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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Shougang Concord Grand (Group) Limited, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

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首長四方（集團）有限公司\*  
**SHOUGANG CONCORD GRAND (GROUP) LIMITED**  
*(Incorporated in Bermuda with limited liability)*  
(Stock Code: 730)

**MAJOR TRANSACTION  
FINANCE LEASE AGREEMENTS**

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A letter from the Board is set out on pages 4 to 13 of this circular.

\* *For identification purposes only*

24 August 2021

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## DEFINITIONS

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

“Board”	the board of directors of the Company;
“Company”	Shougang Concord Grand (Group) Limited, a company incorporated in Bermuda with limited liability whose securities are listed on the main board of the Stock Exchange;
“connected person(s)”	has the same meaning ascribed to it under the Listing Rules;
“Finance Lease Agreements”	collectively, the First Finance Lease Agreement and the Second Finance Lease Agreement;
“First Finance Lease Agreement”	the agreement entered into between South China Leasing and the Lessee on 14 July 2021 in respect of the finance lease for the First Finance Lease Assets;
“First Finance Lease Assets”	the assets subject to the First Finance Lease Agreement which shall be leased back to the Lessee pursuant to the terms and conditions thereunder;
“First Finance Lease Valuer”	Beijing Ningbang Honghe Asset Appraisal Firm (General Partnership)* (北京寧邦鴻合資產評估事務所(普通合伙)), an independent valuer;
“Guarantor”	上饒創新發展產業投資集團有限公司 (Shangrao Innovation Development and Industry Investment Group*), a company established in the PRC with limited liability;
“Heji Water” or “Sub-lessee”	has the meaning ascribed to it in the section headed “Information about the First Finance Lease Assets and the Second Finance Lease Assets” in the “Letter from the Board” in this circular;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“HY Holdings”	has the meaning ascribed to it in the section headed “3 Substantial Shareholders” in Appendix II to this circular;
“Jiangxi Yunji”	has the meaning ascribed to it in the section headed “Information of the Lessee” in the “Letter from the Board” in this circular;
“Jingle Win”	has the meaning ascribed to it in the section headed “Information of the Lessee” in the “Letter from the Board” in this circular;

\* For identification purposes only

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## DEFINITIONS

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“Jingxi Holdings”	has the meaning ascribed to it in the section headed “3 Substantial Shareholders” in Appendix II to this circular;
“Latest Practicable Date”	20 August 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information in the circular;
“Lessee”	金源華興融資租賃有限公司 (Jinyuan Huaxing Financial Leasing Co., Ltd.*), a company established in the PRC with limited liability;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Mr. Chen”	has the meaning ascribed to it in the section headed “Information of the Lessee” in the “Letter from the Board” in this circular;
“Mr. Li”	has the meaning ascribed to it in the section headed “Information of the Lessee” in the “Letter from the Board” this circular;
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan;
“RMB”	Renminbi, the lawful currency of the PRC;
“Second Finance Lease Agreement”	the agreement dated 14 July 2021 entered into between South China Leasing and the Lessee in respect of the finance lease for the Second Finance Lease Assets;
“Second Finance Lease Assets”	the assets subject to the Second Finance Lease Agreement which shall be leased back to the lessee pursuant to the terms and conditions thereunder;
“Second Finance Lease Valuer”	Jiangxi Zhichen Asset Appraisal Co., Ltd.* (江西智宸資產評估有限公司), an independent valuer;
“Shareholder(s)”	the holder(s) of the ordinary share(s) of HK\$0.01 each in the share capital of the Company;
“Shangrao Digital”	has the meaning ascribed to it in the section headed “Information of the Lessee” in the “Letter from the Board” in this circular;
“Shangrao Investment”	has the meaning ascribed to it in the section headed “Information of the Lessee” in the “Letter from the Board” in this circular;

\* For identification purposes only

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## DEFINITIONS

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“Shangrao Jiaxin”	has the meaning ascribed to it in the section headed “Information of the Lessee” in the “Letter from the Board” in this circular;
“Shangrao Oubaotong”	has the meaning ascribed to it in the section headed “Information of the Lessee” in the “Letter from the Board” in this circular;
“Shangrao State-owned Assets”	has the meaning ascribed to it in the section headed “Information of the Lessee” in the “Letter from the Board” in this circular;
“Shangrao Zhuoxin”	has the meaning ascribed to it in the section headed “Information of the Lessee” in the “Letter from the Board” in this circular;
“Shougang Fund”	has the meaning ascribed to it in the section headed “3 Substantial Shareholders” in Appendix II to this circular;
“Shougang Group”	has the meaning ascribed to it in the section headed “3 Substantial Shareholders” in Appendix II to this circular;
“Shougang Holding”	has the meaning ascribed to it in the section headed “3 Substantial Shareholders” in Appendix II to this circular;
“South China Leasing”	South China International Leasing Company Limited南方國際租賃有限公司, a company established in the PRC with limited liability and a subsidiary of the Company which is owned as to 75% by the Company and 25% by Shougang Holding (Hong Kong) Limited, a controlling shareholder of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Wheeling Holdings”	Wheeling Holdings Limited, a company incorporated in Samoa and is the controlling shareholder of the Company, holds approximately 50.84% of the issued share capital in the Company as at the Latest Practicable Date; and
“%”	per cent.

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## LETTER FROM THE BOARD

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首長四方（集團）有限公司\*  
**SHOUGANG CONCORD GRAND (GROUP) LIMITED**  
(Incorporated in Bermuda with limited liability)  
(Stock Code: 730)

*Directors:*

Mr. Xu Liang (*Chairman*)  
Mr. Tian Gang (*Executive Director*)  
Mr. Huang Donglin (*Non-executive Director*)  
Mr. Zhang Jianxun (*Non-executive Director*)  
Mr. Tam King Ching, Kenny  
(*Independent Non-executive Director*)  
Mr. Zhang Xingyu  
(*Independent Non-executive Director*)  
Mr. Ng Man Fung, Walter  
(*Independent Non-executive Director*)  
Ms. On Danita (*Independent Non-executive Director*)

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Hong Kong

24 August 2021

*To the Shareholders*

Dear Sir or Madam,

### MAJOR TRANSACTION FINANCE LEASE AGREEMENTS

#### INTRODUCTION

Reference is made to the announcement of the Company dated 14 July 2021 in relation to the Finance Lease Agreements.

The purpose of this circular is to provide you with information in respect of, among other things, further details of the Finance Lease Agreements.

#### THE FINANCE LEASE AGREEMENTS

On 14 July 2021, South China Leasing, an indirect non wholly-owned subsidiary of the Company, entered into two finance lease agreements with the Lessee.

The principal terms of, and the arrangements contemplated under, the two finance lease agreements are set out below.

\* For identification purpose only

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## LETTER FROM THE BOARD

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### The First Finance Lease Agreement

#### Subject matter

South China Leasing agreed to provide a finance lease with respect to the First Finance Lease Assets to the Lessee for a term of 36 months. South China Leasing agreed to purchase the First Finance Lease Assets from the Lessee and lease the First Finance Lease Assets back to the Lessee pursuant to the First Finance Lease Agreement.

The principal amount under the finance lease is RMB110,000,000. The term of the finance lease is expected to be 36 months commencing from 20 July 2021. During the term of the lease, the Lessee will repay the principal amount in twelve instalments during the term of the finance lease. The Lessee will make the interest payment on the principal amount at a rate equivalent to the 1-year loan prime rate as promulgated by the National Interbank Funding Centre under the authority of the People's Bank of China plus 1.6125% per annum on a quarterly basis. Based on the information currently available to the Company, the interest rate to be charged on the principal amount of the First Finance Lease for the first installment payable by the Lessee is 5.4625%.

South China Leasing is also entitled to a handling fee of RMB2,550,000, payable by the Lessee, in one lump sum prior to the commencement of the term.

The interest rate and the handling fee for the finance lease have been agreed between the parties after arm's length negotiation with reference to the prevailing market rates. When considering the interest rate and handling fee, the Company took into account the following factors as a whole:

- (i) the 1-year loan prime rate as promulgated by the National Interbank Funding Centre obtained from the website of the People's Bank of China on the date of the First Finance Lease Agreement;
- (ii) the credit rating of the guarantor to the finance lease;
- (iii) the interest rate being within the range of the prevailing market finance lease arrangements set forth as follows:

<b>Lease assets</b>	<b>Lease amount (RMB)</b>	<b>Term of the lease (years)</b>	<b>Interest rate</b>
Sewer network related assets	200,000,000	5	5.65%
Water supply and drainage facilities	150,000,000	5	6%

During the process of selecting the above market precedents, the Company considered selection criteria including (i) finance leases of which the subject assets are public infrastructures, similar to that of the Finance Lease Agreements; (ii) recent market-based quotations; and (iii) leases of similar amount to that of the Company. Given that the profile of each selected market precedent substantially matches that of the Finance Lease Agreements, the Company consider that the above selections are fair and representative to the Finance Lease Agreements. The Company has identified the aforesaid market precedents through the Group's own internal assessment and analysis on the information available from the industry.

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## LETTER FROM THE BOARD

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The consideration for the purchase of the First Finance Lease Assets is RMB110,000,000, which was determined by the parties after arm's length negotiations with reference to the valuation of the Assets under the First Finance Lease Agreement based on the cost method of approximately RMB137,899,000. The consideration for the purchase of the Assets under the First Finance Lease Agreement will be satisfied by South China Leasing by internal resources and bank borrowing.

It is currently contemplated that the payment of the aforesaid consideration will be made by South China Leasing by no later than 24 August 2021, and completion under the First Finance Lease Agreement shall take place by no later than 20 July 2024.

The valuation was performed by the First Finance Lease Valuer. The major inputs and assumptions are set out below:

The basic assumption used in this assessment is the continuing use assumption. The continuing use assumption is also a hypothetical description or explanation of the condition of the market the asset is intended to enter into. The assumption first presumes that the asset under appraisal is in use, including asset in use and asset ready-for-use. Second, based on relevant data and information, it infers that such assets in use will continue to be used. The continuing use assumption, while illustrating the market condition or market environment which the asset under appraisal is subject to, also illustrates the existence status of the asset. Based on general practice, the continuing use assumption is further divided into three specific situations: first, continuing to be used as existing usage; second, continuing to be used with a change of usage; third, continuing to be used at a different location or space. The continuing use assumption is also a very important assumption in asset valuation, particularly in the PRC, where the economic system is in transition stage and the market development has not yet been perfected, and asset valuation activities are mostly related to changes in property rights of the stock asset of old enterprises. As a result, the appraised subjects are often subject to or presumed to be under the continuing use assumption.

The cost valuation is the product of (1) the replacement value; and (2) the newness rate.

