we drafted the asset valuation report, exchanged views with the client on the valuation results, and after giving full consideration to the relevant opinions, made further revisions and corrections to the report in accordance with the valuer's internal system and procedures for reviewing asset valuation reports, and finally issued a formal asset valuation report.

IX. Valuation assumptions

The key asset valuation assumptions used for this valuation report include:

(I) GENERAL ASSUMPTIONS

1. Transaction assumption

Transaction assumption assumes all assets to be valued are in the course of transaction and the valuation is based on simulated market including terms of transaction of the target assets. Transaction assumption is the most basic precondition for the implementation of asset valuation.

2. Open market assumption

Open market assumption assumes that both parties to the assets transaction or the proposed assets transaction in the market are in equal position and have opportunities and time to obtain sufficient market information in order to make rational judgments on the assets including their functions, purposes and transaction prices. The basis of open market assumption is that the assets can be traded openly in the market.

3. Assumption of continuous use of assets

The assumption of continuous use of assets means that the valuation methods, parameters and basis shall be determined correspondingly based on the fact that the assets to be appraised will continue to be used or re-used according to the current use and the model, scale, frequency and environment, etc. or used on a change basis when evaluating.

4. Going concern assumption

The enterprise operates continually in pursuit of its operation objectives under its external environment as a business entity. The enterprise conducts lawful operation, and is able to acquire appropriate profits to maintain its capability to operate as a going concern.

5. The valuation report only provides valuable reference opinions for the purpose of this specific appraisal, and does not take into account the impact of other economic activities and derived value basis on the appraisal conclusion. Therefore, the valuation report and valuation conclusion generally cannot be applied to other appraisal purposes.
6. The appraised assets are owned by Suijiang Dianchi Water Treatment Co., Ltd. with clear ownership, without dispute and restriction.
7. All documents and materials provided by the client and the appraised entity are true, valid and accurate.
8. The appraised entity is not subject to disputes over property titles and other economic disputes, and there is no force majeure or unforeseeable factors that have a material adverse effect on the enterprise.
9. The impact that a particular trading method may have on the appraisal conclusion are not taken into consideration.

(II) SPECIFIC ASSUMPTIONS

1. It is assumed that there will be no material changes in the socio-economic environment of the regions where each of the appraised entity is located and in the PRC, no material changes in the national laws, regulations, rules and socio-political and economic policies currently in force, and no material changes in the industry management model, industry policies, the market environment and condition of the industry in which the appraised entity is engaged.
2. It is assumed that the relevant credit interest rates, exchange rates, tax bases and tax rates, as well as policy-based charges will be at the level of the valuation base date, and will fluctuate within the normal range without significant changes.
3. The future operators of Suijiang Dianchi Water Treatment Co., Ltd. will comply with the relevant national laws and regulations, and there will be no major non-compliance that may affect the development and earnings of the company.
4. The present and future operators of Suijiang Dianchi Water Treatment Co., Ltd. are responsible, and the management of the company will be able to steadily proceed with the development plan of the company to maintain a good operating position.
5. It is assumed that the professional personnel and senior management of Suijiang Dianchi Water Treatment Co., Ltd. will remain relatively stable and there will be no significant outflow of core professional personnel in the following years.
6. It is assumed that the accounting policies to be adopted by Suijiang Dianchi Water Treatment Co., Ltd. in the future are substantially consistent with those adopted in the preparation of the valuation report in all material respects.
7. It is assumed that Suijiang Dianchi Water Treatment Co., Ltd. will continue to operate as a going concern, and the debt assets can be recovered on time and in full or form effective and equal assets to fulfill its contractual obligations in accordance with the law.
8. It is assumed that the cash inflow of the appraised entity after the valuation base date will be the average inflow.
9. The various parameters measured in the appraisal are predicted by the appraised entity and the client, assuming that there will be no material changes in the forecast figures in the coming years.

10. According to the Announcement of the Ministry of Finance and the State Taxation Administration on Issuing the Announcement on Improving the VAT Policy on Comprehensive Utilization of Resources (Announcement No. 40 in 2021 of the Ministry of Finance and the State Taxation Administration), taxpayers engaging in the items of 5.2 “Sewage Treatment Services” under the Catalogue may apply the VAT immediate refund policy as stipulated in “III” of this announcement, or they can choose to apply the VAT exemption policy, and Suijiang Dianchi Water Treatment Co., Ltd. enjoyed the VAT immediate refund policy since its establishment, and chose to apply the VAT exemption policy from March 2022 onwards.
11. According to Article 1 of the Announcement on the Extension of the Enterprise Income Tax Policy for the China Western Development Program (Announcement No. 23 in 2020 of the Ministry of Finance, the State Taxation Administration and the National Development and Reform Commission), “from 1 January 2021 to 31 December 2030, enterprises in the encouraged industries established in the western region of China shall be subject to a reduced enterprise income tax rate of 15%. Enterprises in the encouraged industries referred to in this article are those enterprises mainly engaged in the industrial projects specified in the Catalogue of Encouraged Industries in the Western Region with their income from the main business accounting for more than 60% of the total income of the enterprises”. Sewage treatment industry is within the prescribed catalogue, and the sewage treatment income accounted for more than 60% of the income from main business operations of Suijiang Dianchi Water Treatment Co., Ltd., thus meeting the conditions of this policy. Accordingly, Suijiang Dianchi Water Treatment Co., Ltd. is subject to an enterprise income tax rate of 15% from 1 January 2021 to 31 December 2030, and the enterprise income tax rate will be returned to 25% after 1 January 2031.

