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If you have sold or transferred all your shares in **Tianjin Capital Environmental Protection Group Company Limited**, you should at once hand this circular to the purchaser(s) or the transferee(s), or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or the transfer was effected for transmission to the purchaser(s) or transferee(s).

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Tianjin Capital Environmental Protection Group Company Limited
天津創業環保集團股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1065)

(1) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION; AND (2) DISCLOSEABLE AND CONNECTED TRANSACTION – ACQUISITION OF ASSETS OF JINNAN SLUDGE PLANT PROJECT

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



Gram Capital Limited
嘉林資本有限公司

The EGM of the Company will be convened and held at 2:00 p.m. on 1 March 2023 at the conference room of the Company on 5/F, TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC. A notice of the EGM is set out on pages EGM-1 to EGM-2 of this circular. Whether or not you intend to attend the EGM, you are requested to complete and return the proxy form in accordance with the instructions printed thereon to the Company's H share registrar and transfer office, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or the Company's principal office at TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC, as soon as possible and in any event not less than 24 hours before the time for holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

13 February 2023

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DEFINITIONS

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

“Articles of Association”	the articles of association of the Company, as amended from time to time
“Assets Transfer Agreement”	the conditional assets transfer agreement in relation to Jinnan Sludge Disposal Plant Project entered into between the Company and Tianjin Infrastructure Construction on 21 December 2022, pursuant to which the Company has conditionally agreed to acquire and Tianjin Infrastructure Construction has conditionally agreed to sell the Transferred Assets at a consideration of RMB471,825,900
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“Caring Company”	Tianjin Caring Technology Development Co., Ltd.* (天津凱英科技發展股份有限公司), a joint stock limited company incorporated in the PRC, quoted on the National Equities Exchange and Quotations System (stock code: 871226) and a non-wholly owned subsidiary of the Company
“Company”	Tianjin Capital Environmental Protection Group Company Limited, a joint stock limited company established in the PRC, whose A shares and H shares are listed on the Shanghai Stock Exchange and the Stock Exchange, respectively
“connected person(s)” and “controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company (including independent non-executive Directors)
“EGM”	the 2023 first extraordinary general meeting of the Company to be convened and held at 2:00 p.m. on 1 March 2023 for the Shareholders to consider and approve, among other things, the amendments to the Articles of Association, and the Assets Transfer Agreement and the transaction contemplated thereunder

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company, comprising all of the independent non-executive Directors, namely: Mr. Xue Tao, Mr. Wang Shanggan and Mr. Tian Liang, to advise the independent shareholders in respect of the Acquisition
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition
“Issuance”	the Company’s non-public issuance of A shares completed on 29 September 2022, details of which are set out in the Company’s announcement on results of non-public issuance of A shares and changes in share capital dated 28 September 2022
“Latest Practicable Date”	9 February 2023, that is the latest practicable date to confirm certain information contained in this circular before printing
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	the supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company

DEFINITIONS

“Tianjin Infrastructure Construction”	Tianjin Infrastructure Construction and Investment Group Company Limited* (天津城市基礎設施建設投資集團有限公司), the ultimate controlling company of the Company and the sole shareholder of TMICL, holding 100% equity interest in TMICL
“TMICL”	Tianjin Municipal Investment Co., Ltd.* (天津市政投資有限公司), the controlling shareholder of the Company, holding approximately 45.57% equity interest in the Company
“%”	per cent

* For identification purpose only

LETTER FROM THE BOARD



Tianjin Capital Environmental Protection Group Company Limited
天津創業環保集團股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1065)

Executive Directors:

Mr. Ji Guanglin (*Chairman*)
Mr. Li Yang
Ms. Jing Wanying

Non-executive Directors:

Ms. Peng Yilin
Mr. An Pindong
Mr. Liu Tao

Independent Non-executive Directors:

Mr. Xue Tao
Mr. Wang Shanggan
Mr. Tian Liang

Registered Address:

12/F, TCEP Building,
76 Weijin South Road,
Nankai District,
Tianjin, the PRC
Postal code: 300381

13 February 2023

To the Shareholders

Dear Sir or Madam,

**(1) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION; AND
(2) DISCLOSEABLE AND CONNECTED TRANSACTION –
ACQUISITION OF ASSETS OF JINNAN SLUDGE DISPOSAL PLANT PROJECT**

I. INTRODUCTION

References are made to the Company's announcement dated 1 December 2022 in relation to the proposed amendments to the Articles of Association, the discloseable and connected transaction announcement dated 21 December 2022 in relation to the acquisition of assets of Jinnan Sludge Plant Project and the supplemental announcement dated 28 December 2022 in relation to the discloseable and connected transaction in relation to the acquisition of the assets of the Jinnan Sludge Plant Project.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with further information relating to (1) the proposed amendments to the Articles of Association; and (2) the discloseable and connected transaction in relation to the acquisition of assets of Jinnan Sludge Plant Project; and to give you a notice of the EGM to be convened to consider and if thought fit, approve, among other things, the resolutions in relation to the above matters.

II. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Company completed the procedures for registration and custody and restrictions on sale relating to the newly issued 143,189,655 A Shares under the Issuance at China Securities Depository and Clearing Corporation Limited Shanghai Branch on 28 September 2022 and the registered capital of the Company was increased from RMB1,427,228,430 to RMB1,570,418,085.

In view of the completion of the Issuance, on 1 December 2022, the Board considered and approved amendments to certain provisions of the Articles of Association to reflect the completion of the Issuance.

The details of the proposed amendments to the Articles of Association are set out as below:

Article 19

Original Article 19: After establishment, the Company has issued 452,495,000 ordinary shares, among which 340,000,000 are the overseas-listed foreign-invested shares (H shares), representing 25.56% of the total ordinary shares can be issued by the Company, and the 112,495,000 are domestic-listed domestic shares (A shares), representing 8.46% of the total ordinary shares can be issued by the Company.

Of the convertible bonds issued by the Company on 1 July 2004, as at 27 August 2007, RMB375,786,000 convertible bonds have been converted to 97,228,430 A shares, representing 6.8% of the total share capital.

The Company's current equity structure: 1,427,228,430 ordinary shares have been issued, of which are 1,087,228,430 domestic-listed domestic shares (A shares) representing 76.18% of the issued ordinary shares of the Company, and 340,000,000 foreign-listed foreign-invested shares (H shares), representing 23.82% of the issued ordinary shares of the Company.

LETTER FROM THE BOARD

Article 19 after
amendment:

After establishment, the Company has issued 452,495,000 ordinary shares, among which 340,000,000 are the overseas-listed foreign-invested shares (H shares), representing 25.56% of the total ordinary shares that can be issued by the Company, and 112,495,000 are domestic-listed domestic shares (A shares), representing 8.46% of the total ordinary shares that can be issued by the Company.

Of the convertible bonds issued by the Company on 1 July 2004, as at 27 August 2007, RMB375,786,000 convertible bonds have been converted to 97,228,430 A shares, representing 6.8% of the total share capital of the Company.

On 28 September 2022, the Company completed a non-public issuance of 143,189,655 A shares, representing 9.12% of the total share capital of the Company.

The Company's current equity structure: **1,570,418,085** ordinary shares have been issued, among which **1,230,418,085** are domestic-listed domestic shares (A shares), representing **78.35%** of the total share capital of the Company, and 340,000,000 are overseas-listed foreign-invested shares (H shares), representing **21.65%** of the total share capital of the Company.

Article 22

Original Article 22: The registered capital of the Company is RMB1,427,228,430.

Article 22 after
amendment: The registered capital of the Company is RMB**1,570,418,085**.

The English versions of the proposed amendments to the Articles of Association are unofficial translation of their respective Chinese versions. In the event of any inconsistency, the Chinese versions shall prevail.

The proposed amendments to the Articles of Association are subject to the approval of the Shareholders at a Shareholder's general meeting by way of special resolution.

LETTER FROM THE BOARD

III. THE ACQUISITION

On 21 December 2022, the Board considered and approved the resolution on the Assets Transfer Agreement to be entered into between the Company and Tianjin Infrastructure Construction in relation to the Jinnan Sludge Plant Project. Pursuant to the Assets Transfer Agreement, the Company conditionally agreed to acquire and Tianjin Infrastructure Construction conditionally agreed to sell the Transferred Assets at a consideration of RMB471,825,900 (the “**Acquisition**”).

The principal terms of the Assets Transfer Agreement are set out below:

Date 21 December 2022

Parties (a) Tianjin Infrastructure Construction, as the transferor; and
(b) the Company, as the transferee (collectively, the “**Parties**”).

Subject Project

Jinnan Sludge Disposal Plant is located at Da Sun Zhuang (大孫莊), Jinnan District, Tianjin, on the northwest side of Jinnan Sewage Disposal Plant, with Tianjin Infrastructure Construction as the owner (the “**Jinnan Sludge Plant Project**”).

The construction of Jinnan Sludge Plant Project was commenced on 28 June 2014 and was completed on 29 December 2016. Tianjin Infrastructure Construction is mainly responsible for its investment and construction. Since 2015, it has entrusted Caring Company, a subsidiary of the Company, to be responsible for the commissioning and operation of the project.

Assets to be Acquired

Pursuant to the Assets Transfer Agreement, the assets to be acquired by the Company include the Existing Assets and the Existing Land Use Rights (the “**Transferred Assets**”).

The Existing Assets refer to buildings, structures and other auxiliary facilities, pipeline trenches, machinery and equipment, electronic equipment and other assets of Jinnan Sludge Plant Project included in the Scope of Assets Transfer, as well as spare parts and other inventories related to the existing assets.

The Scope of Assets Transfer includes:

1. the existing assets listed in the asset list and the spare parts and other inventories related to the existing assets in the asset valuation report;

LETTER FROM THE BOARD

2. all the information related to the Transferred Assets, such as operation manuals, operation summaries, records, design drawings, technical information, approval documents, contract agreements, customer information and daily operation data; and
3. all the rights and interests of Tianjin Infrastructure Construction in the Transferred Assets.

The Existing Land Use Rights refer to the land use rights of Jinnan Sludge Plant Project included in the Scope of Assets Transfer. The land transfer area for Jinnan Sludge Plant Project is 60,000.8 square metres (as stipulated in the real estate title certificate).

Information about the Transferred Assets

(i) The book value and valuation of the Transferred Assets

As at 30 June 2022, the book value of the Transferred Assets was approximately RMB488.9991 million. As at 30 June 2022, the appraised value of the Transferred Assets was approximately RMB471.8259 million.