Set out below are the principal underlying inputs to the above calculation method:

**(1) Determination of replacement cost**

Replacement cost includes the necessary and reasonable cost, profit and relevant tax etc. incurred for acquisition or purchase and construction of equipment.

**(2) Determination of comprehensive newness rate**

First, with reference to the technical parameters on the nameplate of the equipment and based on designed useful live, used life and remaining useful life, measures the equipment's newness rate under service life approach. Second, based on on-site equipment inspection and after fully understanding the equipment's original manufacturing quality, current operation status, use and repair and maintenance as well as current updates on performance of the same type of equipment, factors influencing technological advancement and comprehensively considering physical depreciation, functional depreciation and potential economic depreciation of the equipment, determine the on-site surveyed newness rate. Lastly, assign a weight to the newness rate under service life approach and the on-site surveyed newness rate.



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## LETTER FROM THE BOARD

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Based on the above calculation method, the newness rate for the underlying asset of the First Finance Lease Agreement was 96%; and the Second Finance Lease Agreement was 96%

In general, asset valuation methods include market approach, income approach and cost approach. Typically, one or more of the aforesaid asset valuation methods will be selected as appropriate in accordance with an analysis of feasibility of each of these three methods with reference to the valuation targets, value type, and the information gathered and other relevant factors.

The appraised assets under the Finance Lease Arrangements are water pipeline networks. Given that there was no similar transaction in the surrounding area of where the finance lease assets were located, no comparables can be drawn and thus, the market approach was not applicable to this project.

As the appraised assets were large in volume and supply drinking waters to enterprises, government agencies and residents in the entire region, there was no comparables of similar scale or economic level in the surrounding area which can be identified. Thus, the income approach was also not applicable to this project.

In light of the above, the Company considers that the cost method is appropriate, particularly due to the nature and characteristics of the appraised assets, being a large scale utility infrastructure, and the non-existence of an active secondary market of similar assets. The cost method is also the common approach adopted by South China Leasing in its ordinary course of business when entering into finance lease arrangements with underlying assets as infrastructures or plant and equipment.

### **Lessee's option to purchase**

At the end of the lease term, the Lessee will have the right to purchase the First Finance Lease Assets at a nominal purchase price of RMB10,000.

### **Guarantee**

The Guarantor, which indirectly holds 20% equity of the Lessee, will provide a guarantee in favour of South China Leasing in respect of the performance of obligations under the First Finance Lease Agreement by the Lessee.

### **The Second Finance Lease Agreement**

#### **Subject matter**

South China Leasing agreed to provide a finance lease with respect to the Second Finance Lease Assets to the Lessee for a term of not exceeding three years. South China Leasing agreed to purchase the Second Finance Lease Assets from the Lessee and lease the Second Finance Lease Assets back to the Lessee under the finance lease agreement.

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## LETTER FROM THE BOARD

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The principal amount under the finance lease is RMB78,000,000. The term of the finance lease is expected to be 27 months commencing from 20 July 2021. During the term of the lease, the Lessee shall make interest payment on the principal amount at a rate equivalent to the 1-year loan prime rate as promulgated by the National Interbank Funding Centre under the authority of the People's Bank of China plus 1.6125% per annum on a quarterly basis. The Lessee will repay the principal amount in nine instalments during the term of the finance lease. Based on the information currently available to the Company, the interest rate to be charged on the principal amount of the Second Finance Lease for the first installment payable by the Lessee is 5.4625%.

It is currently contemplated that the payment of the aforesaid consideration will be made by South China Leasing by no later than 24 August 2021, and completion under the Second Finance Lease Agreement shall take place by no later than 20 October 2023.

South China Leasing is also entitled to a handling fee of RMB1,250,000, payable by the Lessee, in one lump sum prior to the commencement of the term.

The interest rate and the handling fee for the finance lease have been agreed between the parties after arm's length negotiation with reference to the prevailing market rates as set out in the subparagraph "Subject Matter" under the section headed "The First Finance Lease Agreement".

The consideration for the purchase of the Second Finance Lease Assets is RMB78,000,000, which was determined by the parties after arm's length negotiations with reference to the valuation of the Second Finance Lease Assets based on the cost method of approximately RMB125,047,000. The consideration for the purchase of the Second Finance Lease Assets will be satisfied by South China Leasing by internal resources and bank borrowing.

The valuation was performed by the Second Finance Lease Valuer. The major inputs and assumptions are set out below:

1. no material changes will be made to the laws, regulations and policies at the national, provincial and/or industrial level and no significant changes in macroeconomic conditions;
2. the title holder is legally interested in the assets appraised;
3. no legal dispute against certain particulars of the assets appraised, including but not limited to the ownership, the quantity and the area of the assets appraised and the projects held in relation to the assets appraised;
4. no consideration will be made to the effect of pledging the assets appraised and/or provision of guarantee by the title holder of the assets appraised; and
5. no occurrence of force majeure events or unforeseen matters which may cause significant impact to the assets appraised.

In general, asset valuation methods include market approach, income approach and cost approach. Typically, one or more of the aforesaid asset valuation methods will be selected as appropriate in accordance with an analysis of feasibility of each of these three methods with reference to the valuation targets, value type, and the information gathered and other relevant factors.

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## LETTER FROM THE BOARD

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The appraised assets under the Finance Lease Arrangements are water pipeline networks. Given that there was no similar transaction in the surrounding area of where the finance lease assets were located, no comparables can be drawn and thus, the market approach was not applicable to this project.

As the appraised assets were large in volume and supply drinking waters to enterprises, government agencies and residents in the entire region, there was no comparables of similar scale or economic level in the surrounding area which can be identified. Thus, the income approach was also not applicable to this project.

In light of the above, the Company considers that the cost method is appropriate, particularly due to the nature and characteristics of the appraised assets, being a large scale utility infrastructure, and the non-existence of an active secondary market of similar assets. The cost method is also the common approach adopted by South China Leasing in its ordinary course of business when entering into finance lease arrangements with underlying assets as infrastructures or plant and equipment.

### **Lessee's option to purchase**

At the end of the lease term, the Lessee will have the right to purchase the Second Finance Lease Assets at a nominal purchase price of RMB10,000.

### **Guarantee**

The Guarantor, which indirectly holds 20% equity of the Lessee, will provide a guarantee in favour of South China Leasing in respect of the performance of obligations under the Second Finance Lease Agreement by the Lessee.

### **CONDITION**

The terms of, and the arrangements contemplated under, the Finance Lease Agreements are subject to approval by the Shareholders in accordance with the requirements of the Listing Rules.

As no shareholder is interested in the transaction and is required to abstain from voting if the Company were to convene a general meeting to approve the Finance Lease Agreements, the Company has approved the Finance Lease Agreements by the written approval of Wheeling Holdings, the controlling shareholder of the Company, which holds 2,025,736,972 Shares in the Company (representing approximately 50.84% of the total issued share capital of the Company) as at the date of the Finance Lease Agreements, pursuant to Rule 14.44 of the Listing Rules.

### **INFORMATION ABOUT THE FIRST FINANCE LEASE ASSETS AND THE SECOND FINANCE LEASE ASSETS**

The First Finance Lease Assets are two water pipeline networks of 29,301 metres long and 32,535 metres long respectively located at Jianye Avenue (建業大道), Economic Development Zone (經開區), Shangrao City (上饒市), Jingxi Province and at the extension of Jingke Avenue (晶科大道), Shangrao City, Jingxi Province, PRC. The valuation by the First Finance Lease Valuer of each of the water pipeline networks was RMB65,343,574 and RMB72,555,652, respectively. For details, please refer to the valuation report in Appendix III to this circular.

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## LETTER FROM THE BOARD

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The Second Finance Lease Assets are two water pipeline networks of 22,876 metres long and 33,197 metres long respectively located at Hanteng West Avenue (漢騰西大道), Shangrao City, Jiangxi Province and at Jinke North Avenue (科北大道), Shangrao City, Jiangxi Province of the PRC. The valuation by the Second Finance Lease Valuer of each of the water pipeline networks was RMB51,015,310 and RMB74,031,966, respectively. For details, please refer to the valuation report in Appendix IV to this circular.

From an accounting treatment perspective, none of the First Finance Lease Assets nor the Second Finance Lease Assets are considered revenue-generating assets to the Company. The arrangements contemplated under the Finance Lease Agreements generate revenue to the Group by recognizing the finance lease receivables, handling fees and interest income received or to be received by the Group throughout the lease periods. The Company is of the view that the accounting treatment is in line with the accounting policy of sale and leaseback arrangements as disclosed in the annual report for the year ended 31 December 2020.

South China Leasing agreed that the Lessee will sub-lease the First Finance Lease Assets and the Second Finance Lease Assets to the Sub-lessee. Separate agreements between the Lessee, the Sub-lessee and South China Leasing have been entered into in relation to the aforesaid sub-lease arrangement. With construction of both networks having been completed in 2018 and 2019 respectively, the First Finance Lease Assets and the Second Finance Lease Assets generate revenue through sales and distribution of tap water and are currently occupied and maintained (and previously constructed) by Shangrao Heji Water Co., Ltd. (上饒市和濟水務有限公司) (“**Heji Water**”). The First Finance Lease Assets were built and completed at a cost of RMB143,645,000 in year 2019. The Second Finance Lease Assets were built and completed at a cost of RMB130,258,000 in year 2018.

Heji Water is a state-owned enterprise established in the PRC on 29 March 2007 and managed under the state-level Shangrao Economic and Technological Development Zone. It is principally engaged in the production and supply of drinking water to government agencies, enterprises and institutions and residents in the vicinity of the development zone. Heji Water engaged the First Finance Lease Valuer and the Second Finance Lease Valuer to conduct valuation on the First Finance Lease Assets and the Second Finance Lease Assets, and each of Heji Water, the First Finance Lease Valuer and the Second Finance Lease Valuer has consented the inclusion of the valuation reports in this circular.

### REASONS FOR THE FINANCE LEASE AGREEMENTS

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of finance leasing services, property leasing services, supply chain management services, asset management and consultancy services.

South China Leasing is an indirect non wholly-owned subsidiary of the Company and is principally engaged in the business of finance leasing in the PRC.

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## LETTER FROM THE BOARD

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Each of the Finance Lease Agreements was entered into in the ordinary and usual course of business of South China Leasing and under normal commercial terms. The entering into of the Finance Lease Agreements will enable South China Leasing to earn a net finance lease income over the lease terms. The Board is of view that the terms of each of the Finance Lease Agreements are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

### FINANCIAL EFFECT OF THE FINANCE LEASE AGREEMENTS

As a result of the Finance Lease Agreements, at the inception of the Finance Lease Agreements, it is expected that (i) the total asset of the Group will increase by approximately RMB191,800,000 to reflect the finance lease receivables and handling fee received under the Finance Lease Agreements; and (ii) the total liabilities of the Group will increase by approximately RMB188,000,000 to reflect the proceeds from the proposed bank borrowing. The Company is of the view that there will be no significant changes in the total assets less total liabilities in the consolidated statement of financial position.