The valuer has determined, in accordance with the requirements of the asset valuation, that these prerequisites are valid as at the valuation base date and that the valuation results herein will generally be rendered invalid in the event of significant changes in the economic environment in the future, and the valuer will not be liable for any different valuation results deduced as a result of the changes in the prerequisites.

This valuation report and the valuation conclusion are the results based on the above valuation assumptions and limitations as well as the principles, basis, conditions, methods and procedures determined in this valuation report, and will generally be invalidated automatically in the event of any changes to the above prerequisites.

X. Valuation conclusion

In accordance with relevant laws and regulations and asset valuation standards, and based on the judgment of the asset holders and the management of the enterprise on the future development trend and the business planning and the prerequisites of coordination in business operation, management and finance, the value of the entire shareholders' interests in Suijiang Dianchi Water Treatment Co., Ltd. as at the valuation base date of 28 February 2023 has been appraised in accordance with relevant laws and regulations and the asset valuation standards by adopting the asset-based approach and the income approach and performing the required valuation procedures, and the valuation results are set out as follows:

(I) ASSET-BASED APPROACH

The valuation results derived from the asset-based approach are:

1. The carrying value of the total assets was RMB41,087,100 and the appraised value was RMB41,852,500, representing a value appreciation of RMB765,400 or a value appreciation rate of 1.86%, the reasons for the value appreciation are as follows:
 - (1) Reasons for value appreciation of long-term receivables and intangible assets: according to the Concession Agreement of the Suijiang County Center Sewage Treatment Plant Project TOT entered into between Kunming Dianchi Water Treatment Co., Ltd. and the People's Government of Suijiang County, Suijiang Dianchi Water Treatment Co., Ltd. conducted original book entry based on the consideration paid under the TOT contract, and made adjustments in accordance with the corresponding accounting standards, and used the water fees collected each year to offset the long-term receivables, so the carrying value was decreasing each year. The valuation of the concession adopted the income approach for its intrinsic value, analyzed the income and costs, and discounted the net income to be generated in the future. The value of other assets and liabilities carried at the base date is highly correlated, and the concession, being the core asset under the asset-based approach, accounts for 50% of the total. The value under the asset-based approach was affected by the value of the concession, and the total investment amount of the concession is recovered by collecting sewage treatment fees. After transfer of the Suijiang sewage treatment plant, the upgrading and renovation works were financed and constructed by the government, and Suijiang Dianchi Water Treatment Co., Ltd. is only responsible for the maintenance and operation under the Class B standards, resulting in a relatively small carrying value of long-term receivables, thus leading to the value appreciation.

- (2) Reasons for valuation impairment of fixed assets: in valuation of the fixed assets, ① the renovated and upgraded assets are assets that have been gradually renovated and upgraded by Suijiang Dianchi Water Treatment Co., Ltd. in the course of its operation, which are necessary for maintaining the normal operation of the sewage treatment plant, and are considered to be renovated and upgraded assets, and their value has been included in the concession, which will not be appraised separately; ② for impairment of newly added fixed assets, the first reason is that the asset holder accounted for the assets at their original value and depreciated them in accordance with the relevant accounting standards, but the actual valuation work resulted in asset impairment due to the relatively short economic useful life of these assets; and the second reason is that the fixed assets were purchased at a relatively early date, have been used for a long period of time, are not efficient enough to satisfy the needs, or are outdated, resulting in asset impairment due to update and iteration after technological advancement in the market. Accordingly, the fixed assets were appraised to be impaired for the above reasons.

The above reasons for appreciation and depreciation of assets have resulted in the appreciation of total assets.

2. The carrying value of the liabilities was RMB17,483,100 and the appraised value was RMB17,483,100, representing no appreciation or impairment from valuation.
3. The carrying value of the net assets was RMB23,604,000 and the appraised value was RMB24,369,400, representing a value appreciation of RMB765,400 or a value appreciation rate of 3.24%.

Reasons for value appreciation: Based on analysis of the above, total assets appreciated and total liabilities remained unchanged, which ultimately resulted in appreciation of net assets.