The Transferred Assets are composed of a combination of asset groups. The total appraised value was approximately RMB17.1732 million lower than its book value, representing a discount of approximately 3.51%. The major reason for the difference was: Tianjin Infrastructure Construction does not possess the technology and qualifications for sludge operations. As the infrastructure investment and construction platform of Tianjin Municipal Government, Tianjin Infrastructure Construction has regarded Jinnan Sludge Plant Project as being constructed by it on behalf of the Government and therefore, as stated in the accounts provided by Tianjin Infrastructure Construction, the depreciation of the fixed assets under the equipment category of the Transferred Assets was not commenced on the commissioning date (14 February 2017 being the commencement date of operation), but on 26 April 2021 (such point of time being the time when the Sludge Disposal Contract for Jinnan Sludge Plant Project was renewed and Tianjin Infrastructure Construction began receiving revenue from the Transferred Assets; from the commencement date of the operation of Jinnan Sludge Plant Project to 25 April 2021, Tianjin Infrastructure Construction allowed the Group to use the Transferred Assets free of charge). In comparison, the independent valuer China Tong Cheng Assets Appraisal Co., Ltd. during valuation recognises depreciation having commenced in accordance with the commissioning time of such fixed assets under the equipment category, thus the depreciation period attributed to the book value is shorter than that attributed to the appraised value, resulting in the impaired valuation. In view of the above, the Directors are of the opinion that the said depreciation adjustments are fair and reasonable after reviewing the relevant inventory details and financial statements of the Transferred Assets, and communicating with the independent valuer, having regard to the fact that the appraised value more accurately reflects the actual time of commissioning of the Transferred Assets.

LETTER FROM THE BOARD

The Board has examined the relevant supporting documents and materials of the Transferred Assets (including the annex notes on valuation and breakdown of asset valuation of the asset valuation report issued by the independent valuer, China Tong Cheng Assets Appraisal Co., Ltd.), and understands that: the asset group of the Transferred Assets consists of 8 subheadings, including raw materials in stock, buildings, structures, pipes and trenches, machinery and equipment, electronic equipment, land use rights, and other intangible assets. Each subheading consists of several asset breakdowns, raw materials in stock consist of 48 asset breakdowns, buildings consist of 8 asset breakdowns, structures consist of 10 asset breakdowns, pipes and trenches consist of 4 asset breakdowns, machinery and equipment consists of 494 asset breakdowns, electronic equipment consists of 7 asset breakdowns, land use rights consist of 1 asset breakdown, and other intangible assets consist of 9 asset breakdowns. Each asset breakdown needs to be evaluated one by one during the asset valuation, and each subheading will be aggregated to an appraised value, and the final aggregate total will be the appraised value of this appointed asset group, i.e. RMB471,825,913.00.

The breakdown of the original input value for appraisal (replacement cost), the depreciation amount and the appraised value of each subheading of the asset group for the Transferred Assets is as follows:

Unit: RMB

No.	Subheading	Original input value (replacement cost)	Depreciation amount	Appraised value
1	Inventory	5,051,964.00	162,044.00	4,889,920.00
①	Raw materials in stock	5,051,964.00	162,044.00	4,889,920.00
2	Fixed assets	558,368,294.00	110,135,523.00	448,232,771.00
①	Building	106,993,402.00	9,349,289.00	97,644,113.00
②	Structure	41,392,897.00	5,165,015.00	36,227,882.00
③	Pipes and trenches	11,852,495.00	1,938,672.00	9,913,823.00
④	Machinery and equipment	398,081,800.00	93,651,917.00	304,429,883.00
⑤	Electronic equipment	47,700.00	30,630.00	17,070.00
3	Intangible assets	19,880,639.00	1,177,417.00	18,703,222.00
①	Land use rights	17,700,236.00	0.00	17,700,236.00
②	Other intangible assets	2,180,403.00	1,177,417.00	1,002,986.00
6	Total	583,300,897.00	111,474,984.00	471,825,913.00

LETTER FROM THE BOARD

The Board has reviewed the asset valuation report issued by China Tong Cheng Assets Appraisal Co., Ltd. and has considered that (1) China Tong Cheng Assets Appraisal Co., Ltd. has confirmed that (i) the valuation of the Transferred Assets using the replacement cost method is in line with the methods commonly adopted in the market; and (ii) the assumptions adopted are similar to those commonly adopted for valuations of similar nature and are necessary to achieve a reasonable estimated value for the Transferred Assets; (2) the independence, qualification and experience of China Tong Cheng Assets Appraisal Co., Ltd. in relation to such valuation; and (3) the valuation was conducted by China Tong Cheng Assets Appraisal Co., Ltd. in accordance with the relevant PRC laws, regulations and valuation standards.

Based on the above, the Directors consider that the valuation methodology and the principal bases and assumptions used by China Tong Cheng Assets Appraisal Co., Ltd. are fair and reasonable and therefore endorse its valuation conclusion.

Details of the valuation of the Transferred Assets held by Tianjin Infrastructure Construction as at 8 December 2022 conducted by China Tong Cheng Assets Appraisal Co., Ltd. are set out in Appendix I. The English version of the asset valuation report is an unofficial translation of its Chinese version. In case of any discrepancy between the Chinese version and English version, the Chinese version shall prevail.

(ii) Net profits attributable to the Transferred Assets

The Jinnan Sludge Plant Project, which was the subject of the Acquisition, commenced operation in February 2017. As Tianjin Infrastructure Construction does not have the qualification and ability to conduct sludge disposal and operation, while Caring Company, a controlled subsidiary of the Company, has extensive operating experience in the sludge disposal field, since the day of the formal operation of Jinnan Sludge Plant Project, the Company had delivered the sludge to Caring Company for its disposal through Jinnan Sludge Plant Project, for which, the Company paid operation fee to Caring Company. Meanwhile, no payment was made to Tianjin Infrastructure Construction. The said situation had remained until 25 April 2021 and therefore there would be no profits attributable to the Jinnan Sludge Plant Project for the period between 1 January 2021 and 25 April 2021.

LETTER FROM THE BOARD

References are made to the announcement of continuing connected transactions of the Company dated 26 April 2021 in relation to the Sludge Disposal Contract and Entrusted Operation Agreement of Jinnan Sludge Disposal Plant, and the announcement of continuing connected transactions of the Company dated 26 April 2022 in relation to the renewal of Sludge Disposal Contract and Entrusted Operation Agreement of Jinnan Sludge Disposal Plant (collectively the “**Announcements of Continuing Connected Transactions**”). As stated in the Announcements of Continuing Connected Transactions, the sludge disposal business is becoming increasingly market-based. Having taken account of the sludge disposal market environment in Tianjin and the actual situations of the Company and Caring Company, the Company entered into the Sludge Disposal Contract with Tianjin Infrastructure Construction on 26 April 2021 upon negotiation with Tianjin Infrastructure Construction. The Company had delivered the sludge produced from four sewage treatment plants in Tianjin to the Jinnan Sludge Plant Project, at a market price of RMB370 per tonne for disposal by the Jinnan Sludge Plant Project and the sludge disposal fee of RMB370 per tonne was paid to Tianjin Infrastructure Construction. Given that Caring Company has extensive operating experience in the sludge disposal field, Tianjin Infrastructure Construction formally entrusted Caring Company to operate the Jinnan Sludge Plant Project. Caring Company and Tianjin Infrastructure Construction entered into the Entrusted Operation Agreement, under which the service fee of RMB249 per tonne for the entrusted operation was paid by Tianjin Infrastructure Construction to Caring Company based on the actual amount of sludge disposed of. The service fee of RMB249 per tonne is the same as the sludge disposal fee previously paid by the Company to Caring Company.

Due to the aforesaid situation, the Transferred Assets did not generate any revenue before 25 April 2021. Accordingly, the net profits before taxation attributable to the Transferred Assets for the year ended 31 December 2020 is RMB0 (the net profits after taxation attributable to the Transferred Assets is RMB0), and the net profits before taxation attributable to the Transferred Assets for the year ended 31 December 2021 is RMB1,130,600 (the net profits after taxation attributable to the Transferred Assets is RMB1,130,600).

(iii) Ownership certificates

As of the Latest Practicable Date, the buildings included in the Transferred Assets have not yet obtained the ownership certificates. Since the Transferred Assets (including the buildings) were all funded and constructed by Tianjin Infrastructure Construction and it can be confirmed from the legal and financial perspectives that the Transferred Assets belong to Tianjin Infrastructure Construction, and therefore the ownership rights of the buildings included in the Transferred Assets are clear and unambiguous, and would not affect the actual possession and use, nor would it affect the transaction of such asset. Currently, Tianjin Infrastructure Construction is actively processing the ownership certificates of the buildings of the Transferred Assets.

LETTER FROM THE BOARD

In respect of the outstanding matters such as the unconfirmed status of the ownership certificates of the buildings included in the Transferred Assets and the potential restrictions on the transfer of assets, the Company sought to resolve the issue by entering into the conditional Assets Transfer Agreement, among which Tianjin Infrastructure Construction is required to, among other things, obtain complete ownership of the Transferred Assets and its interests and rights in order to satisfy the conditions precedent to the Assets Transfer Agreement, for details please refer to the section headed “Conditions Precedent” in Part III of the Letter from the Board in this circular.

Pursuant to the Assets Transfer Agreement, if the Company is unable to obtain all interests or the proof of ownership of the Transferred Assets within 6 months after the Assets Interest Transfer Date due to any reasons on the part of Tianjin Infrastructure Construction, Tianjin Infrastructure Construction shall refund all transferred amounts paid to the Company including the Deposit as soon as practicable unless otherwise agreed by the Parties, for details please refer to the section headed “Completion” in Part III of the Letter from the Board in this circular.

In addition, as mentioned above, the Jinnan Sludge Plant Project was invested by Tianjin Infrastructure Construction and constructed by the Company on its behalf. Since its completion, Jinnan Sludge Plant Project has been operated by Caring Company, a subsidiary of the Company, for the disposal of sludge generated from the Company’s four sewage treatment plants located in the central district of Tianjin, and therefore the Company has full control over the use of the Transferred Assets.

In summary, in view of the Assets Transfer Agreement entered into between the Company and Tianjin Infrastructure Construction and the fact that the subsidiary of the Company has been responsible for operating the Jinnan Sludge Plant Project, the Board is of the view that any impact to the Company’s ownership, rights and usage of the Transferred Assets would be minimal.

(iv) Sale and leaseback arrangement

The Jinnan Sludge Plant Project is currently under a sale and leaseback arrangement (between Tianjin Infrastructure Construction and a finance lease company, Tianjin Jinfulong Financial Leasing Co., Ltd.) for the period from 28 April 2022 to 27 April 2023, for details please refer to the section headed “(6) Nature, amount and relationship with the subject of valuation of guarantees, leases and contingent liabilities (contingent assets)” in Appendix I – Asset Valuation Report to this circular.

LETTER FROM THE BOARD

Upon expiry of the sale and leaseback, the settlement will be made between Tianjin Infrastructure Construction and Tianjin Jinfulong Financial Leasing Co., Ltd. and such settlement does not concern the Company. Tianjin Jinfulong Financial Leasing Co., Ltd. has issued the “Explanation on Consent to the Assets Transfer of Jinnan Sludge Plant by Tianjin Infrastructure Construction”(《關於同意城投集團對津南污泥廠進行資產轉讓的說明》), agreeing to the transfer of the Jinnan Sludge Treatment Plant Project by Tianjin Infrastructure Construction to a third party subject to its guarantee to settle the business upon the expiry of the sale and leaseback contract, and therefore such sale and leaseback would not pose any obstacle to the Company’s interests in the Jinnan Sludge Plant Project.