The estimated aggregate of (i) the interest and handling fee received of the Finance Lease Agreements of approximately RMB18,962,000 and (ii) expected cost of lending of approximately RMB13,852,000, will be accounted for in revenue and finance cost of the consolidated statement of comprehensive income and will be amortized over the lease term as stipulated in the Finance Lease Agreements. The Company is of the view that there will be no significant changes in the total assets less total liabilities in the consolidated statement of financial position.

### INFORMATION OF THE LESSEE

The Lessee, Jinyuan Huaxing Financial Leasing Co., Ltd.\* (金源華興融資租賃有限公司), is a limited liability company principally engaged in the business of finance leases in Shangrao City, Jiangxi Province, the PRC. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the Lessee is owned as to 35% by Shangrao Digital and Financial Industry Investment Group Co., Ltd.\* (上饒市數字和金融產業投資集團有限公司) (“**Shangrao Digital**”), as to 25% by Jingle Win Holding Co., Ltd. (嘉印控股有限公司) (“**Jingle Win**”), as to 20% by Jiangxi Yunji Investment Co., Ltd.\* (江西雲濟投資有限公司) (“**Jiangxi Yunji**”) and as to 20% by Shangrao Oubaotong Technology Development Center (Limited Partnership)\* (上饒市歐寶通科技發展中心(有限合伙)) (“**Shangrao Oubaotong**”).

To the best knowledge, information and belief of the Directors, after having made all reasonable enquiries, Shangrao Digital is a limited liability company established in the PRC and is principally engaged in the financial investment and consultancy services, wholly-owned by Shangrao Investment Holding Group Co., Ltd.\* (上饒投資控股集團有限公司) (“**Shangrao Investment**”). Shangrao Investment is a limited liability company established in the PRC and is principally engaged in the investments in urban construction, highways, transportation, tourism, finance, automobiles, new energy, agricultural industrialization, small and medium-sized enterprises, as well as infrastructure and public services. Shangrao Investment is owned by Shangrao State-owned Assets Supervision and Administration Commission (上饒市國有資產監督管理委員會) (“**Shangrao State-owned Assets Commission**”) and Jiangxi Revitalization Development Shanghai Investment No. 2 Investment Center (Limited Partnership)\* (江西振興發展上投二號投資中心(有限合夥)) as to approximately 97.71% and approximately 2.29%, respectively.

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## LETTER FROM THE BOARD

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To the best knowledge, information and belief of the Directors, after having made all reasonable enquiries, Jingle Win is a limited liability company incorporated in the Cayman Islands and is principally engaged in investment holding. Jingle Win is owned by Shangrao Zhuoxin Equity Investment Management Center (Limited Partnership)\* (上饒市卓信股權投資管理中心(有限合伙)) (“**Shangrao Zhuoxin**”) and Shangrao Jiaxin Equity Investment Management Center (Limited Partnership)\* (上饒市嘉信股權投資管理中心(有限合伙)) (“**Shangrao Jiaxin**”) as to 60% and 40%, respectively. Shangrao Zhuoxin is a limited partnership established in the PRC and is principally engaged in investment holding. Shangrao Zhuoxin is ultimately wholly-owned by Mr. Li Xiande (李仙德) (“**Mr. Li**”). Shangrao Jiaxin is a limited partnership established in the PRC and is principally engaged in investment holding. Shangrao Jiaxin is ultimately wholly-owned by Mr. Chen Kangping (陳康平) (“**Mr. Chen**”).

To the best knowledge, information and belief of the Directors, after having made all reasonable enquiries, Jiangxi Yunji is a limited liability company established in the PRC and is principally engaged in land arrangement and development, infrastructure construction, engineering construction and operations management of sewage treatment projects, industrial investment, venture capital investment and investment advisory services. Jiangxi Yunji is wholly-owned by the Guarantor. The Guarantor is a limited liability company established in the PRC and is principally engaged in the management and operation of state-owned assets, industrial investment, industry investment, investment, construction and entrusted construction and project management of infrastructure and public facilities; land development and investment and provision of financial services. The Guarantor is owned by Shangrao State-owned Assets Commission and Shangrao City Economic and Technological Development Zone Management Committee (上饒經濟技術開發區管理委員會) as to 55% and 45%, respectively.

To the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, Shangrao Oubaotong is a limited partnership established in the PRC and is principally engaged in domestic trade agency and trade brokerage service. Shangrao Oubaotong is ultimately owned as to 60% by Mr. Li and as to 40% by Mr. Chen respectively.

To the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, each of the Lessee, the Guarantor and its ultimate beneficial owners is an independent third party of and not connected with the Company and its connected persons.

### LISTING RULES IMPLICATIONS

As the Finance Lease Agreements have been entered into between a subsidiary of the Company with the same lessee on even date, under Rule 14.22 of the Listing Rules, the transactions contemplated under the Finance Lease Agreements shall be aggregated as one transaction. As the highest applicable percentage ratio, on an aggregated basis, exceeds 25% but is less than 100%, the Finance Lease Agreements collectively constitute a major transaction for the Company under the Listing Rules, and shall be subject to the reporting, announcement and the shareholders’ approval requirements under the Listing Rules.

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## LETTER FROM THE BOARD

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As no shareholder is interested in the transactions and is required to abstain from voting if the Company were to convene a general meeting to approve the Finance Lease Agreements, the Company has approved the Finance Lease Agreements by the written approval of Wheeling Holdings, the controlling shareholder of the Company, which holds 2,025,736,972 Shares representing approximately 50.84% of the issued share capital of the Company as at the date of the Finance Lease Agreements, pursuant to Rule 14.44 of the Listing Rules and is exempted from the requirement to convene a shareholders' meeting for the approval of the Finance Lease Agreements.

### RECOMMENDATION

The Directors are of the opinion that the terms of each of the First Finance Lease Agreement and the Second Finance Lease Agreement are fair and reasonable and are in the interests of the Company and its shareholders as whole. If a general meeting were to be convened for the approval of the Finance Lease Agreements, the Board would recommend its shareholders to vote in favour of the resolution to approve the Finance Lease Agreements at such general meeting.

Your faithfully,  
By order of the Board  
**Shougang Concord Grand (Group) Limited**  
**Xu Liang**  
*Chairman*

## 1. FINANCIAL INFORMATION OF THE GROUP FOR THE THREE FINANCIAL YEARS ENDED 31 DECEMBER 2020

Financial information of the Group for the three years ended 31 December 2018, 2019 and 2020 has been disclosed in the annual reports of the Company for the three years ended 31 December 2020, all of which are published on the website of the Stock exchange at <http://www.hkexnews.hk>, and the website of the Company at <http://www.shougang-grand.com.hk>. Quick links to the annual reports of the Company are set out below:

annual report of the Company for the year ended 31 December 2018: (Pages 97 to 230)  
<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0411/ltn20190411714.pdf>

annual report of the Company for the year ended 31 December 2019: (Pages 102 to 250)  
<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0416/2020041600687.pdf>

annual report of the Company for the year ended 31 December 2020 (Pages 104 to 250)  
<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0412/2021041200852.pdf>

## 2. INDEBTEDNESS

### Borrowings and lease liabilities

At the close of business on 30 June 2021, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had outstanding bank borrowings of approximately HK\$264,145,000, of which as to approximately HK\$194,145,000 were secured by certain investment properties, certain finance lease receivables and certain trade and other receivables, and the Group had lease liabilities of approximately HK\$775,000 certain of which were secured by the rental deposits and all of which were unguaranteed.

### Pledge of assets

At the close of business on 30 June 2021, the Group had the following charge on its assets:

- (i) Certain investment properties with an aggregate carrying value of approximately HK\$38,600,000;
- (ii) Certain finance lease receivables with an aggregate carrying value of approximately HK\$284,591,000; and
- (iii) Certain trade and other receivables with an aggregate carrying value of approximately HK\$11,123,000.



**Debt securities**

At the close of business on 30 June 2021, the Group had no debt securities.

**Contingent liabilities**

The Group did not have any material contingent liabilities as at the close of business on 30 June 2021.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade and others payables in the ordinary course of business, the Group did not have any other loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, and authorised or otherwise created but unissued and term loans or other borrowings, indebtedness in the nature of borrowings, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities outstanding on 30 June 2021.

**3. WORKING CAPITAL**

After taking into account the Group's internal resources, the cash flows from the Finance Lease Agreements and the presently available banking facilities, the Directors are of the opinion that the Group will have sufficient working capital to meet its present requirements for the next twelve months from the date of this circular.

**4. MATERIAL ADVERSE CHANGE**

The Directors were not aware of any material adverse change to the financial or trading position of the Group since 31 December 2020, being the date to which the latest audited consolidated financial statement of the Company were made up.

## 5. LIQUIDITY, FINANCIAL RESOURCES AND FINANCING ACTIVITIES

The Group aimed to maintain stable funding sources and financing is arranged to match business requirements and cash flows. The financial leverage of the Group as at 31 December 2020 as compared to 31 December 2019 and 31 December 2018 is summarised below:

	31 December 2020 <i>HK\$'000</i>	31 December 2019 <i>HK\$'000</i>	31 December 2018 <i>HK\$'000</i>
Total borrowings			
Current borrowings	143,308	297,018	238,859
Non-current borrowings	146,995	168,539	255,682
Sub-total	290,303	465,557	494,541
Total cash			
Cash and cash equivalents	318,818	607,782	806,150
Term deposits with initial term over three months	–	94,382	–
Sub-total	318,818	702,164	806,150
Total equity	1,763,989	1,743,498	1,626,090
Total assets	2,161,473	2,294,032	2,218,214
Financial leverage			
Current ratio	458%	305%	447%

As at 31 December 2020, the Group had cash and cash equivalents of approximately HK\$318,818,000 (31 December 2019: HK\$607,782,000; 31 December 2018: HK\$806,150,000) and term deposits with initial term over three months of HK\$Nil (31 December 2019: HK\$94,382,000; 31 December 2018: HK\$Nil), which were mainly denominated in Hong Kong dollars, US dollars and Renminbi. The decrease was mainly attributable to the net repayment of bank borrowings of approximately HK\$187,280,000.

As at 31 December 2020, the Group's borrowings amounted to approximately HK\$290,303,000, of which approximately HK\$143,308,000 were repayable within twelve months from 31 December 2020 and approximately HK\$146,995,000 were repayable after twelve months from 31 December 2020. All loans bore interest at market rates.