The results of the asset valuation are summarized below in categories:

SUMMARY OF RESULTS OF VALUATION OF SUIJIANG DIANCHI WATER TREATMENT CO., LTD. UNDER THE ASSET-BASED APPROACH

Valuation base date: 28 February 2023

Unit: RMB'0000

	Item	Carrying value	Appraised value	Appreciation or impairment	Appreciation rate %
		A	B	C=B-A	D=C/A×100%
1	Current assets	1,914.49	1,914.49	–	–
2	Non-current assets	2,194.22	2,270.76	76.54	3.49
2.1	Long-term receivables	1,774.68	2,245.88	471.20	26.55
2.2	Intangible assets	152.43	–	–152.43	–100.00
2.3	Fixed assets	258.98	16.73	–242.25	–93.54
2.4	Deferred income tax assets	8.15	8.15	–	–
3	Total assets	4,108.71	4,185.25	76.54	1.86
4	Current liabilities	1,748.31	1,748.31	–	–
5	Non-current liabilities	–	–	–	–
6	Total liabilities	1,748.31	1,748.31	0.00	0.00
7	Net assets (owners' equity)	2,360.40	2,436.94	76.54	3.24

Details of the valuation conclusions are set out in the breakdown of valuation under the asset-based approach.

After valuation under the asset-based approach, the value of the entire shareholders' interests in Suijiang Dianchi Water Treatment Co., Ltd. as at the valuation base date of 28 February 2023 was RMB24,369,400, representing a value appreciation of RMB765,400 or a value appreciation rate of 3.24%.

(II) INCOME APPROACH

As at the valuation base date, the value of the entire shareholders' interests in Suijiang Dianchi Water Treatment Co., Ltd. was RMB28,609,600 under the going concern premise, representing a value appreciation of RMB5,005,600 or a value appreciation rate of 21.21%. The income approach provides a discounted value of the estimated future income based on the operating conditions of the enterprise, which takes future income of the enterprise into full consideration and better reflects the value of the enterprise as a going concern. The reason for the appreciation is that the carrying value of an enterprise is recorded only at the value of the assets at the time of purchase or acquisition, and the simple subtraction of liabilities from assets does not reflect the value of the potential earnings of the enterprise, while the income approach reflects the operating ability (profitability) of an enterprise. For an enterprise that operates normally and makes a profit, the assets of the enterprise will continue to appreciate in value as a result of continuous operation, so the income approach results in value appreciation as opposed to the carrying value, which only reflects the relationship between the assets and liabilities of the enterprise without taking into account the profitability of the enterprise.

**SUMMARY OF RESULTS OF ASSET VALUATION
(UNDER INCOME APPROACH)**

Valuation base date: 28 February 2023

Unit: RMB'0000

Item	Carrying value A	Appraised value B	Appreciation	Appreciation rate %
			or impairment C=B-A	D=C/A×100%
1 Current assets	1,914.49	–	–	–
2 Non-current assets	2,194.22	–	–	–
2.1 Long-term receivables	1,774.68	–	–	–
2.2 Fixed assets	152.43	–	–	–
2.3 Intangible assets	258.98	–	–	–
2.4 Deferred income tax assets	8.15	–	–	–
3 Total assets	4,108.71	–	–	–
4 Current liabilities	1,748.31	–	–	–
5 Non-current liabilities	–	–	–	–
6 Total liabilities	1,748.31	–	–	–
7 Net assets (owners' equity)	2,360.40	2,860.96	500.56	21.21

(III) ANALYSIS OF VALUATION CONCLUSIONS

The value of the entire shareholders' interests in Suijiang Dianchi Water Treatment Co., Ltd. as at the valuation base date derived from the asset-based approach was: RMB24,369,400; the value of the entire shareholders' interests in Suijiang Dianchi Water Treatment Co., Ltd. as at the valuation base date derived from the income approach was: RMB28,609,600. The appraised value under the income approach is RMB4,240,200 or 17.40% higher than the appraised value under the asset-based approach. The main reasons for the difference between the two valuation approaches are as follows:

The difference between the two valuation results is attributable to the characteristics of the valuation approaches. The asset-based approach is a valuation approach that determines the value of the subject of valuation on the basis of a reasonable valuation of each item of the assets and liabilities of the enterprise, i.e., the method of calculating the value of the shareholders' interest in the enterprise by aggregating the appraised value of the various key assets constituting the enterprise and deducting the appraised value of the liabilities. The income approach reflects the comprehensive profitability of the assets of an enterprise from the perspective of its future profitability. The value of other assets and liabilities carried at the base date under the asset-based approach is highly correlated, and the concession, being the core asset under the asset-based approach, accounts for 50% of the total. The valuation was conducted using the income approach for valuation of the operating rights and also the income approach for valuation of the equity interests. The subject company is a single business of sewage treatment. Under the income approach and asset-based approach, the calculation models of long-term receivables (concession) are similar, with the same expected income and similar values for most of the parameters, although the calculation of certain parameters is different. In particular, the finance cost in the concession is determined based on the cost of using working capital, whereas the finance cost in the equity method is determined based on the interest-bearing debt of the target company; and the income generated from working capital is deducted from the concession, whereas the income approach is based on the increase in working capital. In summary, the above factors have led to the differences in results under the two valuation approaches.