In addition, the Company sought to resolve the matter of the existence of restrictions on the Transferred Assets (i.e. finance lease) by entering into the conditional Assets Transfer Agreement. As mentioned above, Tianjin Infrastructure Construction is required to, among other things, obtain complete ownership to the Transferred Assets and its interests and rights in order to satisfy the conditions precedent of the Assets Transfer Agreement, failing which Tianjin Infrastructure Construction shall refund the deposit in full and terminate the Assets Transfer Agreement on or before 30 June 2023 in accordance with the Assets Transfer Agreement.

In view of the above, the Board is of the opinion that the Assets Transfer Agreement effectively protects the Company’s interests and therefore the sale and leaseback would not pose any obstacle to the Company’s interests in the Jinnan Sludge Plant Project.

Consideration

Pursuant to the Assets Transfer Agreement, the transfer price is RMB471,825,900 (the “**Consideration**”).

The Consideration shall be payable by the Company to Tianjin Infrastructure Construction in the following manner:

1. Upon consideration and approval of the Acquisition by the Board of the Company, the Company shall pay the deposit (the “**Deposit**”) in respect of the Acquisition amounting to 20% of the Consideration to Tianjin Infrastructure Construction within 15 days after entering into the Assets Transfer Agreement between Tianjin Infrastructure Construction and the Company. The Company shall pay the second installment (the “**Second Installment**”) to Tianjin Infrastructure Construction amounting to 70% of the Consideration within 15 days after the Conditions Precedent are fulfilled. The remainder shall be fully paid within 180 days after Tianjin Infrastructure Construction has fulfilled all obligations under the Assets Transfer Agreement.

LETTER FROM THE BOARD

2. Unless otherwise agreed by the Parties, where the Company fails to pay the Deposit as agreed in the Assets Transfer Agreement, the Company shall pay default damages daily on the basis of 0.01 percent of the Deposit to Tianjin Infrastructure Construction, and Tianjin Infrastructure Construction shall be entitled to terminate the Assets Transfer Agreement since the 16th day after the consideration and approval of the Acquisition by the Board of the Company and the execution of the Assets Transfer Agreement between Tianjin Infrastructure Construction and the Company.
3. Unless otherwise agreed by the Parties, where the Company fails to pay the Second Installment as agreed in the Assets Transfer Agreement, the Company shall pay default damages daily on the basis of 0.01 percent of the Second Installment to Tianjin Infrastructure Construction, and Tianjin Infrastructure Construction shall be entitled to terminate the Assets Transfer Agreement since the 16th day after the effective date of the Assets Transfer Agreement.
4. Unless otherwise agreed by the Parties, where the Company fails to pay the remainder as agreed in the Assets Transfer Agreement, the Company shall pay default damages daily on the basis of 0.01 percent of the outstanding portion of the remainder to Tianjin Infrastructure Construction, and Tianjin Infrastructure Construction shall be entitled to terminate the Assets Transfer Agreement since the 181st day after fulfillment of all of the obligations in the Assets Transfer Agreement by Tianjin Infrastructure Construction.

Basis for Determining the Consideration

The consideration was determined after arm's length negotiations between the Company and Tianjin Infrastructure Construction on normal commercial terms and with reference to, among other things, an asset valuation report dated 8 December 2022 prepared by China Tong Cheng Assets Appraisal Co., Ltd., an independent valuer, which made the valuation conclusion based on the results of cost approach valuation and determined the appraised value of the Transferred Assets, pursuant to which the appraised value of the Transferred Assets as at 30 June 2022 was approximately RMB471,825,900.

On the basis of the aforesaid valuation results, the consideration for the Transferred Assets was determined accordingly to be RMB471,825,900, and there was no premium over the appraised value.

LETTER FROM THE BOARD

Although the valuation benchmark date of the asset valuation report is 30 June 2022, Tianjin Infrastructure Construction is required to conduct audit, appraisal and state-owned assets approval procedures on this basis, and the asset valuation report is valid for one year. During the period of more than five months between the valuation benchmark date of the asset valuation report and the Assets Transfer Agreement, the Directors consider that there have been no material changes in the macro-economy, the industry and the Transferred Assets and therefore it is fair and reasonable to use the valuation results of the asset valuation report as the basis for pricing, which is also in line with the practice of state-owned property rights transactions in the PRC.

In addition, having reviewed the asset valuation report, the Directors understand that the independent valuer used the cost approach for the valuation for the following reasons:

In accordance with the Practising Standards for Asset Valuation – Asset Valuation Methods (Zhong Ping Xie [2019] No. 35), in performing asset valuation business, the valuer shall analyse the applicability of the three basic asset valuation approaches, namely the market approach, the income approach and the cost approach, based on the characteristics of the valuation target, the type of value, the collection of information and other relevant conditions, and select the valuation approach appropriately.

The valuation target (i.e. the Transferred Assets) is a project asset group consisting of individual assets. No similar transaction cases can be referred to and the market approach cannot be adopted for valuation. Although the valuation target is a portfolio of assets that can obtain income, the project is an infrastructure project funded and constructed by the client (i.e. Tianjin Infrastructure Construction) on behalf of the government, and is not responsible for the actual operation of the project. No individual financial audit has ever been conducted in respect of the project alone thus it is temporarily unable to reasonably forecast the data and parameters related to its income. Therefore, the income approach is not suitable for this valuation. As the assets of the valuation target are clear and each asset can be appraised separately by reasonable methods, the cost method is adopted for this valuation.

The Directors agree with the opinion of the independent valuer that it is appropriate to value the Transferred Assets using the cost approach.

LETTER FROM THE BOARD

In the course of the valuation, the independent valuer conducted an analysis on the valuation target, the scope of the valuation, the valuation method, the valuation basis, the valuation assumptions and the setting of core parameters, etc. After considering a series of issues relating to the valuation report such as whether the calculation method of the valuation was reasonable, whether the procedures of the valuation were in place and the condition of the principal assets of the Transferred Assets, the Directors determined that the valuation method and the valuation basis, etc. adopted in the asset valuation report could give a fair view of the appraised value of the Transferred Assets. After the asset valuation report was issued, the client (Tianjin Infrastructure Construction) made a public announcement of the valuation and organised an expert review meeting to invite senior experts to conduct professional review of the asset valuation report in accordance with the regulations governing the filing of asset valuations. The independent valuer responded in writing to the experts' comments and revised the valuation report. After joint examination of the valuation report by the experts and the client, the asset valuation report completed the filing process. The above process has resulted in an asset valuation report that has been approved by the Company and has completed the filing process. The Directors consider it fair and reasonable to use the valuation results as the basis for the consideration for the Transferred Assets.

The Company has conducted detailed due diligence on the Transferred Assets: the Jinnan Sludge Plant Project is used to receive sludge generated from sewage plants in the central city of Tianjin, and has achieved the treatment target of "reduction, stabilisation and harmlessness" of sludge. The project has a design capacity of 800t (20% DS)/d and is currently operating at full capacity, with an equipment integrity rate of over 95%, which is higher than the industry standard. The quality of the discharged sludge meets the relevant requirements of Disposal of Sludge from Municipal Wastewater Treatment Plan – Quality of Sludge Used in Gardens or Parks (GBT 23486-2009) and Disposal of Sludge from Municipal Wastewater Treatment Plan – Quality of Sludge Used in Land Improvement (GBT 24600-2009), all of which are applied as soil for gardens or parks. Having reviewed the due diligence report and taken relevant professional advice, the Directors are of the view that the Jinnan Sludge Plant Project has the ability to continue as a going concern and its operation mode is in line with the Company's strategic layout for the sludge disposal business. The Company has also appointed relevant management and finance staff of the Company to conduct on-site investigation on the Jinnan Sludge Plant Project, including on-site understanding and inspection of the experience management and asset operation of the Jinnan Sludge Plant Project, etc. Based on the results of the investigation, the Directors are of the view that the asset operation of Jinnan Sludge Plant is in good condition.

LETTER FROM THE BOARD

The Directors have communicated and discussed with the management regarding the background, necessity and reasonableness of the valuation of the Acquisition. In addition to the financial data of the Transferred Assets, the valuation results, the due diligence and the results of the site visit in assessing the Acquisition, the Directors have also considered (i) the scale of operation of the Transferred Assets; (ii) the acquisition of the Jinnan Sludge Plant Project which will help the Company to further expand its business scale and can create synergies; and (iii) the reasons and factors set out in “Reasons for and Benefits of the Acquisition” in this circular.

Funding Sources

The Company currently expects that the Consideration will be funded by internal resources and bank borrowings.

Conditions Precedent

The payment of the Second Instalment and the Completion are conditional upon the following conditions having been fulfilled or maintained (or waived) on or before 30 June 2023 (“**Conditions Precedent**”):

- (a) the Assets Transfer Agreement being duly signed and remaining effective;
- (b) the work report being prepared and completed by the transfer team, and being signed and confirmed by the Parties;
- (c) Tianjin Infrastructure Construction is the legal and beneficial owner of the Transferred Assets and has complete ownership of the Transferred Assets, and the Transferred Assets are free from all encumbrances or third party rights of any nature;
- (d) Tianjin Infrastructure Construction having completed all necessary internal decision-making procedures (such as approval by the board of directors) and all approval procedures required by any competent government and/or regulatory authorities in respect of the Assets Transfer Agreement and the transaction contemplated thereunder;
- (e) the Company having completed all necessary internal decision-making procedures (such as the approval of the Board) and all approval procedures required by any competent government and/or regulatory authorities in respect of the Assets Transfer Agreement and the transaction contemplated thereunder (including but not limited to obtaining the approval or confirmation of no comment by the Stock Exchange for the relevant announcement and circular of the Company);

LETTER FROM THE BOARD

- (f) the independent shareholders of the Company having passed the necessary resolutions at the general meeting to approve the transaction contemplated under the Assets Transfer Agreement;
- (g) Tianjin Infrastructure Constructions's warranties remaining true, accurate and not misleading in all respects as at the Assets Interest Transfer Date, as if repeated on the Assets Interest Transfer Date and during the period from the date of the Assets Transfer Agreement to the Assets Interest Transfer Date;
- (h) no order or judgement (whether temporary, preliminary or permanent) of any relevant governmental authority or any applicable law or regulation being issued or made prior to the Asset Interest Transfer Date that has the effect of making any party's completion of any transaction contemplated under the Assets Transfer Agreement unlawful or otherwise prohibiting or restricting any party from completing any transaction contemplated under the Assets Transfer Agreement;
- (i) Tianjin Infrastructure Construction having performed in all respects the undertakings and covenants in accordance with the Assets Transfer Agreement; and
- (j) there having been no material adverse change to the Transferred Assets between the date of the Assets Transfer Agreement and the Assets Interest Transfer Date.

The Company is entitled to exercise its discretion to waive the fulfilment of the above Conditions Precedent. As at the Latest Practicable Date, the Company does not intend to waive any of the Conditions Precedent.