## 6. CAPITAL STRUCTURE

The equity attributable to owners of the Company amounted to approximately HK\$1,445,637,000 as at 31 December 2020 (31 December 2019: HK\$1,355,149,000). The increase was mainly due to the profit attributable to owners of the Company of approximately HK\$5,980,000 for the year ended 31 December 2020. The Company did not issue any new shares during the year. The issued share capital of the Company was approximately HK\$39,846,000 (represented by approximately 3,984,640,000 issued ordinary shares).

**7. MATERIAL ACQUISITION, DISPOSALS AND SIGNIFICANT INVESTMENT**

During the year ended 31 December 2020, the Group had no material acquisition, disposals and significant investment. The Group does not currently have any future plans for material acquisitions disposals and significant investment.

**8. FOREIGN EXCHANGE EXPOSURE**

The normal operations and investments of the Group are mainly in Hong Kong and Mainland China, with revenue and expenditure denominated in Hong Kong dollars and Renminbi. The Directors believe that the Group does not have significant foreign exchange exposure. However, if necessary, the Group will consider using forward exchange contracts to hedge against foreign exchange exposures. As at 31 December 2020 the Group has no significant foreign exchange exposure.

**9. EMPLOYEES**

As at 31 December 2020, the Group employed 50 (31 December 2019: 60) full time employees (excluding those under the payroll of associates of the Group). The Group remunerated its employees mainly with reference to the prevailing market practice, individual performance and experience. Other benefits such as medical coverage, insurance plan, mandatory provident fund, discretionary bonus and employees share option scheme are also available to employees of the Group. Remuneration packages are reviewed either annually or individually.

During the year ended 31 December 2020, the Company and its subsidiaries have not paid or committed to pay to any individual any amount as an inducement to join or upon joining the Company and/or its subsidiaries.

**10. OUTLOOK AND PROSPECTS**

Through supply chain management services, financial services and assets management services as our core business and competitive edge in the market, the Group has strived to focus on the provision of finance leasing, business factoring, supply chain management, investment and financing advisory services and other portfolios of financial products to two types of target entities including steel companies and domestic large-scale enterprise groups, as well as their upstream and downstream customers, in order to provide customised financial service solutions for target companies, meet the strategic needs of target companies and their upstream and downstream companies for industrial upgrading and give full play to the important role of financial services in empowering real economy. The Group will seize the digital transformation of large enterprises, new infrastructure and other digital economic development opportunities, improve the supply chain management, leasing, asset securitization and other businesses of customer information and data security storage, processing and analysis capabilities, and will provide customers with comprehensive data application services.

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS

### (a) Shares

As at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required (a) 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 (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

None of the Directors or proposed Director is a director or employee of a company which has an interest in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

### (b) Directors' service contracts

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group or any associated company of the Company (excluding contracts expiring or determinable within one year without payment of compensation other than statutory compensation).

### (c) As at the Latest Practicable Date:

- (i) none of the Directors had any direct or indirect interest in any assets which had been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries; and
- (ii) none of the Directors was materially interested in any contract, save for service contracts as disclosed in paragraph (b) above, or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the date of this circular and which is significant in relation to the business of the Group.

**(d) Directors' interests in competing businesses**

As at the Latest Practicable Date, in so far as the Directors were aware, save for Mr. Xu Liang's interest in Shougang Holding (Hong Kong) Limited (“**Shougang Holding**”) (being an entity principally engages in property investment, which is considered to compete or likely to compete with the businesses of the Group) as further in the annual report of the Company dated 19 March 2021, none of the Directors or their respective close associates had any interest in a business that competed or was likely to compete with the business of the Group.

**3. SUBSTANTIAL SHAREHOLDERS**

As at the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of SFO, the following persons and companies (other than the Directors or chief executive of the Company) had an interest or short position in the Shares and the underlying Shares which fell to be disclosed to the Company under the provisions of the Divisions 2 and 3 of Part XV of the SFO:

*Long positions in the Shares/underlying Shares*

<b>Name of Shareholder</b>	<b>Capacity in which interests were held</b>	<b>Number of Shares/underlying Shares</b>	<b>Interests as to % of the issued share capital of the Company as at the Latest Practicable Date</b>	<i>Note(s)</i>
Shougang Group Co., Ltd. (“Shougang Group”)	Interests of controlled corporations	2,425,736,972	60.88%	1
Shougang Holding (Hong Kong) Limited (“Shougang Holding”)	Interests of controlled corporation	2,025,736,972	50.84%	1
Wheeling Holdings	Beneficial owner	2,025,736,972	50.84%	1
Beijing Shougang Fund Co., Ltd. (“Shougang Fund”)	Interests of controlled corporation	400,000,000	10.04%	1
Jingxi Holdings Limited (“Jingxi Holdings”)	Beneficial owner	400,000,000	10.04%	1
Yip Wang Ngai	Interests of controlled corporation	213,600,000	5.36%	2
HY Holdings Limited (“HY Holdings”)	Beneficial owner	213,600,000	5.36%	2
Mak Siu Hang Viola	Interests of controlled corporation	254,413,000	6.38%	3
VMS Investment Group Limited	Beneficial owner	254,413,000	6.38%	3

*Notes:*

1. Shougang Group indicated in its disclosure form dated 30 July 2019 (being the latest disclosure form filed up to the Latest Practicable Date) that as at 30 July 2019, its interest in the Company was held by Shougang Holding and Shougang Fund respectively, wholly-owned subsidiaries of Shougang Group. Shougang Holding's interest in the Company was the Shares held by Wheeling, a wholly-owned subsidiary of Shougang Holding, and Shougang Fund's interest in the Company was the Shares held by Jingxi Holdings, a wholly-owned subsidiary of Shougang Fund.
2. Mr. Yip Wang Ngai indicated in his disclosure form dated 1 August 2019 (being the latest disclosure form filed up to the Latest Practicable Date) that as at 30 July 2019, his interest in the Company was held by HY Holdings which in turn was held as to 80% by Mr. Yip Wang Ngai.
3. Ms. Mak Siu Hang Viola indicated in her disclosure form dated 22 January 2021 (being the latest disclosure form filed up to the Latest Practicable Date) that as at 20 January 2021, VMS Investment Group Limited, which is a company wholly owned by her, holds 254,413,000 Shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company was aware of any other person or corporation who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who/which was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or any options in respect of such capital.

#### **4. MATERIAL CONTRACTS**

The Company has not entered into any material contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this circular which are or may be material.

#### **5. LITIGATION**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration proceedings of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

#### **6. MISCELLANEOUS**

- (a) The registered office of the Company is at Victoria Place, 5th Floor, 31 Victoria Street, Hamilton, HM 10, Bermuda and the principal place of business of the Company in Hong Kong is at 5/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (b) The Company's Hong Kong branch share registrar and transfer office is Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (c) The company secretary of the Company is Li Po Ki. She is a member of The Hong Kong Institute of Certified Public Accountants.
- (d) The English text of this circular shall prevail over their respective Chinese text for the purpose of interpretation.

**7. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours at the Company's principal office in Hong Kong at 5/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for a period of 14 days from the date of this circular:

- (a) the bye-laws of the Company;
- (b) the annual reports of the Company for years ended 31 December 2018 and 2019 and 2020;
- (c) the First Finance Lease Agreement;
- (d) the Second Finance Lease Agreement; and
- (e) this circular.

*The following is the text of a letter prepared for the purpose of incorporation in this circular received from the First Finance Lease Valuer, an independent valuer, in connection with its valuation of the First Finance Lease Assets. Terms defined in this appendix applies to this appendix only.*

**VALUATION REPORT ON FIXED ASSET PROJECT UNDER VALUATION REGARDING  
PROPOSED ENTERING INTO A FINANCE LEASE BETWEEN  
SHANGRAO HEJI WATER CO., LTD. (上饒市和濟水務有限公司) AND  
JINYUAN HUAXING FINANCIAL LEASING CO., LTD.  
(金源華興融資租賃有限公司)  
NINGBANG HONGHE PING ZI [2021] NO.B378**

**Shangrao Heji Water Co., Ltd.:**

Beijing Ningbang Honghe Asset Appraisal Firm (General Partnership) was engaged by the company to undertake valuation for the economic activity of the fixed asset project involved in the proposed entering a finance lease between Shangrao Heji Water Co., Ltd. and Jinyuan Huaxing Financial Leasing Co., Ltd, following the principle of independence, objectiveness and impartiality, based on the standard of asset valuation of China and the requirements of other related laws and regulation. After completion of required valuation procedures, our valuers performed valuation of the market value of the asset under valuation as at the valuation benchmark date (i.e 15 May 2021). The details of the valuation and valuation conclusion are hereby reported as follows:

**I. CLIENT, ASSET OWNER AND OTHER REPORT USERS ASIDE FROM THE CLIENT**

Shangrao Heji Water Co., Ltd. is both the client and the asset owner

(1) Client/asset owner

Name of unit: Shangrao Heji Water Co., Ltd.

Unified social credit code: 91361100799467436K

Enterprise type: Other limited liability company

Legal representative: Xu Shaohua

Registered address: West section of Bingjiang Road, Shangrao County (southern side of Kai Shan Zi Ran Village)

Scope of operation: enterprise production, production and sales of drinking water for residents, repair and maintenance of water supply and drainage system, sewage treatment, charitable asset management in relation to water supply and sewage. (The operation of the above projects is subject to permits or qualification certificates as required by the special regulations of the state)\*

Date of establishment: 29 March 2007

(2) Other valuation report users

The other users of the valuation report shall be other users as stipulated by laws.



**II. PURPOSE OF VALUATION**

The purpose of this asset valuation is to serve as a reference for determining the value of the economic activity of the fixed asset project involved in proposed entering into a finance lease between Shangrao Heji Water Co., Ltd. and Jinyuan Huaxing Financial Leasing Co., Ltd.

The result of this valuation merely serves as a reference for determination of asset value upon attainment of the purpose by the client and asset owner and bears no liability for the use of part of entirety of this valuation report for purposes other than the abovementioned.

**III. SUBJECT AND SCOPE OF VALUATION**

The subject of this asset valuation is a group of fixed assets under the name of Shangrao Heji Water Co., Ltd.. The specific asset items are based on the valuation breakdown, and all items included in the breakdown are within the scope of this valuation.

**IV. TYPES OF VALUE AND ITS DEFINITION**

The type of value under the asset valuation refers to the value attribute of the asset valuation result and its form of manifestation. The formation of value types for asset valuation is not only related to the specific economic behavior that gives rise to asset valuation, i.e., the specific purpose of asset valuation, but is also closely related to factors such as the function and status of subject of valuation and the market conditions at the time of valuation. There are several major classifications of value types for asset valuation, as follows:

- (1) The types of value of asset valuation are classified by the nature of asset business, i.e. the specific purpose of asset valuation, and specifically include: mortgage value, insurance value, taxation value, investment value, liquidation value, transfer value, preservation value, transaction value, merger value, auction value, lease value, compensation value, etc.
- (2) The types of value of the asset valuation results are classified according to the market conditions based on which the assets are valued and the usage status of the appraised assets, specifically including market value and value other than market value.
- (3) Market value is the estimated value of the valuation subject in a normal fair transaction on the valuation benchmark date by a willing buyer and a willing seller acting out of their own rationality and without any coercion.
- (4) The types of value other than market value include investment value, value in use, liquidation value and residual value, etc.
- (5) Investment value is the estimated value of the valuation subject to a specific investor or class of investors with a defined investment objective, also known as value for specific investors.
- (6) Value in use is the estimated value of the valuation subject as a component or element of the business in terms of how and to what extent it is being used and its contribution to the business to which it belongs.