The valuation results under the income approach are recommended in the conclusion of this valuation of the entire shareholders' interests, because the income approach is based on the Concession Agreement of the Suijiang County Center Sewage Treatment Plant Project TOT entered into between Suijiang Dianchi Water Treatment Co., Ltd. and the People's Government of Suijiang County, and adopts the model of discounting the enterprise's net free cash flow, which takes into account key factors such as the enterprise's capability of continuous operation, the ability of asset turnover and the minimum amount of cash retained in the assets during the concession period, and better reflects the objective operating conditions of the enterprise. During the concession period, the income will remain stable, the sewage treatment volume is expected to be continuous and stable in the future, future operations and risks can be reasonably predicted, and the company will maintain favourable operation. The valuation results under the income approach not only take into account the impact of the above concession agreement, operations and risks, but also reflect the value of the intangible assets of the subject such as its qualifications, human resources and management team, as well as the value brought by the strengths of the public utility service providers of environmental treatment in the region. In contrast, the asset-based approach is based on historical cost, which does not objectively reflect its sustainable profitability. The valuation of the concession, which has a greater impact, is based on the idealized data in the TOT contract, and certain data differs from the idealized data to a certain extent in actual operation, and the value of other assets and liabilities carried at the base date is highly correlated. The income approach, as compared to the asset-based approach, can better reflect the value of profitability of the appraised entity under continuous operation in a comprehensive manner, and therefore, the conclusion of the income approach is adopted as the final valuation conclusion.

Accordingly, the value of the entire shareholders' interests in Suijiang Dianchi Water Treatment Co., Ltd. as at the valuation base date of 28 February 2023 was **RMB28,609,600 (Renminbi twenty-eight million six hundred nine thousand six hundred)**.

XI. Explanations to special matters

- (i) The valuation was conducted under the principles of independence, impartiality, objectivity and reasonableness. Kunming Bangke Land and Real Estate Asset Appraisal Co., Ltd. and all personnel participating in the valuation work do not have any special interest in the economic behavior of the parties, and the valuers adhered to the professional ethics and standards in the valuation process and made sufficient efforts. The valuation conclusion is issued by Kunming Bangke Land and Real Estate Asset Appraisal Co., Ltd. and is subject to the business ability and competence of the valuer and its staff who have participated specifically in the project.
- (ii) This valuation report only provides value reference opinions for the purpose of this specific valuation, and does not consider the impact of other economic behaviors and value basis therefrom on the valuation conclusion, therefore, this valuation report and the valuation conclusion are generally not applicable to other valuation purposes.

- (iii) Suijiang Dianchi Water Treatment Co., Ltd. shall be responsible for the truthfulness, legality and completeness of the information provided in respect of the legal ownership of the appraised assets. According to the Guiding Opinions on Legal Ownership of Asset Valuation Subjects (Zhong Ping Xie [2017] 48), the purpose of asset valuers and their professionals in conducting asset valuation business is to estimate the value of the subject of valuation and express professional opinions, pay necessary attention to the legal ownership of the subject of valuation and disclose the findings, but they do not provide any form of assurance in respect of the legal ownership and do not assume any responsibility for verifying the truthfulness, legality and completeness of the information on the legal ownership of the subject of valuation.
- (iv) In this valuation, there is an appreciation in value of the entire shareholders' interests in Suijiang Dianchi Water Treatment Co., Ltd., which may have an impact on the deferred income tax liabilities, and the users of the report are reminded to pay attention in this regard.
- (v) Significant subsequent events
1. In case of changes in the number of assets during the valid period after the valuation base date, the amount of assets shall be adjusted accordingly under the original valuation approach;
 2. In the event that there are significant changes in asset pricing standards during the valid period after the valuation base date which significantly affect the appraised value of the assets, the client shall promptly engage a valuer to re-determine the appraised value;
 3. This valuation report may not be used directly if a significant event occurs after the valuation base date;
- Save for the above, in the course of valuation, from the valuation base date to the date of the valuation report, based on the information provided by the client and the appraised entity and on-site inspections by the valuers, the valuers have not identified any other significant subsequent events of Suijiang Dianchi Water Treatment Co., Ltd.
- (vi) The necessary roads involved in the project and the land occupied by the project are on granted land, and during the concession period of the project operated by Suijiang Dianchi Water Treatment Co., Ltd., the People's Government of Suijiang County agreed to grant the land to Suijiang Dianchi Water Treatment Co., Ltd. for use free of charge for the same term as the concession period, i.e., from 9 December 2015 to 8 December 2045.