If the Conditions Precedent are not fully satisfied, the Board may consider waiving any of the Conditions Precedent after taking into account the interests of the Company and the Shareholders as a whole.

Refund of the Deposit

Tianjin Infrastructure Construction shall return the Deposit in full to the Company on or before 30 June 2023 if the Conditions Precedent are not fulfilled or waived under the Assets Transfer Agreement on or before 30 June 2023.

Upon the Deposit being returned in full to the Company in accordance with the Assets Transfer Agreement, the Assets Transfer Agreement (save for surviving clauses) shall cease to take effect, and all of the responsibilities and obligations of the Parties under the Assets Transfer Agreement shall cease to be of any effect (save for any party's claim against the other party arising from the defaults before the termination as otherwise prescribed by the Assets Transfer Agreement).

LETTER FROM THE BOARD

Completion

The Assets Interest Transfer Date shall be the first working day after all of the Conditions Precedent are satisfied.

On the Assets Interest Transfer Date, Tianjin Infrastructure Construction shall deliver all of the Transferred Assets to the Company, and the Transferred Assets shall be delivered in the current state.

After the Assets Interest Transfer Date, the Parties shall conduct the transfer procedure in respect of the Transferred Assets (including the Existing Assets and the Existing Land Use Rights) in accordance with the requirements of the applicable laws, such that the Company can obtain all of the assets interests or certification of the ownership of the Transferred Assets within 6 months after the Assets Interest Transfer Date.

If the Company is unable to obtain all of the assets interests or certification of the ownership of the Transferred Assets due to any reasons on the part of Tianjin Infrastructure Construction, Tianjin Infrastructure Construction shall refund all transferred amounts paid to the Company including the Deposit as soon as practicable unless otherwise agreed by the Parties.

Information on the Parties

The Company is principally engaged in the investment, construction, design, management, operation, technical consultation and auxiliary services for sewage water, tap water and other types of water treatment facilities; the design, construction, management, building and operational management of municipal infrastructures; license operation, technical consultation and auxiliary services of Southeastern Half Ring Urban Road of the Middle Ring of Tianjin; development and operation of environmental protection technology and products; leasing of self-owned properties, etc. Tianjin Infrastructure Construction is the ultimate controlling company of the Company and the sole shareholder of TMICL (the controlling shareholder of the Company), holding 100% equity interest in TMICL.

Tianjin Infrastructure Construction is principally engaged in investment in river comprehensive development and renovation, subway trains, urban roads and bridges, underground pipeline networks, urban environment infrastructures with self-owned funds; investment planning; corporate management consultation; market construction development services; leasing of self-owned buildings; leasing of infrastructures and development and operation of utilities; construction investment consultation. As of the Latest Practicable Date, the ultimate beneficial owner of Tianjin Infrastructure Construction is Tianjin SASAC.

LETTER FROM THE BOARD

Reasons for and Benefits of Entering into the Assets Transfer Agreement

The acquisition of Jinnan Sludge Plant Project by the Company is conducive to the expansion of the Company's existing water business and the realisation of the strategic planning goal of Tianjin's development of water resources utilisation. At the same time, it will expand the sludge disposal business of the Company and realise the strategic development plan of the Company's industrial chain extension. The Acquisition will help the Company to prevent the risk of non-going operation and obtain stable profits on the basis of long-term healthy development, and enhance the Company's market competitiveness in the environmental protection field.

Implications of the Listing Rules

As stated above, Tianjin Infrastructure Construction is the ultimate controlling company of the Company and therefore Tianjin Infrastructure Construction is regarded as a connected person of the Company under the Listing Rules. Under the Listing Rules, the transaction contemplated under the Assets Transfer Agreement constitutes a connected transaction of the Company.

As one or more of the applicable percentage ratios in respect of the transaction contemplated under the Assets Transfer Agreement exceed 5% but all are less than 25%, the transaction contemplated under the Assets Transfer Agreement constitutes a discloseable and connected transaction of the Company under the Listing Rules and is therefore subject to the reporting, announcement, circular and independent shareholders' approval requirements under the Listing Rules.

Mr. Ji Guanglin, being an executive Director of the Company, and Ms. Peng Yilin and Mr. An Pindong, being non-executive Directors of the Company, are connected with Tianjin Infrastructure Construction or TMICL and are considered unable to make any recommendation to the Board in respect of the Acquisition in their independent capacity. Therefore, they have abstained from voting on the approval of the Acquisition at the relevant Board meeting. Save as aforesaid, no other Directors have a material interest in the Acquisition, and therefore no other Directors have abstained from voting on the relevant Board resolution.

IV. EXTRAORDINARY GENERAL MEETING

The EGM of the Company will be convened and held at 2:00 p.m. on 1 March 2023 at the conference room of the Company on 5/F, TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC. A notice of the EGM is set out on pages EGM-1 to EGM-2 of this circular. At the EGM, voting by the Shareholders will be conducted by way of poll.

LETTER FROM THE BOARD

Whether or not you intend to attend the EGM, you are requested to complete and return the proxy form in accordance with the instructions printed thereon to the Company's H share registrar and transfer office, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or the Company's principal office at TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC, as soon as possible and in any event not less than 24 hours before the time for holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

As at the Latest Practicable Date, TMICL directly held 715,565,186 A Shares, representing approximately 45.57% of the total issued share capital of the Company, and had a material interest in the Acquisition. Therefore, it was required under the Listing Rules to abstain from voting on the resolution to be proposed at the EGM in relation to the Acquisition. Save as aforesaid, to the best of the Directors' knowledge, information and belief after making all reasonable enquiries, no other Shareholders have a material interest in the Acquisition. Therefore, no other Shareholders are required to abstain from voting at the EGM.

V. RECOMMENDATIONS

Your attention is drawn to the recommendation of the Independent Board Committee and the letter of advice from Gram Capital, both contained in this circular regarding their respective advice on the Assets Transfer Agreement and the transaction contemplated thereunder. The Independent Shareholders are advised to read these letters before deciding how to vote on the resolutions in the EGM.

The Directors consider that (1) the proposed amendments to the Articles of Association; (2) the Assets Transfer Agreement and the transaction contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

In view of the above, the Board recommends that the Shareholders shall vote in favour of the relevant resolutions to be proposed at the EGM.

LETTER FROM THE BOARD

VI. RESPONSIBILITY STATEMENT

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

By order of the Board of
**TIANJIN CAPITAL ENVIRONMENTAL PROTECTION
GROUP COMPANY LIMITED**

Ji Guanglin

Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of recommendation from the Independent Board Committee to the Independent Shareholders prepared for the purpose of inclusion in this circular.



Tianjin Capital Environmental Protection Group Company Limited
天津創業環保集團股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1065)

13 February 2023

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF ASSETS OF JINNAN SLUDGE PLANT PROJECT

We refer to the circular of the Company to the Shareholders dated 13 February 2023 (the “**Circular**”), of which this letter forms part. Unless specified otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as the Independent Board Committee to consider the Assets Transfer Agreement and the transaction contemplated thereunder, to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Assets Transfer Agreement and the transaction contemplated thereunder, and to recommend how the Independent Shareholders should vote at the EGM. Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board and letter from Gram Capital set out on pages 4 to 22 and pages 25 to 38 of the Circular respectively, and the additional information set out in the appendices to the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the terms of the Assets Transfer Agreement and the transaction contemplated thereunder and the principal factors and reasons considered by Gram Capital, we agree with the view of Gram Capital and consider that the Assets Transfer Agreement and the transaction contemplated thereunder are entered into in the ordinary and usual course of business of the Company on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend you to vote in favour of the resolution to be proposed at the EGM to approve the Assets Transfer Agreement and the transaction contemplated thereunder.

Yours faithfully,

The Independent Board Committee

Mr. Xue Tao

Mr. Wang Shanggan

Mr. Tian Liang

Independent non-executive Directors

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders in respect of the Acquisition for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

13 February 2023

*To: The Independent Board Committee and the Independent Shareholders
of Tianjin Capital Environmental Protection Group Company Limited*

Dear Sir/Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 13 February 2023 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

With reference to the Board Letter, the Company (as transferee) and Tianjin Infrastructure Construction (as transferor) entered into the Assets Transfer Agreement, pursuant to which the Company conditionally agreed to acquire and Tianjin Infrastructure Construction conditionally agreed to sell the Transferred Assets at the Consideration of RMB471,825,900.

With reference to the Board Letter, the Acquisition constitutes a discloseable and connected transaction of the Company under Chapter 14 and Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders’ approval requirements under the Listing Rules.

LETTER FROM GRAM CAPITAL

The Independent Board Committee comprising Mr. Xue Tao, Mr. Wang Shanggan and Mr. Tian Liang, being all of the independent non-executive Directors, has been formed to advise the Independent Shareholders on (i) whether the terms of the Acquisition are on normal commercial terms and are fair and reasonable; (ii) whether the Acquisition is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of the business of the Company; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Acquisition at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as independent financial adviser regarding the proposed extension of the validity of the resolutions in respect of the Issuance as contained in the Company's circular dated 27 September 2021. Notwithstanding the aforesaid past engagement, as at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company or any other parties that could be reasonably regarded as a hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Acquisition. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

LETTER FROM GRAM CAPITAL

We have not made any independent evaluation or appraisal of the Transferred Assets, and we have not been furnished with any such evaluation or appraisal, save as and except for the asset valuation report on the Transferred Assets (the “**Valuation Report**”) as set out in Appendix I to the Circular, as prepared by China Tong Cheng Assets Appraisal Co., Ltd., an independent valuer (the “**Valuer**”). Since we are not experts in valuation of land, property and assets, we have relied solely upon the Valuation Report for the appraised value of the Transferred Assets.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the 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 the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Tianjin Infrastructure Construction or their respective subsidiaries or associates (if applicable), nor have we considered the taxation implication on the Group or the Shareholders as a result of the Acquisition. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

LETTER FROM GRAM CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Acquisition, we have taken into consideration the following principal factors and reasons:

Information on the Company and the Group

With reference to the Board Letter, the Company is principally engaged in the investment, construction, design, management, operation, technical consultation and auxiliary services for sewage water, tap water and other types of water treatment facilities; the design, construction, management, building and operational management of municipal infrastructures; license operation, technical consultation and auxiliary services of Southeastern Half Ring Urban Road of the Middle Ring of Tianjin; development and operation of environmental protection technology and products; leasing of self-owned properties, etc.