- (7) Liquidation value is the estimated value of the valuation subject under abnormal market conditions such as forced sale or rapid realization.
- (8) Residual value is the estimated amount of the realized value after dismantling into components of equipment, vehicles, buildings or other tangible assets.

The valuers determined the type of asset as market value based on the purpose of valuation of this engagement.

Continued operation in this report mean the production and operation activities of the asset owner will continue as they are and will not change significantly in the foreseeable future.

#### **V. VALUATION BENCHMARK DATE**

The valuation benchmark date is 15 May 2021, and is selected by the client and the asset owner.

All pricing standards adopted are based on the effective prices as at benchmark date, and all assets are the subsistent assets as at the benchmark date.

The valuation benchmark date is the benchmark time for determining the price of asset valuation. The valuation benchmark date selected for this project is close to the planned realization date of the valuation purpose. Moreover, there are no influential factors that may cause significant changes in the value of the appraised assets around the valuation benchmark date. Therefore, the selection of the valuation benchmark date is reasonable.

#### **VI. PRINCIPLES OF VALUATION**

##### **(1) Adherence to the working principle of “objectivity, impartiality, trueness and scientificity” to conduct independent valuation**

- 1. Adherence to the principle of objectivity and impartiality: In the valuation work, site surveys and research are seriously conducted, detailed and reliable information is obtained, realistic pricing standards and methods are adopted so as to obtain reasonable, credible, objective and impartial valuation results.
- 2. Adherence to the principle of independence: In the valuation work, all interference is excluded and the valuation is carried out in strict accordance with national laws and regulations to ensure that the asset valuation work is free from outside interference and influence. Except for the payment of valuation fees in accordance with the contract, the valuation institution and valuation personnel shall have no other interests in the valuation business.
- 3. Adherence to the principle of scientificity: Selecting applicable value types and methods according to specific valuation methods, formulating scientific work plans, and adopting scientific valuation procedures and methods to make the valuation results scientific and reasonable.

**(2) Adherence to the generally accepted economic principles of asset valuation and conduct valuation in a scientific and reasonable manner**

1. Contribution principle: The value of an asset or a component of an asset depends on its contribution to the value of other related assets or the asset as a whole. The valuation considers the importance of the asset in the context of some of the asset components in an integrated manner, rather than determining its value in isolation.
2. Substitution principle: It means that when several assets with the same utility exist at the same time, the asset with the lowest price is in greatest demand. The value of an asset can be determined by understanding the value of assets that can be substituted in the valuation.
3. Anticipation principle: The value of an asset depends on the future utility or profitability of the asset in reality. The valuation determines the value of an asset by making reasonable projections of its future profitability and the effective period for which it will have profitability.

In this asset valuation, the valuers performed valuation of the assets under valuation in accordance with the relevant state regulations on the management and valuation of state-owned assets and the requirements of the code of asset valuation operations, and adhered to the above basic principles, so as to ensure that the fair market value of the subject of the valuation as at the valuation benchmark date is objectively and fairly reflected to safeguard the legitimate rights and interests of asset owners.

**VII. VALUATION ASSUMPTIONS AND RESTRICTIVE CONDITIONS****(1) Basic assumptions of asset valuation****1. Transaction assumption**

The transaction assumption is the most basic assumption for asset valuation. The transaction assumption assumes that all appraised assets are already in the process of being traded, and the valuers conduct valuation based on the simulated market conditions of the assets to be appraised. On the one hand, the transaction assumption “creates” the conditions for asset valuation to take place; on the other hand, it clearly defines the external environment for asset valuation, i.e., the assets are placed in market transactions and asset valuation cannot be conducted in isolation from market conditions.

**2. Open market assumption**

The open market assumption is a hypothetical description or restriction of the conditions of the market into which an asset is intended to enter and the impact the asset is subject to under such market conditions. The key to the open market assumption is to understand and grasp the substance and meaning of an open market. In the context of asset valuation, an open market refers to a fully developed and perfect market condition, a competitive market with voluntary buyers and sellers, where buyers and sellers are on an equal footing, and have access to sufficient market information and time, and both buyers and sellers trade voluntarily and rationally, rather than under mandatory or restricted conditions. In fact, the market conditions in reality may not be as perfect as the open market. The open market assumption assumes that a comprehensive open market exists and that the assets being valued will be traded in such an open market. Of course, the open market assumption is also based on the objective reality of the market, i.e. the objective fact that assets can be traded publicly in the market.

**3. Continuing use assumption**

The continuing use assumption is also a hypothetical description or explanation of the conditions of the market into which the asset is intended to enter and the status of the asset under such market conditions. The assumption first establishes that the assets under valuation are in use, including assets in use and assets held in reserve, and second, based on relevant data and information, infers that these assets in use will continue to be used. On the one hand, the continuing use assumption describes the market conditions or market environment the assets being valued are subject to. On the other hand, it focuses on illustrating the ongoing status of the assets. In common parlance, the continuing use assumption is subdivided into three specific situations: first, continuing to be used as existing usage; second, continuing to be used with a change of usage; third, continuing to be used at a different location or space. The continuing use assumption is also a very important assumption in asset valuation, especially in the PRC, where the economic system is in transition stage and the market development has not yet been perfected, and asset valuation activities are mostly related to changes in property rights of the stock asset of old enterprises. As a result, the appraised subjects are often subject to or presumed to be under the continuing use assumption.

**4. Liquidation assumption**

The liquidation assumption is a hypothetical description or qualification of the market conditions into which an asset is intended to enter. Specifically, it is a hypothetical description of the conditions under which the assets would be forced to be sold or quickly realized under non-public market conditions. The liquidation assumption is first based on the fact or possibility that the appraised assets are facing liquidation or are potentially subject to liquidation, and then it is assumed that the appraised assets are in a state of forced sale or rapid realization based on the corresponding data and information. As the liquidation assumption assumes that the appraised assets are under forced sale or rapid realization conditions, the appraisal value of the appraised assets is generally lower than the appraisal value of the same assets under the open market assumption or continuing use assumption, and therefore the scope of use of the asset valuation results under the liquidation assumption is very limited. Of course, the use of the liquidation assumption itself is also quite special.

The basic assumption for this valuation is the continuing use assumption.

**(2) Restrictive conditions**

1. This asset valuation report is for the use of the client for the purpose of this valuation only and shall not be used for any other purposes;
2. The conclusion of this asset valuation is the appraisal value of the assets under valuation as of the valuation benchmark date based on the above principles, bases, premises, methods and procedures, and such valuation conclusion shall only be valid under the conditions that the above principles, bases and premises exist;
3. The conclusion of this asset valuation reflects only the asset valuation price of the assets subject to the asset valuation for the purpose of this asset valuation and serves the purpose of this asset valuation only;
4. The conclusion of this asset valuation has not taken into account the impact of changes in national macroeconomic policies, force majeure and special transaction methods on the asset valuation conclusion;
5. The valuation results reflect the current prices determined by the valuation subject under the open market principles for the purpose of this valuation. No consideration has been given to the impact on the valuation value of the mortgages assumed now and the mortgages and guarantees that may be assumed in the future, as well as the additional prices that may be paid for special transactions, etc. No consideration has been given to the impact of changes in national macroeconomic policies and the occurrence of natural forces and other force majeure on asset prices. When the aforementioned conditions and the going concern principle followed in the valuation, etc. change, the valuation results will generally be invalidated;
6. All information related to the valuation provided by the management and other personnel of the enterprise is the basis for the preparation of this report. The appraised enterprise is responsible for the truthfulness and comprehensiveness of the information provided by it. The valuation institution and practitioners will conduct necessary checks on the truth and comprehensiveness of the information in the course of the valuation.

**VIII. BASIS OF THE VALUATION****(1) Basis for the subject activity**

Asset Valuation Engagement Contract signed between Shangrao Heji Water Co., Ltd. and Beijing Ningbang Honghe Asset Appraisal Firm (General Partnership)

**(2) Legal basis**

1. Company Law of the People's Republic of China (Order No. 42 of the President of the People's Republic of China) (27 October 2005);
2. Measures for the Administration of State-owned Asset Valuation (Order No.91 of the State Council) (16 November 1991);
3. Detailed Rules for Implementation of Measures for the Administration of State-owned Asset Valuation (Guo Zi Ban Fa [1992] No. 36 of the Former State Administration Bureau of State-owned Assets) (18 July 1992);
4. Regulations on Certain Issues of the Administration of State-owned Asset Valuation (Order of the Ministry of Finance No. 14) (31 December 2001);
5. Provisional Measures for the Administration of State-owned Asset Valuation of Enterprises (Order No.12 of the State-owned Assets Supervision and Administration Commission of the State Council) (25 August 2005);
6. Notice with respect to Issues on Strengthening the Administration of State-owned Asset Valuation of Enterprises (Guo Zi Fa Chan Quan [2006] No. 274) (12 December 2006);
7. Regulatory Opinions on Operations of Asset Valuation (Trial Implementation) (Guo Zi Ban Fa [1996] No.23 of the Former State Administration Bureau of State-owned Assets) (7 May 1996);
8. Notice on the Issuance of the Interim Regulations on Basic Content and Format of Asset valuation Reports (Cai Ping Zi [1999] No.91 of Ministry of Finance of the People's Republic of China) (2 March 1993);
9. Other laws and regulations related to asset valuation, etc.

**(3) Basis of standards**

1. Asset Valuation Standards – Basic Standards (Cai Qi [2004] No.20);
2. Asset Valuation Professional Ethical Standards – Basic Standards (Cai Qi [2004] No.20);
3. Asset Valuation Standards – Engagement Letter (CAS [2007] No.189, CAS [2011] No.230);
4. Asset Valuation Standards – Valuation Procedures (CAS [2007] No.189);
5. Asset Valuation Standards – Valuation Report (CAS [2007] No.189, CAS [2011] No.230);
6. Asset Valuation Standards – Machinery and Equipment (CAS [2007] No.189);
7. Asset Valuation Standards – Working Draft (CAS [2007] No.189);
8. Guiding Opinions on Attention by Asset Valuers toward the Legal Ownership of Appraised Subjects (Kuai Xie [2003] No.18);
9. Guiding Opinions on Types of Value under Asset Valuation (CAS [2007] No.189);
10. Asset Valuation Professional Ethical Standards – Independence (CAS [2012] No.248).