- (vii) Pursuant to the Concession Agreement of the Suijiang County Center Sewage Treatment Plant Project TOT entered into between Kunming Dianchi Water Treatment Co., Ltd. and the People's Government of Suijiang County, the People's Government of Suijiang County authorized Kunming Dianchi Water Treatment Co., Ltd. and its wholly-owned project company (Suijiang Dianchi Water Treatment Co., Ltd.) to adopt the transfer-operate-transfer (TOT) concession model for the Suijiang County Center Sewage Treatment Plant Project, whereby the People's Government of Suijiang County transferred the Suijiang County Center Sewage Treatment Plant Project, which meets the contractual requirements and the operational needs of Suijiang Dianchi Water Treatment Co., Ltd., to Kunming Dianchi Water Treatment Co., Ltd. for a consideration, and granted Kunming Dianchi Water Treatment Co., Ltd. the concession of the project for a certain period of time, under which Suijiang Dianchi Water Treatment Co., Ltd. has the right to settle the loan, recover the transfer consideration and make a reasonable profit by collecting sewage treatment fees. The concession period is 30 years from 9 December 2015 to 8 December 2045. Upon expiry of the concession period, Suijiang Dianchi Water Treatment Co., Ltd. shall transfer the project to the People's Government of Suijiang County at nil consideration.
- (viii) In December 2015, Kunming Dianchi Water Treatment Co., Ltd. invested RMB22 million to acquire and establish Suijiang Dianchi Water Treatment Co., Ltd. under the TOT model with an operation period of 30 years. In August 2019, Yunnan Zhenyong Water Resources and Hydropower Engineering Co., Ltd. commenced the construction of the upgrading and renovation project with an investment of RMB13.4 million by the government, which completed the environmental protection inspection and acceptance upon completion in January 2021, and the quality of the effluent was improved from Class 1B standard to Class 1A standard using MBR membrane process. In December 2021, China Construction No. 13 Bureau constructed the expansion project, creating additional treatment capacity of 5,000 cubic tons per day, with effluent quality of Class 1A standard using AAO+MBR membrane process. The government invested RMB49.95 million in the project, and Kunming Dianchi Water Treatment Co., Ltd. is only responsible for investment in and operation of certain assets of Class 1B standard of the Suijiang sewage treatment plant. Suijiang Dianchi Water Treatment Co., Ltd. currently charges sewage treatment fee based on Class 1B standard, and the treatment cost is also at Class 1B standard. The upgrading project and the expansion project are invested, constructed and operated by the government and do not involve any adjustment to the water price at Class 1B standard of the Suijiang sewage treatment plant.
- (ix) The valuation conclusion is arrived at in accordance with the above principles, basis, prerequisites, methods and procedures, and is only valid under the conditions of such principles, basis and prerequisites; the valuation conclusion shall not be regarded as a guarantee of the realizable price of the subject of valuation.
- (x) Based on the requirements of asset valuation, the valuation calculations are based partly on existing policies and terms, and partly on industry practices, statistical parameters or generic parameters commonly used in valuation. In the event of significant changes in the economic environment in the future, the valuers will not be liable for any difference from the valuation results due to changes in the prerequisites.

Users of the report are advised to pay attention to the above special matters.

XII. Limitations on use of the valuation report

- (i) This valuation report can only be used for the purposes and uses of valuation as stated in the report.

The valuation results reflect the prevailing market price of the subject of valuation for the purpose of this valuation, determined in accordance with the open market principles on the assumption that the appraised assets are intended to be traded on the open market and will be used normally and on an ongoing basis in accordance with their existing use, without taking into account the impact on the appraised price such as the possible increase or decrease in the price to be paid by a special counterparty and the impact on the asset price arising from the changes in the national macro-economic policies, force of nature and other force majeure. In the event of changes in the above conditions and other circumstances such as the principle of continuous use of assets adopted in the valuation, the valuation results will generally be invalidated.

- (ii) This valuation report may only be used by the users of the valuation report as set out in the report.
- (iii) All or part of the contents of the valuation report, when excerpted, quoted or disclosed in public media, shall be reviewed by the valuer, unless otherwise stipulated by laws and regulations or agreed by the parties concerned.
- (iv) Users of the asset valuation report shall properly interpret and use the valuation conclusion, which does not represent the realizable price of the subject of valuation and thus shall not be taken as a guarantee for such price.
- (v) Validity period for use of the valuation report:

Validity period for use of the valuation conclusion: According to the relevant laws and regulations on asset valuation, asset valuation reports involving statutory valuation business shall be used by the client after performing the supervisory and management procedures for asset valuation in accordance with the requirements of relevant laws and regulations. The valuation results shall be valid for use for one year, i.e., from 28 February 2023 to 27 February 2024.

- (vi) All or part of the contents of this report shall be interpreted by Kunming Bangke Land and Real Estate Asset Appraisal Co., Ltd.

XIII. Date of valuation report

The report date for this valuation project is 29 November 2023.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Interests and Short Positions of Directors, Supervisors and Chief Executives of the Company in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at the Latest Practicable Date, none of the Directors, supervisors or senior management of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix C3 of the Listing Rules.

(b) Interests of the Substantial Shareholders in the Shares and Underlying Shares of the Company

As at the Latest Practicable Date, so far as is known to any Director of the Company, the interests and short positions of the following persons (other than Directors, chief executives or supervisors of the Company) who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were entered in the register required to be kept by the Company pursuant to Section 336 of the SFO, were as follows:

Long positions

Name of Shareholder	Capacity/nature of interest	Class of Shares	Number of Shares held	Approximate percentage of issued share capital of the Company as at the Latest Practicable Date
Kunming Dianchi Investment Co. Ltd. (昆明滇池投資有限責任公司)	Beneficial owner	Domestic Shares	627,253,548 (Note 2)	60.95%