Set out below are the financial information of the Group for the two years ended 31 December 2021 as extracted from the Company's annual report for the year ended 31 December 2021 (the **"2021 Annual Report"**) and the six months ended 30 June 2022 as extracted from the Company's interim report for the six months ended 30 June 2022 (the **"2022 Interim Report"**):

	For the six months ended 30 June 2022 <i>(unaudited)</i> RMB'000	For the year ended 31 December 2021 <i>(audited)</i> RMB'000	For the year ended 31 December 2020 <i>(audited)</i> RMB'000	Change from 2020 to 2021 %
Revenue	2,129,289	4,535,579	3,363,874	34.83
Operating profit	508,494	897,009	723,065	24.06
Net profit for the period/ year	411,306	719,010	606,138	18.62

LETTER FROM GRAM CAPITAL

As illustrated in the above table, the Group's revenue was approximately RMB4,536 million for the year ended 31 December 2021 ("FY2021"), represented a significant increase of approximately 34.83% as compared with that for the year ended 31 December 2020 ("FY2020"). With reference to the 2021 Annual Report, such increase in revenue was mainly due to (i) the unit price of some existing water utilities projects have increased and the amount of water has increased; (ii) with the business development and new projects put into operation, the scale of the Company's overall water utilities business and hazardous waste business increased; and (iii) in accordance with the provisions of the Interpretation of Accounting Standards for Business Enterprises No. 14, the Company recognized the construction service income corresponding to the public private partnership projects in the construction process for FY2021.

The Group's operating profit for FY2021 also increased by approximately 24.06% as compared to that for FY2020. With reference to the 2021 Annual Report, such increase in operating profit was mainly due to (i) the aforementioned increase in revenue; (ii) decrease in selling expenses; and (iii) decrease in finance costs. The Group's net profit was approximately RMB719 million for FY2021, represented increase of approximately 18.62% as compared with that for FY2020. We noted from the 2021 Annual Report that such increase was mainly due to the aforementioned increase in operating profit for FY2021.

The Group continued to make profit and the Group's net profit for the six months ended 30 June 2022 was approximately RMB411 million, represented an increase of approximately 22.14% as compared to that for the corresponding period in 2021.

With reference to the 2022 Interim Report, during the period of the "14th Five-Year Plan", the environment industry realized in-depth development in result-oriented systematized services. The sewage treatment business remained as the core business of the Company, at the same time extending its reach to water supply and recycled water businesses, composing the core business segment of the Company and establishing its capability in providing professional systematized services regarding water utilities continuously; the Company also developed strategic new businesses such as new energy heating and cooling supply, solid waste disposal, distributed photovoltaic power generation, environmental protection technology, etc., to create a comprehensive environmental service business layout for the Company by integrating the core business with different dimensions like business operations and resources etc., which in turn greatly supported the profitability of the Company, and resulting in its overall professional and systematized environmental service capability.

LETTER FROM GRAM CAPITAL

Information on Tianjin Infrastructure Construction

With reference to the Board Letter, Tianjin Infrastructure Construction is principally engaged in investment in river comprehensive development and renovation, subway trains, urban roads and bridges, underground pipeline networks, urban environment infrastructures with self-owned funds; investment planning; corporate management consultation; market construction development services; leasing of self-owned buildings; leasing of infrastructures and development and operation of utilities; construction investment consultation. As of the Latest Practicable Date, the ultimate beneficial owner of Tianjin Infrastructure Construction is Tianjin SASAC. Tianjin Infrastructure Construction is also the ultimate controlling company of the Company and the sole shareholder of TMICL (the controlling shareholder of the Company), holding 100% equity interest in TMICL.

Information on the Transferred Assets

With reference to the Board Letter:

- (i) The assets to be acquired by the Company include the Existing Assets and the Existing Land Use Rights.
- (ii) The Existing Assets refer to buildings, structures and other auxiliary facilities, pipeline trenches, machinery and equipment, electronic equipment and other assets of Jinnan Sludge Plant Project included in the Scope of Assets Transfer, as well as spare parts and other inventories related to the Existing Assets.
- (iii) The Existing Land Use Rights refer to the land use rights of Jinnan Sludge Plant Project included in the Scope of Assets Transfer. The land transfer area for Jinnan Sludge Plant Project is 60,000.8 square metres (as stipulated in the real estate title certificate).
- (iv) The Jinnan Sludge Plant Project, which was the subject of the Acquisition, commenced operation in February 2017. As Tianjin Infrastructure Construction does not have the qualification and ability to conduct sludge disposal and operation, while Caring Company, a controlled subsidiary of the Company, has extensive operating experience in the sludge disposal field, since the day of the formal operation of Jinnan Sludge Plant Project, the Company had delivered the sludge to Caring Company for its disposal through Jinnan Sludge Plant Project, for which, the Company paid operation fee to Caring Company. Meanwhile, no payment was made to Tianjin Infrastructure Construction. The said situation had remained until 25 April 2021.

LETTER FROM GRAM CAPITAL

- (v) As stated in the Announcements of Continuing Connected Transactions, the sludge disposal business is becoming increasingly market-based. Having taken account of the sludge disposal market environment in Tianjin and the actual situations of the Company and Caring Company, the Company entered into the Sludge Disposal Contract with Tianjin Infrastructure Construction on 26 April 2021 upon negotiation with Tianjin Infrastructure Construction. The Company had delivered the sludge produced from four sewage treatment plants in Tianjin to the Jinnan Sludge Plant Project, at a market price of RMB370 per tonne for disposal by the Jinnan Sludge Plant Project and the sludge disposal fee of RMB370 per tonne was paid to Tianjin Infrastructure Construction. Given that Caring Company has extensive operating experience in the sludge disposal field, Tianjin Infrastructure Construction formally entrusted Caring Company to operate the Jinnan Sludge Plant Project. Caring Company and Tianjin Infrastructure Construction entered into the Entrusted Operation Agreement, under which the service fee of RMB249 per tonne for the entrusted operation was paid by Tianjin Infrastructure Construction to Caring Company based on the actual amount of sludge disposed of. The service fee of RMB249 per tonne is the same as the sludge disposal fee previously paid by the Company to Caring Company.
- (vi) As of the Latest Practicable Date, the buildings included in the Transferred Assets have not yet obtained the ownership certificates. Since the Transferred Assets (including the buildings) were all funded and constructed by Tianjin Infrastructure Construction and it can be confirmed from the legal and financial perspectives that the Transferred Assets belong to Tianjin Infrastructure Construction, and therefore the ownership rights of the buildings included in the Transferred Assets are clear and unambiguous, and would not affect the actual possession and use, nor would it affect the transaction of such asset. Currently, Tianjin Infrastructure Construction is actively processing the ownership certificates of the buildings of the Transferred Assets. In respect of the outstanding matters such as the unconfirmed status of the ownership certificates of the buildings included in the Transferred Assets and the potential restrictions on the transfer of assets, the Company sought to resolve the issue by entering into the conditional Assets Transfer Agreement, among which Tianjin Infrastructure Construction is required to, among other things, obtain complete ownership of the Transferred Assets and its interests and rights in order to satisfy the conditions precedent to the Assets Transfer Agreement.

LETTER FROM GRAM CAPITAL

(vii) The Jinnan Sludge Plant Project is currently under a sale and leaseback arrangement (between Tianjin Infrastructure Construction and a finance lease company, Tianjin Jinfulong Financial Leasing Co., Ltd.) for the period from 28 April 2022 to 27 April 2023. Upon expiry of the sale and leaseback, the settlement will be made between Tianjin Infrastructure Construction and Tianjin Jinfulong Financial Leasing Co., Ltd. and such settlement does not concern the Company. Tianjin Jinfulong Financial Leasing Co., Ltd. has issued the “Explanation on Consent to the Assets Transfer of Jinnan Sludge Plant by Tianjin Infrastructure Construction”(《關於同意城投集團對津南污泥廠進行資產轉讓的說明》), agreeing to the transfer of the Jinnan Sludge Treatment Plant Project by Tianjin Infrastructure Construction to a third party subject to its guarantee to settle the business upon the expiry of the sale and leaseback contract, and therefore such sale and leaseback would not pose any obstacle to the Company’s interests in the Jinnan Sludge Plant Project. In addition, the Company sought to resolve the matter of the existence of restrictions on the Transferred Assets (i.e. finance lease) by entering into the conditional Assets Transfer Agreement. As mentioned above, Tianjin Infrastructure Construction is required to, among other things, obtain complete ownership to the Transferred Assets and its interests and rights in order to satisfy the conditions precedent of the Assets Transfer Agreement, failing which Tianjin Infrastructure Construction shall refund the deposit in full and terminate the Assets Transfer Agreement on or before 30 June 2023 in accordance with the Assets Transfer Agreement. In view of the above, the Board is of the opinion that the Assets Transfer Agreement effectively protects the Company’s interests and therefore the sale and leaseback would not pose any obstacle to the Company’s interests in the Jinnan Sludge Plant Project.

Reasons for and benefits of the Acquisition

With reference to the Board Letter, the acquisition of Jinnan Sludge Plant Project by the Company is conducive to the expansion of the Company’s existing water business and the realisation of the strategic planning goal of Tianjin’s development of water resources utilisation. At the same time, it will expand the sludge disposal business of the Company and realise the strategic development plan of the Company’s industrial chain extension. The Acquisition will help the Company to prevent the risk of non-going operation and obtain stable profits on the basis of long-term healthy development, and enhance the Company’s market competitiveness in the environmental protection field.

LETTER FROM GRAM CAPITAL

Having considered that (i) the Company has been delivering the sludge produced from four sewage treatment plants in Tianjin to the Jinnan Sludge Plant Project; and (ii) the Caring Company has been operating the Jinnan Sludge Plant Project, we are of the view that the Acquisition will facilitate the Group's business operation and development. Accordingly, we consider that the Acquisition is conducted in the ordinary and usual course of business the Company and is in the interest of the Company and the Shareholders as a whole.

1. Principal terms of the Assets Transfer Agreement

Summarised below are the principal terms for the Assets Transfer Agreement, details of which are set out under the section headed "III. THE ACQUISITION" of the Board Letter.

Date:

21 December 2022

Parties:

- (i) Tianjin Infrastructure Construction (as transferor)
- (ii) The Company (as transferee)

Assets to be acquired

The Transferred Assets

Consideration

Pursuant to the Assets Transfer Agreement, the Consideration is RMB471,825,900.

Upon consideration and approval of the Acquisition by the Board of the Company, the Company shall pay the Deposit in respect of the Acquisition amounting to 20% of the Consideration to Tianjin Infrastructure Construction within 15 days after entering into the Assets Transfer Agreement between Tianjin Infrastructure Construction and the Company. The Company shall pay the Second Installment to Tianjin Infrastructure Construction amounting to 70% of the Consideration within 15 days after the Conditions Precedent are fulfilled. The remainder shall be fully paid within 180 days after Tianjin Infrastructure Construction has fulfilled all obligations under the Assets Transfer Agreement.

LETTER FROM GRAM CAPITAL

With reference to the Board Letter, the Consideration was determined after arm's length negotiations between the Company and Tianjin Infrastructure Construction on normal commercial terms and with reference to, among other things, the Valuation Report prepared by the Valuer, which made the valuation conclusion based on the results of cost approach valuation and determined the appraised value of the Transferred Assets, pursuant to which the appraised value of the Transferred Assets as at 30 June 2022 was RMB471,825,900 (the "**Valuation**"). On the basis of the aforesaid valuation results, the Consideration was determined accordingly to be RMB471,825,900, and there was no premium over the appraised value.