**(4) Basis for ownership**

The asset owner’s business license for valuation, breakdown of fixed assets, etc;

**(5) Pricing basis**

1. Common Data and Reference Manual for Asset Valuation published by Scientific and Technical Documentation Press;
2. Standard Regulations on Mandatory Scrapping of Motor Vehicles by the Ministry of Commerce, Development and Reform Commission, the Ministry of Public Security and the Ministry of Environmental Protection on 24 August 2012 (implemented since 1 May 2013);
3. Surveys and price inquiries from manufacturers and agents;
4. The information obtained by the valuers through site survey;
5. Equipment repair, maintenance and technical improvement information provided by the enterprise;
6. Other information related to asset valuation.

**IX. VALUATION METHODS**

The basic methods of the valuation include the income approach, the market approach and the cost approach. The cost approach was determined to be used for this valuation.

The cost approach refers to an valuation method in which the difference between the full cost of reacquiring or constructing an appraised asset in a new status under current conditions, less the physical depreciation, functional depreciation and economic depreciation already incurred by the appraised asset, is used as the appraisal value of the appraised asset. In the specific estimation of the valuation value, the various depreciations are first calculated and then the full cost (full replacement cost) is subtracted from each depreciation as a method of valuation of the appraised assets. The advantage of the cost approach is that it reflects the value of a single asset more directly.

1. According to the purpose of this valuation, the replacement cost approach was adopted based on the prevailing market prices in accordance with the principle of continuous use of machinery and equipment, the calculation formula of which is as follows:



The cost approach is a method of valuing an asset by estimating the replacement cost of the asset under valuation and the physical depreciation, functional depreciation and economic depreciation of the asset, and deducting the replacement cost by various depreciations as a method of valuing the asset.

The calculation formula for the replacement cost approach is:  $V = C \times q$

Of which,  $V$  = Market value of the asset under valuation;

$C$  = Replacement cost of the asset under valuation;

$q$  = Comprehensive newness rate of the asset under valuation.

(1) Determination of replacement cost

Replacement cost includes necessary and reasonable costs, profits and related taxes incurred in the acquisition or purchase of equipment etc.

(2) Determination of comprehensive newness rate

First, with reference to the equipment nameplate technical parameters, according to the designed usage life, years for which the equipment has been used, and remaining usage life, estimated the newness rate under service life approach of the equipment. Second, through on-site equipment survey, fully understand the original manufacturing quality of the equipment, operation status, use, repair, maintenance, as well as the current performance of similar equipment updates, technical progress factors, taking into account the physical depreciation, functional depreciation and possible economic depreciation of the equipment to determine its on-site survey newness rate. Finally, the newness rate under the service life approach and on-site survey newness rate are weighted separately to determine the comprehensive newness rate.

(3) Determination of appraisal value

Appraisal value = Replacement cost of the asset under valuation  $\times$  comprehensive newness rate

In summary, after analyzing the applicability of the three asset valuation methods based on relevant conditions such as the subject of valuation, type of value, asset characteristics, business operation characteristics and data collection, the cost approach was adopted for the valuation of the fixed assets of Shangrao Heji Water Co., Ltd..

**X. PROCESS AND IMPLEMENTATION OF THE VALUATION PROCEDURES**

The valuation process was mainly divided into four stages:

(1) Valuation preparation stage

Consulted with the client, and clarified the basic matters of the valuation engagement, conducted comprehensive analysis and evaluation of our professional competence, independence and business risks, accepted the engagement and signed the contract for asset valuation engagement. Identified the person in charge of the project, formed the valuation project team and compile the valuation plan; guided the asset owner to fill in the asset valuation declaration form and prepare the necessary information for the valuation.

(2) On-site survey and valuation data collection phase

Based on the specific conditions of this valuation engagement, and in accordance with the requirements of the valuation procedure guidelines and other relevant regulations, the valuers conducted on-site investigation by way of survey, obtained valuation information from various possible channels, verified the scope of the valuation, understood the current status of the subject of the valuation and paid attention to the legal ownership of the subject of the valuation.

(3) Assessment and estimation stage

The necessary analysis, summarization and organization of the collected valuation data were carried out to form the basis for the assessment and estimation; according to the relevant conditions such as the subject of the valuation, the type of value and the collection of valuation data, the applicable valuation method was selected and the corresponding formula and parameters were selected for analysis, calculation and judgment to form the preliminary valuation results.

(4) Preparation and submission of valuation report stage

Based on the result of preliminary valuation of the assets by the valuers, prepared relevant valuation descriptions and, on the basis of verifying that the valuation results of specific asset items in the relevant valuation descriptions are accurate and that there is no duplication or omission in the valuation work, conducted aggregate analysis of the asset valuation in accordance with each asset valuation description, determine the final valuation conclusion and prepare the asset valuation report. Conducted internal audits of the valuation report and the implementation of the valuation procedures in accordance with relevant laws, regulations, asset valuation standards and the valuation. Conducted necessary internal audits of the valuation report and the implementation of the valuation procedures in accordance with relevant laws, regulations, asset valuation standards and the internal quality control system of the valuation organization. Conducted necessary communication with the client or relevant parties permitted by the client regarding the contents of the valuation report, and submitted a formal asset valuation report to the client in accordance with the requirements of the asset valuation engagement agreement.

**XI. VALUATION ASSUMPTIONS**

1. This valuation takes the specific valuation purpose listed in this asset valuation report as its basic assumptions;
2. Each asset under this valuation is premised on the actual inventory as at the valuation benchmark date and the current market value of the relevant asset is based on the domestic effective price as at the valuation benchmark date;
3. This valuation assumes that there is no unforeseeable significant change in external economic environment after the valuation benchmark date;
4. This valuation assumes that the business operations of the asset owner are legitimate and that there will be no unforeseen factors leading to a change in the current use of the assets under valuation;
5. The relevant basic information and financial information provided by the asset owner and the client are true, accurate and complete;
6. The information, data, etc. on which the valuers rely are true and reliable;
7. In this valuation, unless otherwise specified, no consideration has been given to the impact on the appraisal value of the mortgages and guarantees that may be assumed by the relevant assets of the asset owner, nor has the impact on the price of the assets due to changes in national macroeconomic policies and the occurrence of natural forces and other force majeure been considered.
8. The scope of the valuation is based only on the valuation declaration form provided by the asset owner.

The results of this valuation will generally be invalidated upon the occurrence of events that are inconsistent with the preceding assumptions.

**XII. VALUATION CONCLUSION**

As at the valuation benchmark date, the appraised market value of the asset under valuation was RMB137,899,226.00 (in words: RMB One Hundred and Thirty-Seven Million Eight Hundred and Ninety-Nine Thousand Two Hundred and Twenty-Six Dollars Only). The specific valuation results are set out in the valuation breakdown.

**XIII. SPECIAL NOTES**

The following are relevant matters that have been identified during the valuation process that may affect the valuation conclusion the assessment of which is beyond the profession and ability of the valuers. The matters include but not limited to:

- (1) The valuation results are based on the current market fair value determined on the basis of going concern and open market for the purpose of this valuation. No consideration has been given to the impact on the appraisal value of the mortgages assumed now and the mortgages and guarantees that may be assumed in the future, as well as the additional price that may be paid when the assets are disposed of in the future or in a special transaction, etc. No consideration has been given to the impact on the price of the assets due to changes in national macroeconomic policies and the occurrence of natural forces and other force majeure;
- (2) All information provided by the management and other personnel of the client and the asset owner in relation to this asset valuation is the basis for the preparation of this report; the enterprise shall be responsible for the truth, comprehensiveness and legality of the information provided by it;
- (3) The client and the asset owner undertake that there are no significant litigation matters and contingent liabilities and contingent assets etc. affecting the production and operation activities and financial position of the enterprise, and there are no security or guarantee for the assets within the scope of valuation;
- (4) This valuation report is for the purpose of this valuation only and the client is solely responsible for the consequences arising from the use of the report beyond the purpose of this valuation and shall not be liable for such valuation organization;
- (5) This valuation report is only a fair judgment on the value of the assets and should not be considered as a guarantee on the realizable price of the appraised subject, and this asset valuation report only expresses an opinion on the value of the appraised assets and does not provide any guarantee on the relevant legal title of the valuation subject;

The valuation firm reminds the report users to pay attention to the special notes;

Users of the report should be aware of the possible impact of the above special notes on the conclusions of the valuation when using the report.

**XIV. SIGNIFICANT EVENTS AFTER THE VALUATION BENCHMARK DATE**

Nil.

**XV. EXPLANATION NOTES ON RESTRICTIONS OF USE OF VALUATION REPORT**

- (1) During the validity period of the valuation conclusion, if there is a change in the quantity of assets between the valuation benchmark date and the date when the purpose of the valuation is achieved, the amount of assets shall be adjusted accordingly in accordance with the original valuation methods;
- (2) This valuation report follows the practices and industry norms of asset valuation in the People's Republic of China, and the analytical opinions and conclusions in the valuation report may be used subject to the assumptions and restrictions of the valuation. This report will cease to be effective if the value of such assets changes significantly after the benchmark date due to changes in its assumptions beyond the profession and ability of our company and valuers;
- (3) In accordance with the relevant existing regulations, the results of this valuation report are valid for one year from the benchmark date, i.e. the valuation results are valid from 15 May 2021 to 14 May 2022. The appraisal value shall become ineffective one year after the aforementioned date, and a new asset valuation is required;
- (4) This valuation report may only be used by the users of the valuation report as stated in the valuation report;
- (5) The conclusion of this valuation is only for the use of the client for the purpose of this valuation and for submission to the competent authority for property valuation for review. If it is used for other purposes, the conclusion of this report will no longer be valid, and the right to use the valuation report shall belong to the client, and our company will not provide or disclose it to others without the permission of the client.

(The following has no body text)

Legal representative of the valuer: Tu Nan (11000361)

Asset valuer: Tu Nan (11000361)

Asset valuer: Duan Da Hai (37000423)

Beijing Ningbang Honghe Asset Appraisal Firm  
(General Partnership)\*  
28 May 2021

**Fixed Asset – Valuation Breakdown**

Valuation benchmark date: 15 May 2021

Asset owner: Shangrao Heji Water Co., Ltd.