Name of Shareholder	Capacity/nature of interest	Class of Shares	Number of Shares held	Approximate percentage of issued share capital of the Company as at the Latest Practicable Date
Kunming Public Rental Housing Development and Construction Management Co., Ltd. (昆明市公共租賃住房開發建設管理有限公司)	Security interest	Domestic Shares	33,013,345 (Note 3)	3.21%
Kunming Industrial Development & Investment Co., Ltd. (昆明產業開發投資有限責任公司)	Beneficial owner	H Shares	59,000,000 (Notes 4 and 6)	5.73%
Kunming Industrial Development and Construction Company Limited (昆明市產業開發建設有限責任公司)	Interest of controlled corporation	H Shares	59,000,000 (Notes 4 and 6)	5.73%
Kunming State-owned Assets Management and Operations Co. Ltd. (昆明市國有資產管理營運有限責任公司)	Beneficial owner	H Shares	39,790,000	3.87%
Yunnan Provincial Investment Holdings Group Co., Ltd. (雲南省投資控股集團有限公司)	Beneficial owner	H Shares	64,770,000	6.29%
Modern Orient Limited	Interest of controlled corporation	H Shares	47,754,000 (Notes 5 and 6)	4.64%
Beijing Enterprises Water Group Limited	Beneficial owner	H Shares	47,754,000 (Notes 5 and 6)	4.64%
Beijing Enterprises Investments Limited	Interest of controlled corporation	H Shares	47,754,000 (Notes 5 and 6)	4.64%
Beijing Enterprises Holdings Limited	Interest of controlled corporation	H Shares	47,754,000 (Notes 5 and 6)	4.64%
Beijing Enterprises Group Company Limited	Interest of controlled corporation	H Shares	47,754,000 (Notes 5 and 6)	4.64%

Name of Shareholder	Capacity/nature of interest	Class of Shares	Number of Shares held	Approximate percentage of issued share capital of the Company as at the Latest Practicable Date
Beijing Enterprises Group (BVI) Company Limited	Interest of controlled corporation	H Shares	47,754,000 <i>(Notes 5 and 6)</i>	4.64%
Beijing Enterprises Environmental Construction Limited	Interest of controlled corporation	H Shares	47,754,000 <i>(Notes 5 and 6)</i>	4.64%

Notes:

- The data disclosed above are mainly based on information provided on the website of Hong Kong Stock Exchange (<http://www.hkexnews.hk>) and records of the register required to be kept by the Company under Section 336 of the SFO.
- Pursuant to the counter-guarantee contract signed by Kunming Dianchi Investment on 29 June 2022, Kunming Dianchi Investment pledged 33,013,345 shares of the Company held by it as security for its debts. As at the Latest Practicable Date, a total of 660,266,893 shares of the Company were held by Kunming Dianchi Investment, accounting for approximately 64.16% of the total issued shares of the Company.

The shares of the Company held by Kunming Dianchi Investment have been subject to freezing/seizure enforcement notices issued by various courts, details of which are set out in the announcements of the Company dated 1 September 2023, 19 September 2023, 24 October 2023, 4 January 2024 and 25 January 2024, respectively.

- Pursuant to the counter-guarantee contract signed between Kunming Public Rental Housing Development and Construction Management Co., Ltd. and Kunming Dianchi Investment on 29 June 2022, Kunming Public Rental Housing Development and Construction Management Co., Ltd. has a security interest in the 33,013,345 shares held by Kunming Dianchi Investment.
- Such 59,000,000 shares belong to the same batch of shares.
- Such 47,754,000 shares belong to the same batch of shares.
- Pursuant to Section 336 of the SFO, if certain conditions are fulfilled, the Shareholders are required to submit a form for disclosure of interests. In the event of changes in the shareholding of the Shareholders in the Company, the Shareholders will not be required to notify the Company and the Stock Exchange unless certain conditions are met. Therefore, the latest shareholding of the Shareholders in the Company may be different from the shareholding submitted to the Stock Exchange.

Save as disclosed above, as at the Latest Practicable Date, the Company is not aware of any other persons (other than the Directors, supervisors and chief executives of the Company) who have interest or short positions in the shares or underlying shares of the Company which are required to be recorded in the register under Section 336 of the SFO.

3. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

As at the Latest Practicable Date, none of the Directors or supervisors had entered into or proposed to enter into any service contract with any member of the Group which is not expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

4. COMPETING INTERESTS OF DIRECTORS

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors and their respective close associates had any interest in any business (other than the Group's business) which competes or is likely to compete, either directly or indirectly, with the business of the Group (as would be required to be disclosed pursuant to Rule 8.10 of the Listing Rules if they were controlling Shareholders).

5. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS OF THE GROUP

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2022 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

None of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant to the businesses of the Group.

6. DIRECTORS' AND SUPERVISORS' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDERS

The followings are the particulars of Directors' and supervisors' employment with substantial Shareholders (holding interests or short positions in the shares and underlying shares of the Company required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO) as at the Latest Practicable Date:

Mr. Zeng Feng, an executive Director of the Company, serves as a director of Kunming Dianchi Investment.

Mr. Xu Jingdong, a non-executive Director of the Company, serves as a director and the deputy general manager of Kunming Dianchi Investment.