With reference to the Board Letter, although the valuation benchmark date of the Valuation Report is 30 June 2022, Tianjin Infrastructure Construction is required to conduct audit, appraisal and state-owned assets approval procedures on this basis, and the asset valuation report is valid for one year. During the period of more than five months between the valuation benchmark date of the asset valuation report and the Assets Transfer Agreement, the Directors consider that there have been no material changes in the macro-economy, the industry and the Transferred Assets and therefore it is fair and reasonable to use the valuation results of the asset valuation report as the basis for pricing, which is also in line with the practice of state-owned property rights transactions in the PRC.

The Valuation Report

To assess the fairness and reasonableness of the Consideration, we obtained the Valuation Report prepared by the Valuer, details of which are set out in Appendix I to the Circular.

For our due diligence purpose, we reviewed and enquired into (i) the terms of engagement of the Valuer; (ii) the Valuer's qualification in relation to the preparation of the Valuation Report; and (iii) the steps and due diligence measures taken by the Valuer for preparing the Valuation Report. From the mandate letter and other relevant information provided by the Valuer and based on our interview with them, we were satisfied with the terms of engagement of the Valuer as well as their qualification for preparation of the Valuation Report. The Valuer also confirmed that they are independent to the Group and Tianjin Infrastructure Construction.

LETTER FROM GRAM CAPITAL

The Valuation Report was prepared by the Valuer and concluded by adopting cost approach. As confirmed by the Valuer, the Valuer has considered the three generally accepted business enterprise appraisal approaches to value, namely, income approach, market approach and cost approach. With reference to the Valuation Report:

- (i) The valuation target is a project asset group consisting of individual assets. No similar transaction cases can be referred to and the market approach cannot be adopted for valuation.
- (ii) Although the valuation target is a portfolio of assets that can obtain income, the project is an infrastructure project funded and constructed by the client on behalf of the government, and is not responsible for the specific operation of the project. The financial accounting has not been independently calculated according to the project, and it is temporarily unable to reasonably predict the data and parameters related to its income. Therefore, the income approach is not suitable for this valuation.
- (iii) As the assets of the valuation target are clear and each asset can be appraised separately by reasonable methods, the cost approach is adopted for this valuation.

Given the above, we consider the adoption of cost approach to be reasonable.

We further reviewed and enquired into the Valuer on the methodologies adopted and the basis and assumptions adopted in the Valuation Report in order for us to understand the Valuation Report. Under the Valuation Report, the Transferred Assets were categorised as (1) inventories; (2) housing and buildings; (3) equipment; and (4) intangible assets. We understood the followings from the Valuation Report:

- (1) Inventories – For the turnover materials in the warehouse, the market value of the turnover materials in the warehouse is determined by the verified quantity with reference to the recent market purchase price on the valuation benchmark date. For equipment that cannot be found at the prevailing market price, the market price of alternative products with similar functions will be selected and adjusted accordingly as the purchase price of the equipment, or the purchase price will be adjusted by using the ex-factory price index of industrial producers in the sub-industry published by the National Bureau of Statistics. For the used inventory turnover materials, the appraised value is calculated by calculating the newness rate.

LETTER FROM GRAM CAPITAL

- (2) Housing and buildings – The Valuer adopted the replacement cost method in arriving at the value of housing and buildings. Replacement cost method refers to a valuation method that first estimates the full replacement cost of the appraised assets (including construction and installation engineering cost, preliminary expenses and other expenses, administrative expenses and capital cost), then estimates various depreciation factors existing in the appraised assets, and deducts them from the full replacement cost to obtain the value of the appraised assets.
- (3) Equipment – The valuation of equipment fixed assets is based on the assumption that the assets are continued to be used in accordance with the transfer location, and determined by deducting physical depreciation, functional depreciation and economic depreciation of the appraised assets (or on the basis of determining the comprehensive newness rate) from the total cost required for the re-acquisition or construction of the appraised assets in a new state under the current conditions.
- (4) Intangible assets (land use rights) – The land parcel to be appraised is within the coverage of the benchmark land price in Tianjin, and the benchmark land price implemented on 1 March 2022 with availability. Therefore, benchmark land price coefficient correction method in public land price coefficient correction method can be adopted in this valuation. In addition, through on-site investigation, the area where the parcel of land to be appraised is located can collect land of the same purpose or similar land that has been sold in the form of public transfer in the past three years. In addition, the land price calculated by comparison can reflect the recent market conditions, and the market comparison method can be used. Accordingly, the benchmark land price coefficient correction method and the market comparison method are adopted in this valuation. The benchmark land price coefficient correction method is a method to estimate the objective price of the land parcel to be appraised by analyzing the factors affecting the land price of the land parcel to be appraised, using the land price correction coefficient of the land parcel to revise the benchmark land price of the land of the same type of use or the same area published in various cities and towns. Market comparison method refers to the method of comparing the land price of the land parcel to be appraised on the valuation date based on the principle of substitution, comparing the land parcel to be appraised with similar land transaction cases that have been transacted in the near recent time, and adjusting the land price of the land parcel to be appraised on the valuation date based on the known price of the latter with reference to the differences in the transaction conditions, date, region and individual factors of the land parcel.

LETTER FROM GRAM CAPITAL

- (5) Intangible assets (other intangible assets) – The other intangible assets are software customised for the operation and equipment operation of the Jinnan Sludge Plant Project. This valuation considers original acquisition cost and depreciation rate of such software in combination with useful life.

We also obtained detailed explanation of the Valuation Report from the Valuer and further understood their workings in arriving at the Valuation.

During our discussion with the Valuer and based on our understanding on the workings in arriving at the Valuation, we did not identify any major factor which caused us to doubt the fairness and reasonableness of the methodology, principal bases, assumptions and parameters adopted for the Valuation Report.

Having considered (i) that the Consideration equals to the Valuation; and (ii) our independent work performed on the Valuation Report, we are of the view that the Consideration is fair and reasonable.

With reference to the Board Letter, the Valuation represented a discount of approximately 3.51% to the book value of the Transferred Assets (“**Discount to Book Value**”). A major reason for such discount was different depreciation periods applied for the book value and the Valuation as detailed under the sub-section headed “Information about the Transferred Assets – (i) The book value and valuation of the Transferred Assets” of the Board Letter. Having also considered the details in arriving at the Valuation as set out above and that the Consideration represents a discount of approximately 3.51% to the book value of the Transferred Assets, the Discount to Book Value did not affect our assessment on the fairness and reasonableness of the Consideration.

Completion

The Assets Interest Transfer Date shall be the first working day after all of the Conditions Precedent are satisfied.

On the Assets Interest Transfer Date, Tianjin Infrastructure Construction shall deliver all of the Transferred Assets to the Company, and the Transferred Assets shall be delivered in the current state.

LETTER FROM GRAM CAPITAL

After the Assets Interest Transfer Date, the Parties shall conduct the transfer procedure in respect of the Transferred Assets (including the Existing Assets and the Existing Land Use Rights) in accordance with the requirements of the applicable laws, such that the Company can obtain all of the assets interests or certification of the ownership of the Transferred Assets within 6 months after the Assets Interest Transfer Date.

If the Company is unable to obtain all of the assets interests or certification of the ownership of the Transferred Assets due to any reasons on the part of Tianjin Infrastructure Construction, Tianjin Infrastructure Construction shall refund all transferred amounts paid to the Company including the Deposit as soon as practicable unless otherwise agreed by the Parties.

Taking into account the above principal terms of the Acquisition, we consider that the terms of the Acquisition are fair and reasonable.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Acquisition are on normal commercial terms and are fair and reasonable; and (ii) the Acquisition is conducted in the ordinary and usual course of the business of the Company and is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Acquisition and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

This report is prepared in accordance with China Asset Valuation Standards

**Tianjin City Infrastructure Construction and Investment
Group Co., Ltd.**

**Assets related to Jinnan Sludge Disposal Plant involved in
the Proposed Assets Transfer**

ASSET VALUATION REPORT

Zhong Tong Ping Bao Zi [2022] No. 131041

**Volume 1 of 1
Statement, Abstract, Text and Annex**

**China Tong Cheng Assets Appraisal Co., Ltd.
8 December 2022**

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STATEMENT

1. This Asset Valuation Report is prepared in accordance with the Asset Valuation Basic Standards issued by the Ministry of Finance and the Asset Valuation Practising Standards and Professional Ethics Standards issued by the China Appraisal Society.
2. The client or other users of the Asset Valuation Report shall use the Asset Valuation Report in accordance with the provisions of laws, administrative regulations and the scope of use specified in the Asset Valuation Report; if the client or other users of the Asset Valuation Report fail to use the Asset Valuation Report in accordance with the foregoing regulations, the asset valuation agency and its asset valuers shall not be liable.

This Asset Valuation Report shall only be used by the client, other users of the Asset Valuation Report as agreed in the Asset Valuation Engagement Contract and users of the Asset Valuation Report as stipulated by laws and administrative regulations. Except for the above, no other institution or individual shall be a user of the Asset Valuation Report.

The asset valuation agency and the asset valuers advise that users of the Asset Valuation Report should correctly understand and use the valuation conclusion, which is not equivalent to the realisable price of the valuation target, and the valuation conclusion should not be regarded as a guarantee for the realisable price of the valuation target.

3. We and our asset valuers adhere to the principles of independence, objectivity and impartiality, comply with laws, administrative regulations and asset valuation standards, and assume responsibility for the asset valuation report issued in accordance with the law.
4. The list of assets and other relevant information of the valuation target shall be reported by the client and confirmed by signing, sealing or other means permitted by law; the client and relevant parties shall be responsible for the authenticity, legality and completeness of the information provided by them in accordance with the law.
5. The asset valuation institution and the asset valuers have no existing or expected interest relationship with the valuation target in the valuation report; they have no existing or expected interest relationship with the relevant parties and have no prejudice against the relevant parties.
6. The asset valuers have conducted on-site investigation on the valuation target and the assets involved in the valuation report; has paid necessary attention to the legal ownership status of the valuation target and the assets involved, verified the legal ownership information of the valuation target and the assets involved, and truthfully disclosed the issues identified, and requested the client and relevant parties to improve the ownership to meet the requirements for issuing the valuation report.

7. The analysis, judgement and conclusion in the Asset Valuation Report issued by the asset valuation agency are subject to the assumptions and restrictions in the Asset Valuation Report. Users of the Asset Valuation Report shall fully consider the assumptions, restrictions and description of special matters set out in the Asset Valuation Report and their impact on the valuation conclusion.

ABSTRACT

1. CORRESPONDING ECONOMIC BEHAVIOUR IN THIS VALUATION

According to the “Resolution on Entrusting to Evaluate the Asset Value of Zhangguizhuang Water Recycling Plant and Jinnan Sludge Plant” (Asset (Investment) Management Department 11 October 2022), the “Resolution on the General Manager’s Office Meeting” (2022 (57th No. 2), Tianjin Infrastructure Construction 11 October 2022) and other documents provided by the entrusting party, Tianjin City Infrastructure Construction and Investment Group Co., Ltd. proposed to transfer all of its relevant assets of Jinnan Sludge Plant, and entrust China Tong Cheng Assets Appraisal Co., Ltd. to evaluate the relevant assets of Jinnan Sludge Plant, and sign the “Asset Valuation Entrustment Contract”.