Unit: RMB Yuan

No.	Project and content	Year of completion	Length (metre)	Specification and model	Original value	Newness rate	Net value
1	Jingke Avenue extended section water supply pipeline network	2019	32,535.00	tpep anti-corrosive steel pipeline	75,578,805.00	96%	72,555,652.00
2	Jianye Avenue water pipeline network	2019	29,301.00	tpep anti-corrosive steel pipeline	68,066,223.00	96%	65,343,574.00
<b>Total</b>			<b>61,836.00</b>		<b>143,645,028.00</b>		<b>137,899,226.00</b>

Valuer: Beijing Ningbang Honghe Asset Appraisal Firm (General Partnership)\*

\* For identification purposes only

*The following is the text of a letter prepared for the purpose of incorporation in this circular received from the Second Finance Lease Valuer, an independent valuer, in connection with its valuation of the Second Finance Lease Assets. Terms defined in this appendix applies to this appendix only.*

**ASSET VALUATION REPORT ON RELEVANT ASSETS INVOLVED IN THE MATTER OF  
UNDERSTANDING ASSET VALUE OF SHANGRAO HEJI WATER CO., LTD.**

GAN ZHI CHEN PING BAO ZI (2020) NO.1030

**Shangrao Heji Water Co., Ltd.:**

Jiangxi Zhichen Asset Appraisal Co., Ltd. was engaged by the company to undertake valuation of the market value as at 28 September 2020 of the relevant assets involved in the matters of understanding asset value contemplated by Shangrao Heji Water Co., Ltd., by following required procedures, adhering to the principles of independence, objectivity and impartiality and adopting the replacement cost approach, and in accordance with the laws, administrative regulations and asset valuation standards. The asset valuation is hereby reported as follows:

**I. OVERVIEW OF THE CLIENT, THE APPRAISED ENTITY AND OTHER USERS OF THE  
ASSET VALUATION REPORT AS AGREED IN THE ASSET VALUATION ENGAGEMENT  
CONTRACT**

**(1) Client (the appraised entity)**

Name: Shangrao Heji Water Co., Ltd.

Unified social credit code: 91361100799467436K

Type: Other limited liability company

Legal representative: Xu Shaohua

Registered capital: RMB75 million

Date of establishment: 29 March 2007

Operation period: 29 March 2007 to 28 March 2037

Address: West section of Bingjiang Road, Shangrao County (southern side of Kai Shan Zi Ran Village)

Scope of operation: enterprise production, production and sales of drinking water for residents, repair and maintenance of water supply and drainage system, sewage treatment, charitable asset management in relation to water supply and sewage.



**(2) Other users of the asset valuation report as agreed in the asset valuation engagement contract**

There are no other users of the asset valuation report as agreed in the asset valuation engagement contract other than the relevant parties that the client must involve for the purpose of this valuation and relevant departments that this report must be delivered to as required by laws and regulations.

**II. PURPOSE OF THE VALUATION**

The matter of understanding asset value contemplated by Shangrao Heji Water Co., Ltd. involves the market value of the relevant assets owned, and for this purpose the client engaged a valuation company to conduct valuation.

The valuation purpose of this engagement is to reasonably determine the value of the assets included in scope of the valuation and to provide a value reference for the matters of understanding asset value contemplated by Shangrao Heji Water Co., Ltd.

**III. SUBJECT AND SCOPE OF THE VALUATION**

The subject of the valuation is the market value of the relevant assets included in the scope of the valuation by Shangrao Heji Water Co., Ltd.:

The scope of the valuation is the relevant assets relating to the subject of the valuation, i.e two water pipeline networks, specifically 2 water pipeline networks at Hanteng West Avenue and Jingke North Avenue, and sewerage pipeline specifications are all tpep anticorrosive steel pipes, and the assets under valuation were all constructed in 2018 and are relatively well maintained.

The assets included in the above valuation scope are the same as those provided by the client.

**IV. TYPES OF VALUES**

The type of value that this engagement adopts is market value.

Market value is the estimated amount by which a willing buyer and a willing seller, each acting rationally and without any compulsion, would have appraised the asset under valuation in an arm's length transaction as at the benchmark date.

**V. VALUATION BENCHMARK DATE**

1. The valuation benchmark date of the valuation engagement is 28 September 2020.
2. The valuation benchmark date is determined by the client based on specific circumstances.

**VI. BASIS OF THE VALUATION****(1) Basis for economic activity**

The Asset Valuation Engagement Contract signed between Shangrao Heji Water Co., Ltd. and Jiangxi Zhichen Asset Appraisal Co., Ltd.

**(2) Legal basis**

1. Asset Valuation Law of the People's Republic of China (Order of the President of the People's Republic of China [2016] No.46);
2. Company Law of the People's Republic of China (Order of the President of the People's Republic of China [2005] No.42);
3. Property Law of the People's Republic of China (Order of the President of the People's Republic of China [2007] No.62);
4. Guarantee Law of the People's Republic of China (Order of the President of the People's Republic of China [1995] No.50);
5. Measures for the Administration of State-owned Asset Valuation (Order of the State Council of the People's Republic of China [1991] No.91);
6. Notice on Issues Relating to Strengthening the Management of the Valuation of State-owned Assets of Enterprises (Guo Zi Fa Chan Quan [2006] No. 274);
7. Detailed Rules on Implementation of Measures for the Administration of State-owned Asset Valuation (Former State State-owned Assets Administration Bureau Guo Zi Fa [1992] No.36);
8. Notice of the General Office of the State Council on Forwarding the Opinions on the Reform of the Administrative Measures Concerning the Valuation of State-owned Assets for the purpose of Strengthening the Supervision and Management on Asset Valuation to the Ministry of Finance (Guo Ban Fa [2001] No.102);
9. Notice on the Issue of Measures for Administration of State-owned Asset Valuation Project Approval by Ministry of Finance (Cai Qi [2002] No.801);
10. Provisional Measures for the Administration of the Valuation of State-owned Assets of Enterprises (Order of the State-owned Assets Supervision and Administration Commission of the State Council [2005] No.12);
11. Other relevant laws and regulations on valuation.

**(3) Basis for standards**

1. Basic Standards on Asset Valuation (Cai Zi [2017] No.43);
2. Code of Professional Ethics for Asset Valuation (CAS [2017] No.30);
3. Code of Practice on Asset Valuation – Asset Valuation Engagement Letters (CAS [2017] No.33);
4. Code of Practice on Asset Valuation – Asset Valuation Procedures (CAS [2018] No.36);
5. Code of Practice on Asset Valuation – Asset Valuation Report (CAS [2018] No.35);
6. Code of Practice on Asset Valuation – Asset Valuation Files (CAS [2018] No.37)
7. Code of Practice on Asset Valuation – Machinery and Equipment (CAS [2017] No.39)
8. Guiding Opinions on the Legal Ownership of Asset Valuation Subjects (CAS [2017] No.48);
9. Guiding Opinions on Type of Value in Asset Valuation (CAS [2017] No.47);
10. Guide to Quality Control of Asset Valuation Agency Operations (CAS [2017] No.46);
11. Guide to the Valuation Report on State-owned Assets of Enterprises (CAS [2017] No.42).

**(4) Basis for property rights**

1. Relevant bases for property rights provided by the enterprise;
2. Other information on property rights.

**(5) Basis for pricing and reference**

1. Handbook on Latest Common Data and Parameters for Asset Valuation;
2. Records of site survey and enquiry conducted by valuers;
3. Relevant pricing information obtained and collected through market investigation;
4. Other relevant bases for pricing.

**VII. VALUATION METHODS****1. Brief description of the valuation methods**

The basic methods of asset valuation include: market approach, income approach and cost approach. With reference to the guiding opinions on valuation of enterprises, the applicability of the three basic methods of asset valuation shall be analyzed and one or more basic methods of asset valuation shall be appropriately selected based on the relevant conditions such as the subject of valuation, the type of value and the data collection situation etc.

The cost approach is a valuation method that determines the value of the valuation subject by deducting the loss of each value of the asset from the restoration replacement cost or renewal replacement cost of the asset under valuation as at the valuation benchmark date.

The market approach, also known as the market price comparison approach, is a valuation approach that determines the value of the valuation subject by comparing the similarity and difference between the appraised asset and similar assets that are recently sold (i.e. transacted assets which can serve as reference) and adjusting the market price of similar assets.

The income approach is a valuation approach to determine the value of the appraised subject by appraising the capitalization or discounting of the expected future income of the appraised asset.

## 2. Selection of valuation methods

The market approach uses references in the real market to evaluate the prevailing fair market value of the valuation subject, which has the characteristics of direct valuation perspective and valuation channel, intuitive valuation process, valuation data taken directly from the market and persuasive valuation results. Although the income approach does not directly use market references, it emphasizes the expected profitability of assets, and the valuation results of the income approach are the quantification and present value of the expected profitability of assets. The cost approach, on the other hand, indirectly evaluates the fair market value of assets from the perspective of asset replacement, and it recognizes the appraisal value of assets from the perspective of the present value of the enterprise's assets.

Based on the characteristics of the appraised assets and the purpose of the valuation, the cost approach was determined to be adopted for the valuation.

## 3. Valuation principles and methods under the cost approach

The cost approach is an asset valuation method in which the difference between the full cost of reacquiring or constructing an appraised asset in a new condition under current conditions and the depreciation of physical obsolescence, depreciation of functional obsolescence and depreciation of economic obsolescence that has already occurred for the appraised asset is used as the appraisal value of the appraised asset. The cost approach can also be used to determine the appraisal value by first estimating how new the appraised asset is compared to its new condition, i.e., finding the newness rate, and then multiplying the full cost and the newness rate to obtain the product as the appraisal value.

Introduction to the replacement cost method

Pipe valuation method:

- (1) Basic formula for valuation:

Appraisal value = replacement cost × comprehensive newness rate

- (2) Determination of the appraised original value: The full replacement value of the equipment is determined based on the current sales price of the appraised assets or similar assets in the market and the quoted prices included in the 2019 Mechanical and Electrical Products Price Inquiry System, National Asset Valuation Price Information and other relevant information, and on the basis of whether the appraised assets need to be installed, taking into account factors such as transportation and miscellaneous costs and installation and commissioning costs.

Replacement cost = market selling price + transportation and miscellaneous costs + installation and commissioning costs + (cost of capital)

Or;

Full replacement price = price in the Quotation Manual + transportation and miscellaneous charges + installation and commissioning charges + (cost of capital)

(3) Determination of comprehensive newness rate

Comprehensive newness rate = newness rate under the service life approach  $\times K_1$  + newness rate under the observation approach  $\times K_2$

$K_1K_2$  represent the weighting coefficients of newness rate under the service life approach and newness rate under the observation approach respectively.