7. MATERIAL CONTRACTS

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

- (a) On 31 December 2021, the Company entered into a supplemental agreement with Bosera Capital Management Co., Ltd. and Kunming Branch of China Merchants Bank Company Limited extending the term of the Mutual Trust No. 5 Asset Management Agreement dated 29 September 2021 to 10 April 2022 (please refer to the Company's announcement disclosed on the websites of the Stock Exchange and the Company on 31 December 2021 for details);
- (b) On 28 February 2022, the Company entered into an entrusted loan contract with Kunming Xindu Investment Co., Ltd. (昆明新都投資有限公司) and Kunming Chenggong District Rural Credit Cooperative* (昆明市呈貢區農村信用合作聯社), pursuant to which the Company entrusted Kunming Chenggong District Rural Credit Cooperative* (昆明市呈貢區農村信用合作聯社) to provide entrusted loans of RMB250 million to Kunming Xindu Investment Co., Ltd., with a term of 1 month and an interest rate of 8.5% per annum; on 28 March 2022, the Company entered into an extension agreement with Kunming Xindu Investment Co., Ltd. and Kunming Chenggong District Rural Credit Cooperative* (昆明市呈貢區農村信用合作聯社) for the entrusted loan contract dated 28 February 2022 to extend the term of the entrusted loan under the entrusted loan contract dated 28 February 2022 to 28 July 2022 and adjust the interest rate to 9.0% per annum, and the Company entered into a security contract, with Kunming Xindu Investment Co., Ltd. pursuant to which Kunming Xindu Investment Co., Ltd. agreed to provide mortgaged asset as security for the extension agreement (please refer to the Company's announcements disclosed on the websites of the Stock Exchange and the Company on 28 February 2022 and 28 March 2022 for details);
- (c) On 24 March 2022, the Company and CCB Financial Leasing Corporation Limited (建信金融租賃有限公司) entered into two transfer agreements and two lease agreements. Under the transfer agreement I and the lease agreement I, CCB Financial Leasing Corporation Limited agreed to (i) purchase the leased assets from the Company for a transfer price not exceeding RMB100 million; and (ii) lease back the leased assets to the Company for a term of four years. Under the transfer agreement II and the lease agreement II, CCB Financial Leasing Corporation Limited agreed to (i) purchase the leased assets from the Company for a transfer price not exceeding RMB100 million; and (ii) lease back the leased assets to the Company for a term of five years (please refer to the Company's announcement disclosed on the websites of the Stock Exchange and the Company on 24 March 2022 for details);

- (d) On 9 June 2022, the Company entered into the entrusted loan contract with Kunming Urban Construction and Investment Development Co., Ltd. (昆明市城建設投資開發有限責任公司) and Kunming Panlong District Rural Credit Cooperative* (昆明市盤龍區農村信用合作聯社), pursuant to which the Company entrusted Kunming Panlong District Rural Credit Cooperative* (昆明市盤龍區農村信用合作聯社) to provide entrusted loan of RMB310 million to Kunming Urban Construction and Investment Development Co., Ltd. with a term of 12 months and an interest rate of 8.5% per annum. On 9 June 2023, the parties entered into the extension agreement for the entrusted loan contract dated 9 June 2022 to extend the term of RMB180 million of the principal amount thereunder to 8 June 2024 (please refer to the Company's announcements disclosed on the websites of the Stock Exchange and the Company on 9 June 2022, 16 June 2022, 9 June 2023 and 12 June 2023 for details);
- (e) On 29 June 2022, the Company, the People's Government of Suncun Town, Fanchang District (繁昌區孫村鎮人民政府) and Fanchang Dianchi Water Treatment Co., Ltd. (繁昌縣滇池水務有限公司) entered into the equity transfer agreement, pursuant to which the Company conditionally agreed to sell and the People's Government of Suncun Town, Fanchang District conditionally agreed to acquire 100% equity interest in Fanchang Dianchi Water Treatment Co., Ltd. for an estimated consideration of not more than RMB163 million (please refer to the Company's announcements disclosed on the websites of the Stock Exchange and the Company on 29 June 2022 and 7 July 2022 for details);
- (f) On 24 October 2022, the Company entered into an entrusted loan contract with Kunming Development and Investment Group Co., Ltd. (昆明發展投資集團有限公司) and Kunming Chenggong District Rural Credit Cooperative* (昆明市呈貢區農村信用合作聯社), pursuant to which the Company entrusted Kunming Chenggong District Rural Credit Cooperative* (昆明市呈貢區農村信用合作聯社) to provide entrusted loan of RMB200 million to Kunming Development and Investment Group Co., Ltd., with a term from 24 October 2022 to 24 September 2023 and an interest rate of 8.5% per annum. On 22 September 2023, the Company entered into the entrusted loan extension agreement and the supplemental entrusted loan extension agreement with Kunming Development and Investment Group Co., Ltd. (昆明發展投資集團有限公司) and Kunming Chenggong District Rural Credit Cooperative* (昆明市呈貢區農村信用合作聯社) to extend the term of the entrusted loan with principal amount of RMB200 million under the entrusted loan contract dated 24 October 2022 to 24 August 2024 (please refer to the Company's announcements and circular disclosed on the websites of the Stock Exchange and the Company on 24 October 2022, 22 September 2023 and 25 October 2023 for details);
- (g) On 16 June 2023, the Company entered into the entrusted loan contract with Kunming Anju Group Co., Ltd. (昆明市安居集團有限公司) and Jinma Branch of Guandu Rural Cooperative Bank, pursuant to which the Company entrusted Jinma Branch of Guandu Rural Cooperative Bank to provide entrusted loan of RMB80 million to Kunming Anju Group Co., Ltd. with a term of 12 months and an interest rate of 8.5% per annum (please refer to the Company's announcement disclosed on the websites of the Stock Exchange and the Company on 16 June 2023 for details);