2. PURPOSE OF VALUATION

The purpose of this valuation is to evaluate the relevant assets of Jinnan Sludge Disposal Plant involved in the proposed asset transfer of Tianjin City Infrastructure Construction and Investment Group Co., Ltd. and provide a value reference for it.

3. TARGET AND SCOPE OF VALUATION

The valuation target and scope of the valuation are consistent with those involved in economic activities.

The valuation target is the market value of the relevant assets of Jinnan Sludge Disposal Plant owned and reported by Tianjin City Infrastructure Construction and Investment Group Co., Ltd., the entrusting party.

The scope of valuation covers the relevant assets of Jinnan Sludge Disposal Plant owned and reported by Tianjin City Infrastructure Construction and Investment Group Co., Ltd., the entrusting party. Details of the declared assets are as follows:

Appraised entity: Tianjin City Infrastructure Construction and Investment Group Co., Ltd.

Unit: RMB0'000

Item	Book value
1 Current assets	246.92
2 Non-current assets	48,652.99
3 Including: fixed assets	47,920.35
4 Intangible assets	732.64
5 Total assets	48,899.91

4. VALUE TYPE

Market value

5. VALUATION BENCHMARK DATE

30 June 2022

6. VALUATION METHODOLOGY

Cost Approach.

7. VALUATION CONCLUSION AND ITS VALIDITY PERIOD

In accordance with the relevant laws, regulations, asset valuation standards and asset valuation principles, we adopted the cost approach and conducted the valuation in accordance with the necessary valuation procedures. The valuation conclusion is that as at 30 June 2022, being the valuation benchmark date, the appraised value of the relevant assets of Jinnan Sludge Disposal Plant was RMB471,825,900 (which is RMB four hundred and seventy-one million, eight hundred and twenty-five thousand, nine hundred and is accurate to a hundred), representing a decrease of RMB17,173,200 or a decreasing rate of 3.51% as compared with the book value of RMB488,999,100.

The valuation conclusion shall be valid for one year from the valuation benchmark date, i.e. from 30 June 2022 to 29 June 2023.

8. SPECIAL MATTERS AFFECTING THE VALUATION CONCLUSION

- (1) Important use of expert work and relevant reports;

Nil.

- (2) Incomplete or defective ownership information;

The buildings included in the scope of this valuation have not yet obtained the ownership certificates. This valuation is based on the actual area of each building recorded in the Planning, Acceptance and Measurement Report on the Jingu Sludge Disposal Plant Project (Circular Economy Demonstration Project) issued by Tianjin Institute of Surveying and Mapping Co., Ltd. on 1 September 2022. If there is any inconsistency with the gross floor area of the ownership certificates to be obtained in the future, the actual area stated in the certificate shall prevail. This valuation does not take into account the relevant taxes that may be payable for the building ownership certificates.

- (3) Restrictions of the valuation process;

Not discovered.

- (4) Incomplete valuation information;

Not discovered.

- (5) Legal, economic and other outstanding matters as at the valuation benchmark date;

Not discovered.

- (6) Nature, amount and relationship with the valuation target of guarantees, leases and contingent liabilities (contingent assets);

Based on the understanding of the valuers, as at the valuation benchmark date, all assets within the scope of this valuation are subject to sale-leaseback. According to the sale and leaseback contract, the ownership of the assets shall belong to Tianjin Jinfulong Financial Leasing Co., Ltd. (Party A) and Tianjin City Infrastructure Construction and Investment Group Co., Ltd. (Party B) shall only have the right to use the leased assets during the lease term from 28 April 2022 to 27 April 2023. If the leased assets involve concession or operation charges, the concession or operation right of the leased assets shall remain with Party B. Party B shall not sell, transfer, sublease, mortgage, pledge the leased assets to third parties or take any other actions that infringe the ownership of the leased assets during the lease term without the written consent of Party A. Tianjin Jinfulong Financial Leasing Co., Ltd. issued the “Explanation on the approval of the transfer of assets by Tianjin Infrastructure

Construction to Jinnan Sludge Plant”. In order to support Tianjin Infrastructure Construction to revitalise its assets, Tianjin Jinfulong Financial Leasing Co., Ltd. agreed to transfer Jinnan Sludge Disposal Plant to a third party by Tianjin Infrastructure Construction if it guaranteed to settle the business after the expiry of the sale and leaseback contract. Therefore, the impact of this matter on the appraised value has not been taken into account in this valuation.

This valuation conclusion does not take into account the impact of the unpaid relevant liabilities of the appraised assets and the possible mortgage and guarantee on the appraised value. The relevant liabilities of the declared assets and future disputes related to the ownership of the declared assets shall be borne by Tianjin City Infrastructure Construction and Investment Group Co., Ltd., which is unrelated to the valuation agency.

(7) Material subsequent events;

Not discovered.

(8) Defects that may have a significant impact on the valuation conclusion in the economic behaviour corresponding to this asset valuation;

Not discovered.

(9) Other matters that need to be explained.

1. The market value of the appraised assets is the value including value-added tax.
2. This valuation does not take into account the impact of relevant taxes and fees on the appraised value during the ownership transaction.
3. Due to the limitations of conditions, the valuers mainly adopted the on-site visual inspection method for buildings in this valuation, and did not conduct comprehensive technical inspection on buildings with the help of professional instruments; for the hidden parts that cannot be observed, the specific situation is based on the introduction of the appraised entity and the experience and judgement of the valuers.

The above content is extracted from the text of the valuation report. To understand the details of this valuation and correctly understand the valuation conclusion, please read the text of the valuation report.

**Tianjin City Infrastructure Construction and Investment
Group Co., Ltd.**

**Assets related to Jinnan Sludge Disposal Plant involved
in the Proposed Assets Transfer**

Asset Valuation Report

Zhong Tong Ping Bao Zi [2022] No. 131041

Tianjin City Infrastructure Construction and Investment Group Co., Ltd.:

China Tong Cheng Assets Appraisal Co., Ltd. has been engaged by the Company to appraise the market value of the relevant assets of Jinnan Sludge Disposal Plant as at 30 June 2022 by adopting the cost approach and carrying out necessary valuation procedures in accordance with the requirements of laws, administrative regulations and asset valuation standards on the principles of independence, objectivity and impartiality. The asset valuation is 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) Overview of the client and the appraised entity

Both the client and the appraised entity in this valuation are Tianjin City Infrastructure Construction and Investment Group Co., Ltd.

Name:	Tianjin City Infrastructure Construction and Investment Group Co., Ltd.
Type:	Limited liability company (wholly state-owned)
Unified credit code:	91120000764316259E
Legal address:	Chengtou Building, No. 161 Dagu North Road, Heping District, Tianjin
Legal representative:	Zhao Peng
Registered capital:	RMB seventy-two billion, seven hundred and eighty-seven million, three hundred and sixty thousand

Principal business scope: investment, construction, operation and management of urban infrastructure and ancillary projects such as sea and river comprehensive development and reconstruction, subways, intercity railways, urban roads and bridges, highways, sewage treatment, water supply, heat supply, waste disposal, car parks (buildings), underground pipe

network, park and green space with self-owned funds; investment and management services for the real estate industry and financial industry; land consolidation and regional development authorised by the government; protection construction, development and operation of historic buildings; building construction and municipal public engineering project management; investment planning; corporate management consulting; market construction and development services; lease of self-owned properties; infrastructure leasing and development and operation of public utility projects; infrastructure concessions granted by the government; construction investment consulting (the above business scope involves industry licences, which shall be operated within the validity period with licences, and shall be handled in accordance with the national special franchise regulations) (for projects subject to approval in accordance with the law, operation activities may only be carried out after approval by relevant authorities)

(2) Relationship between the client and the appraised entity

The client is the same as the appraised entity.

(3) Overview of other users of the Asset Valuation Report

This report shall only be used by the client and other users of the Asset Valuation Report as agreed in the asset valuation engagement contract, unless otherwise provided by laws and regulations.

II. PURPOSE OF VALUATION PURPOSE

According to the “Resolution on Entrusting to Evaluate the Asset Value of Zhangguizhuang Water Recycling Plant and Jinnan Sludge Plant” (11 October 2022) provided by the Asset (Investment) Management Department, the purpose of this project valuation is to evaluate the relevant assets of Jinnan Sludge Disposal Plant involved in the proposed asset transfer of Tianjin City Infrastructure Construction and Investment Group Co., Ltd. and provide a value reference for it. The economic behaviour has been approved by the “Resolution of the General Manager Office Meeting” (2022 (57th No. 2)) provided by the client and Tianjin Infrastructure Construction on 11 October 2022.

III. TARGET AND SCOPE OF VALUATION

The valuation target and scope of the valuation are consistent with those involved in economic activities.

The valuation target is the market value of the relevant assets of Jinnan Sludge Disposal Plant owned and reported by Tianjin City Infrastructure Construction and Investment Group Co., Ltd. Limited, the entrusting party.

The scope of valuation covers the relevant assets of Jinnan Sludge Disposal Plant owned and reported by Tianjin City Infrastructure Construction and Investment Group Co., Ltd., the entrusting party. Details of the declared assets are as follows:

Appraised entity: Tianjin City Infrastructure Construction and Investment Group Co., Ltd.

Unit: RMB0'000

Item	Book value
1 Current assets	246.92
2 Non-current assets	48,652.99
3 Including: fixed assets	47,920.35
4 Intangible assets	732.64
5 Total assets	48,899.91

(1) Project description:

Jinnan Sludge Disposal Plant is a sub-project of Jizhuangzi Sewage Disposal Plant Relocation Project, which commenced construction in June 2014 and commenced operation in August 2015. Jinnan Sludge Disposal Plant covers an area of 6 hectares and has a project scale of 800 tonnes/day (80% water contained in sludge), mainly treating the sludge collected by the sewage disposal plant in the central urban area. The treatment process adopted is the “high-efficiency anaerobic digestion + plate frame dewatering + drying process”. Through the effective removal of moisture, heavy metal, organic pollutants and other components in the sludge, all sludge is treated in a harmless manner. The sludge is used for green land, or land improvement, and meets the corresponding national technical standards after treatment, of which the water contained in the treated sludge reaches 40% to 60%. In 2021, the average daily sludge treatment was approximately 730 tonnes, with a load rate of approximately 91%. The total investment of the project was RMB518,000,000. Except for the special subsidy of RMB91,000,000 from the central government, the remaining RMB427,000,000 was funded by the land premium for the relocation of Jizhuangzi Sewage Disposal Plant. The project has passed the environmental and safety assessment, and the Tianjin Environmental Protection Bureau issued the “Letter of Environmental Protection Acceptance Opinions of the Municipal Environmental Protection Bureau on the Completion of the Jinnan Sludge Disposal Plant Project (Circular Economy Demonstration Project)” (Jin Huan Bao Xu Ke Yan [2017] No. 035). Tianjin Ankai Safety and Health Evaluation and Testing Co., Ltd. issued the “Safety Acceptance Evaluation Report” (July 2017).