Newness rate under the service life approach = (economic durability – years for which the asset has been used)/economic durability  $\times 100\%$

## VIII. PROCESS AND IMPLEMENTATION OF THE VALUATION PROCEDURES

### (1) Clarifying basics information of the engagement

Preliminarily understood the information of the client's economic activity and the assets under valuation, clarified the purpose of valuation, the subject of valuation, the scope of valuation, the type of value, the valuation benchmark date and the scope of use of the asset valuation report, made preliminary judgment of the valuation risk based on professional competence, and decided whether to accept the offer

### (2) Entering into business engagement contract

After confirming the acceptance of the offer, negotiated and agreed on important matters that need to be clarified such as the purpose of the valuation, the subject of the valuation, the scope of the valuation, the type of value, the valuation benchmark date, the scope of use of the asset valuation report, the deadline and manner of submission of the asset valuation report, the valuation service fee and the manner of payment, the cooperation and assistance in work among the client, other relevant parties, the asset valuation agency and its asset valuation professionals, and entered into a business engagement contract with the client in accordance with the offer and the negotiation, and agreed on the rights, obligations, liability for breach of contract and dispute resolution of the asset valuation agency and the client.

### (3) Preparation of asset valuation plans

The project manager prepared the asset valuation plan according to the specific situation of the client's valuation assets, and reasonably determines the level of complexity of the asset valuation plan. The project manager prepared the main process, time schedule and personnel arrangement etc for the implementation of the asset valuation. In case of project plan adjustment, the adjusted plan shall be reported to the department manager for approval.

**(4) Conducting valuation site surveys**

The project manager arranged for valuers of the project to be stationed at the site of the appraised unit and, with the co-ordination and cooperation of the client and relevant staff of the appraised unit, to understand the situation of the assets under valuation by means of investigation, inquiry, inspection and examination, etc., instructed the appraised entity to fill in the detailed asset valuation declaration form, conducted survey of the site of the assets under valuation and investigated and understood the working conditions of the surrounding environment, development and infrastructure construction of the assets under valuation. In accordance with the asset valuation operation regulations and the needs of the asset valuation work, collected on site ownership documents and management and business information related to the assets under valuation.

**(5) Collecting and organizing valuation information**

Verified, analyzed, summarized and organized the data obtained through site surveys, questioning, written examination, field investigation, etc, and made inquiries regarding price information through the internet, periodicals, various quotations and common data parameter manuals, which were categorized and organized to form the basis for valuation and estimation and compiling asset valuation reports.

**(6) Arriving at conclusion after valuation and estimation**

Selected valuation methods based on the purpose of valuation, subject of valuation, value types and data collection etc. Conducted screening and analysis on the selected cases and data. Determined the relevant data and parameters. Selected corresponding formulae and parameters for analysis, calculation and judgment, and the preliminary measurement results were formed. After discussion, communication and adjustment of the test results, the valuation conclusion was formed after comprehensive analysis.

**(7) Preparation and issuance of valuation report**

A preliminary asset valuation report was prepared on the basis of the valuation conclusion formed after assessment and estimation. Internal audit of the preliminary asset valuation report was conducted in accordance with laws, administrative regulations, asset valuation standards and the internal quality control system of the asset valuation agency. On the basis of the above work, exchanged views with the client on the preliminary valuation report and, after comprehensively considering the relevant views of all parties, made modifications and adjustments to the preliminary valuation report, conducted reviews in accordance with the requirements of the internal quality control system of the valuation agency and finally issue a formal asset valuation report.

**(8) Organize and collect valuation files**

After submission of the report to the client, the valuers shall, in accordance with the valuation working draft and valuation report file management requirements, compile the working draft, asset valuation report and other relevant information, compile the file catalogue, bind it into a book and form the asset valuation file for filing with the file management department.

**IX. VALUATION ASSUMPTIONS**

This asset valuation is based on the following assumptions:

- (1) There are no significant changes in national, industry and local laws, regulations and policies as well as macroeconomic environment;
- (2) The assets within the scope of this valuation are legally owned by the appraised unit;
- (3) There are no legal disputes over property ownership, quantity, scope and project etc;
- (4) The assets under valuation do not take into account the impact of factors such as collateral and guarantees etc;
- (5) The relevant economic activity documents, relevant title documents of assets including ownership documents and certificates provided by the client are true, legal and valid;
- (6) There are no force majeure factors and unforeseeable factors that result in significant impact on the assets included in the scope of valuation;

In the course of the valuation work, the valuers followed the requirements of the asset valuation, relied on the terms of the existing policies and determined that the above assumptions and prerequisites were valid as at the valuation benchmark date. If there is any change in the above prerequisites, the valuation conclusion of this report shall not be valid.

**X. VALUATION CONCLUSION**

The conclusion of valuation is derived from the above valuation work. As at 28 September 2020, the appraisal value of the assets of Shangrao Heji Water Co., Ltd. included in this valuation for the purpose of understanding the value of assets is RMB125,047,276.00 (in words, RMB One Hundred and Twenty-Five Million Forty-Seven Thousand Two Hundred and Seventy-Six Dollars Only) (For details, please refer to the asset valuation breakdown).



**XI. SPECIAL NOTES**

Special matters refer to matters identified by the valuers during the valuation process that may affect the conclusion of the valuation but are beyond the valuers' profession and ability to assess and estimate.

**(1) Defects in title**

1. In accordance with the Guidance on Legal Ownership of Asset Valuation Subject, the purpose of performing asset valuation business is to estimate the value of asset valuation subject and to express professional opinions. It is beyond the scope of practice of asset valuation professionals to confirm or express opinions on the legal ownership of asset valuation subject. The asset valuation professionals shall not provide guarantee on the legal ownership of the asset valuation subject. Our company or personnel executing this valuation shall not bear liability arising from legal issues of the ownership of the assets under valuation.
2. The appraised entity undertakes that it has full legal rights in respect of the assets under valuation and there is no mortgage, guarantee and other contingencies. In case of disputes over the ownership of its assets, the appraised entity shall bear the relevant legal liabilities on its own and the asset valuers and the asset valuation company executing the valuation project shall not bear any responsibility.

**(2) Uncertainties including unresolved matters and legal disputes**

If the appraised entity and the relevant parties have materially concealed matters or untrue matters which are beyond the valuers' profession and ability to identify, resulting in the valuation results being inaccurate, the valuers shall not bear any legal and economic responsibility.

**(3) Other matters**

1. This valuation relies to a considerable extent on the relevant information provided by the appraised entity and the relevant parties. The appraised entity and the relevant parties shall be responsible for the truthfulness, legality and completeness of the information provided by them.

2. If there is a change in the asset content and pricing standard during the validity period after the valuation benchmark date, the following principles should be applied:
  - (1) when the content of the assets changes, the client shall timely engage a qualified asset valuation firm to determine the appraisal value again;
  - (2) when the pricing standard of the assets changes, which greatly affects the valuation result of assets, the client shall timely engage a qualified asset valuation firm to determine the appraisal value again;
  - (3) for changes in the content and pricing standard of the assets after the valuation benchmark date, the client shall give due consideration to and adjust the value of the assets accordingly when understanding the value of the assets.
3. This valuation report provides reference values for the purpose of this project valuation only. Generally speaking, due to different valuation purposes, different types of values and different valuation benchmark dates, the same assets may exhibit different values, and we do not assume responsibility for the consequences caused by improper use of the valuation report.
4. With regard to assets in normal use and operating condition after on-site inspection by the valuers, due to the limitation of professional conditions, however, we are unable to examine the relevant performance and technical indicators of the appraised pipeline, and we only estimate the value condition of the appraised assets based on the on-site survey and the valuation assumptions, which are specifically stated here.
5. The conclusion of this valuation project is the price excluding value-added tax.
6. Our company and valuation personnel shall not be liable for any defective matters of the appraised entity that may affect the valuation in the absence of any special explanation by the client and the appraised enterprise and which the valuation personnel cannot generally be informed of based on their professional experience.

**XII. EXPLANATION NOTES ON RESTRICTIONS OF USE OF ASSET VALUATION REPORT**

1. This asset valuation report may only be used for the valuation purposes and purposes stated in the valuation report and is not valid for other valuation purposes. The client and the user of the report are hereby reminded to use this report reasonably. The right to use the report shall remain with the client and shall not be provided or disclosed to others without the permission of the client. Except in cases where disclosure is required by law, the contents of the report may not be published in whole or in part in any public media.
2. The users of this asset valuation report shall use this valuation report as a whole and shall not extract parts of the report for use. The asset valuation report contains a number of attachments, which form an integral part of this asset valuation report and have the same legal effect as the body of this asset valuation report.
3. This asset valuation report is made under the principles of independence, objectivity, impartiality and science, and there is no interest between our Company and personnel engaging in this valuation and the client and the appraised entity.
4. This valuation report shall be legally effective in accordance with the laws and regulations. The conclusion of this asset valuation report is valid for one year, i.e., for the period from 28 September 2020 to 27 September 2021.
5. The conclusion of valuation reflects the current fair market value of the subject of the valuation as determined in accordance with open market principles for the purpose of and subject to the relevant conditions of this valuation. This valuation has not taken into account the impact on its valuation value of possible commitments on mortgage and guarantee matters and possible additional price paid by special counterparties, nor has it taken into account the impact on asset prices of national macroeconomic policies and the occurrence or encounter of natural forces and other force majeure. The valuation results will generally be invalidated when the aforementioned conditions such as the purpose of the valuation and other circumstances change.
6. The term “appraisal value” in this report refers to the fair valuation of the appraised assets for the purposes stated in this report, with no change in their existing use, in accordance with the relevant laws and regulations such as the relevant national and local government regulations and rules on asset appraisal, and under the conditions of the external economic environment as at the valuation benchmark date.
7. The asset valuation report users should correctly understand the valuation conclusions. The valuation conclusion is not equivalent to the realizable value of the appraisal subject, and the valuation conclusion should not be considered as a guarantee of the realizable value of the conclusion of valuation.
8. This report is effective after two or more than two asset valuers of the Company have signed and sealed the report and affixed the official seal of the Company.

**XIII. DATE OF ASSET VALUATION REPORT**

The date of the asset valuation report is 20 October 2020.

**Jiangxi Zhichen Asset Appraisal Co., Ltd.\***      **Asset valuer: Chen Weidong (36010003)**

**Nanchang, the PRC**      **Asset valuer: Cao Weihua (36000144)**

20 October 2020

\* *For identification purposes only*

## Fixed Asset – Valuation Breakdown on Pipelines and Grooves

Valuation benchmark date: 28 September 2020

Name of appraised unit: Shangrao Heji Water Co., Ltd.

Amount unit: RMB Yuan

No.	Project and content	Year of completion	Length (metre)	Specification and model	Valuation original value	Newness rate	Appraised value	Remark
1	Hanteng West Avenue water supply pipeline network	2018	22,876.00	tpep anti-corrosive steel pipeline	53,140,948.00	96%	51,015,310.00	
2	Jingke North Avenue water supply pipeline network	2018	33,197.00	tpep anti-corrosive steel pipeline	77,116,631.00	96%	74,031,966.00	
<b>Total</b>			<b>56,073.00</b>		<b>130,257,579.00</b>		<b>125,047,276.00</b>	