- (h) On 20 June 2023, the Company entered into a supplemental agreement with Industrial Bank Financial Leasing Co., Ltd. (興業金融租賃有限責任公司) in respect of the finance lease agreement dated 24 December 2021 to adjust and supplement the term, interest rate and rental payment arrangement etc. of the finance lease (please refer to the Company's announcements and circular disclosed on the websites of the Stock Exchange and the Company on 24 December 2021, 24 February 2022, 20 June 2023 and 24 August 2023 for details);
- (i) On 15 September 2023, the Company, the People's Government of Malong District, Qujing City, Yunnan Province, Qujing Zefeng Water Co., Ltd.* (曲靖澤豐水務有限公司) and Qujing Dianchi Water Treatment Co., Ltd.* (曲靖滇池水務有限公司) entered into an equity transfer agreement, pursuant to which, the Company has conditionally agreed to sell and the People's Government of Malong District, Qujing City, Yunnan Province and Qujing Zefeng Water Co., Ltd.* (曲靖澤豐水務有限公司) have conditionally agreed to purchase 100% equity interest in Qujing Dianchi Water Treatment Co., Ltd.* (曲靖滇池水務有限公司) with an estimated consideration of no more than RMB151,153,900 (please refer to the Company's announcement disclosed on the websites of the Stock Exchange and the Company on 15 September 2023 for details);
- (j) On 20 December 2023, the Company (as the transferor), Hunan Zhihong Paper Co., Ltd.* (湖南志鴻紙業有限公司) (as the transferee) and Liuyang Hongyu Thermal Power Co., Ltd.* (瀏陽市宏宇熱電有限公司) (as the target company) entered into an equity transfer agreement, pursuant to which the Company has conditionally agreed to sell and the transferee has conditionally agreed to purchase 100% equity interest in Hongyu Thermal Power, at a consideration comprising the equity transfer price of RMB43.5787 million and the principal amount of the loan of RMB5.02 million provided by the Company to Hongyu Thermal Power together with interest thereon, of which the interest on the loan shall be determined based on the amount calculated up to the date of actual repayment, and it is estimated that the total consideration will not exceed RMB48.756 million (please refer to the Company's announcements disclosed on the websites of the Stock Exchange and the Company on 20 December 2023 and 27 December 2023 for details);
- (k) On 29 December 2023, the Company (as the Transferor), Sichuan Development Guorun Water (as the Transferee) and the Target Companies referred to in this circular entered into the Equity Transfer Agreements, pursuant to which the Company has conditionally agreed to sell and the Transferee has conditionally agreed to purchase the Disposal Interest, at a Consideration comprising the equity transfer price of the Disposal Interest in the sum of approximately RMB242,762,100 and the interest of approximately RMB2,412,600 in total as agreed to be calculated based on the price to be paid by the Transferee in instalments, of which the interest as agreed to be calculated based on the price to be paid by the Transferee in instalments shall be subject to the final actual calculated amount, and it is estimated that the total Consideration will not exceed RMB245,174,700 (please refer to the Company's announcement disclosed on the websites of the Stock Exchange and the Company on 29 December 2023 for details).

8. LITIGATION

As at the Latest Practicable Date, so far as the Directors are aware, no member of the Group was involved in any litigation or claims of material importance and no litigation or claims of material importance was pending or threatened against any member of the Group.

9. GENERAL

- (a) The Company's registered office and headquarters in the PRC is located at Wastewater Treatment Plant No. 7, Kunming Dianchi Tourist Resort, Yunnan Province, PRC and its principal place of business in Hong Kong is located at Room 1901, 19/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong.
- (b) The Company's H Share Registrar is Tricor Investor Services Limited which is located at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (c) The company secretary of the Company is Mr. Chiu Ming King, FCG, FCS.

10. DOCUMENTS FOR INSPECTION

Copies of the following documents will be published on the websites of the Stock Exchange (<https://www.hkexnews.hk>) and the Company (<https://www.kmdcwt.com>) for a period of 14 days from the date of this circular:

- a. the Equity Transfer Agreements;
- b. the valuation report of Target Company I;
- c. the valuation report of Target Company II;
- d. the valuation report of Target Company III;
- e. the confirmation letter on profit forecast issued by the Board, the text of which is set out in Appendix I to this circular; and
- f. the confirmation letter on profit forecast issued by Pan-China Certified Public Accountants, the text of which is set out in Appendix II to this circular.