Physical assets included in the scope of this valuation include: inventories and fixed assets.

Inventories include 48 revolving materials in the warehouse, with the original book value of RMB4,813,427.00 and the net book value of RMB2,469,234.00, which are mainly spare parts for the project, including assets such as bimetallic thermometer, pilot defibrillation spray head, analogue signal SPD, pressure metre, electronic balance, lab cart, single-person sofa, reading and activity room table. Some materials have been used during the on-site survey, and the rest are 5.38 years old in the warehouse, and the assets are in normal condition.

The fixed assets of the buildings include a total of 22 buildings, structures and other auxiliary facilities, pipelines and trenches, including 8 buildings, 10 structures and other auxiliary facilities, and 4 pipelines and trenches. The book value of the appraised buildings (structures), pipelines and trenches as at the Valuation Benchmark Date is as follows:

Item Name	Original book value	Net book value
Building structures	74,038,857.30	
Structures and other ancillary facilities	41,940,410.41	120,092,963.94
Pipelines and trenches	<u>10,701,074.00</u>	<u></u>
Total	<u>126,680,341.71</u>	<u>120,092,963.94</u>

There are 8 buildings included in the scope of this valuation, with a total gross floor area of 28,650.37 square metres, including purification workshop, operation room, sludge collection and allocation station and 1 # transformer room, comprehensive treatment workshop and 1 # transformer room, biogas boiler room, biogas compressor room, sewage treatment station and transmission room.

② Ownership

The land occupied by it has obtained the ownership certificate, but the buildings have not yet obtained the ownership certificates; the buildings have obtained planning certificates, and have completed the acceptance inspection. Details are as follows:

Tianjin Real Estate Title Certificate (No.: Fang Di Zheng Jin Zi No. 112051500281) states that the owner is Tianjin City Infrastructure Construction and Investment Group Co., Ltd., and the land ownership is state-owned in nature and is used for public facilities purposes. The type of land use right is allocation, and the land use right area is 60,000.8 square metres.

According to the Planning Permit for Construction Land (No.: 2014 Jinnan Dizheng 0059), the land unit is Tianjin City Infrastructure Construction and Investment Group Co., Ltd., and the name of the land project is Jinnan Sludge Disposal Plant Project (Circular Economy Demonstration Project). The land is located in Balitai Town, Jinnan District, and the land is used for environmental sanitation facilities. The land area is 60,000.10 square metres and the construction scale is 20,419.23 square metres.

According to the Planning Permit for Construction Works (No.: 2014 Jinnan Jianzheng No. 0247), the construction unit is Tianjin City Infrastructure Construction and Investment Group Co., Ltd., the name of the construction project is Jingu Sludge Disposal Plant Project (Circular Economy Demonstration Project), and the construction site is Dasunzhuang, Balitai Town, Jinnan District, with a construction scale of 28,584.14 square metres.

According to the Construction Works Commencement Permits (No.: 1201122015020503110, 1201122015020502110 and 1201122015061601110), the construction units are Tianjin City Infrastructure Construction and Investment Group Co., Ltd., the project names are the operation room, purification workshop and reception room of Jingu Sludge Disposal Plant, the sludge collection and distribution station of Jingu Sludge Disposal Plant, the 2 # transformer room, the biogas boiler room and comprehensive treatment workshop, the 1 # transformer room, the biogas compressor room of Jingu Sludge Disposal Plant, the sewage treatment station-equipment room, and the construction addresses of aforesaid projects are Dasunzhuang,

Balitai Town, Jinnan District, Tianjin, with a construction scale of 2,306.75 square metres, 16,721.90 square metres and 2,106.51 square metres, respectively.

According to the “Planning, Acceptance and Measurement Report of Jingu Sludge Disposal Plant Project (Circular Economy Demonstration Project)” issued by Tianjin Institute of Surveying and Mapping Co., Ltd. on 1 September 2022, the measured area of each building is shown in the table below:

No.	Name of building	Gross Floor Area (square metres)
1	Operation room	1,725.32
2	Biogas compressor room	956.08
3	Comprehensive treatment workshop, 1 # transformer room	18,836.14
4	Sludge reception and distribution station, 2 # transformer room	4,090.02
5	Reception room	33.13
6	Purification workshop	1,023.22
7	Sewage treatment station – equipment room	1,159.59
8	Biogas boiler room	826.87
Total		<u>28,650.37</u>

③ Physical condition

The buildings included in the scope of this valuation have not yet obtained ownership certificates, with a gross floor area of 28,650.37 square metres. The main buildings are as follows:

A Purification workshop: With a gross floor area of 1,023.22 square metres, completed in 2016, steel concrete structure, coating exterior, aluminium alloy doors and windows with “broken bridge” technology, with a floor height of approximately 10 metres, a 1-storey main floor, and concrete floor indoors, coating wall, coating roof, and supporting facilities such as water, communication, electricity, etc. The construction work of the valuation target is qualified, and is well maintained.

B Operation room (actually office building): with a gross floor area of 1,725.32 square metres, completed in 2016. It is a steel concrete structure, a coating exterior, aluminium alloy doors and windows with “broken bridge” technology, with a height of approximately 3.3 metres, and a 2-storey main body. The interior is tiled floor, painted walls, and gypsum board ceiling. The supporting facilities include water, communication, electricity, etc. The construction work of the subject of valuation is qualified, and is well maintained.

C Sludge reception and distribution station and 2 # transformer room: with a gross floor area of 4,090.02 square metres, completed in 2016. Steel concrete structure, coating exterior, aluminium alloy doors and windows with “broken bridge” technology, the structures are partially equipped with curling doors with a height of approximately 9.8 metres, and the main part of the first floor is partially 2 floors. The interior of the sludge reception and distribution station is cement floor, painted wall and painted roof. 11 coarse-tuning ponds and fine-tuning ponds in the workshop with a capacity of approximately 100 m³ and approximately 250 m³ respectively, all located underground, with a pool depth of approximately 8 metres; The interior of 2# transformer room is floor tiles, painted walls and ceilings. The supporting facilities include water, communication, electricity, etc. The construction work of the valuation target is qualified and is well maintained.

D Integrated treatment workshop and 1 # power transformer room: with a gross floor area of 18,836.14 square metres, completed in 2016. The steel concrete structure, coating exterior, aluminium alloy doors and windows with “broken bridge” technology, the height of which is approximately 13.2 metres, and the main body of the building is 1-storey, with partial 2-3-storey. The interior of the integrated treatment workshop is cement floor, painted wall and painted roof. There are 5 mud storage tanks in the workshop, with a capacity of approximately 650 m³ , and a depth of approximately 5 metres; The interior of 1# transformer room is floor tiles, painted walls and ceilings. The supporting facilities include water, communication, electricity, etc. The construction work of the valuation target is qualified and is well maintained.

E Biogas boiler room: With a gross floor area of 826.87 square metres and completed in 2016, it is a steel-composite structure with painted exterior eaves, aluminum alloy doors and windows with “broken bridge” technology, with a floor height of approximately 5.1 metres to 7.4 metres and 1-storey main body. The interior is cement floor, painted wall and painted roof. The supporting facilities include water, communication, electricity, etc. The construction work of the valuation target is qualified and well maintained.

F Biogas compressor room: With a gross floor area of 956.08 square metres and completed in 2016, it is a steel-concrete structure with painted exterior eaves, aluminium alloy doors and windows with “broken bridge” technology, with a floor height of approximately 4.2 meters to 11 meters and 1-storey main body. The interior is cement floor, painted wall and painted roof. The supporting facilities include water, communication and electricity. The construction work of the valuation target is qualified and well maintained.

G Sewage treatment station-equipment room: With a gross floor area of 1,159.59 square metres and completed in 2016, it is a steel-concrete structure with painted exterior eaves, aluminium alloy doors and windows with “broken bridge” technology, with a floor height of approximately 4.2 metres to 16.2 metres and 1-storey main body. There are a central control room of the biological pool and a phosphorus removal workshop. The interior is cement floor, partially floor tile floor, painted wall and painted roof. The supporting facilities include water, communication and electricity. The construction work of the valuation target is qualified and well maintained.

H Reception room: With a gross floor area of 33.13 square metres and completed in 2016, it is a steel-concrete structure, painted eaves, aluminum alloy doors and windows with “broken bridge” technology, with a floor height of approximately 3.3 metres and 1-storey main body. The interior is made of floor tiles, painted walls, and painted roof, with a separate toilet inside. The supporting facilities include water, communication and electricity. The construction work of the subject of valuation is qualified and well maintained.

(2) Fixed assets – structures and other ancillary facilities

A total of 10 structures and other auxiliary facilities are included in the scope of assessment, including digester foundation, digester sludge discharge pump station (pool), biological pool, fence and gate, roads, greening works, plant lighting, etc.

(3) Fixed assets – pipelines and trenches

A total of four pipelines and trenches were included in the scope of assessment, including D1200 landscape water discharge line, general plan supporting pipelines (including cable trenches, water supply pipelines, medium water pipelines, sludge pipelines, wastewater pipelines, sewage pipelines, rainwater pipelines, fire protection pipelines, HVAC pipelines, etc.), general plan pipeline supports, and general plan process pipelines (including compressed air pipelines, biogas pipelines, heat pipelines, and professional pipelines for biogas recovery and utilization).

3. Fixed assets – equipment

The fixed assets of equipment include machinery equipment and electronic equipment. Among them, 494 are machinery equipment, with a total of 1,591 sets and 7 are electronic equipment, with a total of 23 sets.

Unit: RMB

Item Name	Original book value	Net book value
Equipment Total	378,808,604.63	359,110,557.18
Machinery equipment	378,684,374.63	359,110,557.18
Electronic equipment	124,230.00	

(1) Fixed assets -Machinery equipment

There are 494 machinery and equipment, mainly including horizontal thin layer drying machine, wet sludge feeding spiral, fan, plate heat exchanger, sludge cutting machine, sludge pre-treatment device, digestion tank, heat pump unit, dry transformer, normal temperature desulfurization tower, radar position metre, temperature transmitter, ion chromatography, etc. During the on-site investigation, the equipment is installed or placed in the business operating site, and the equipment is in normal use.

(2) Fixed assets – Electronic equipment

There is a total of 7 electronic equipment, mainly including computers, printers and projectors. During on-site inspection, the equipment is installed or placed in the company's operational site, and the equipment is in normal use.

(III) The book record of intangible assets reported by the company

Intangible assets included in the scope of this valuation – land use rights and other intangible assets

1. Intangible assets – land use rights

(1) Description of the land parcel

According to the “Tianjin Real Estate Ownership Certificate” provided by the client, the land use right of the valuation target covers an area of 60,000.8 square metres. The land use right is Tianjin City Infrastructure Construction and Investment Group Co., Ltd., located in Balitai Town, Jinnan District. The actual development extent is seven-way (i.e. unclogging the water and sewage pipes, electricity, communication, road, heating, gas supply) outside the red line of the land and the site levelling within the red line. As at the valuation benchmark date, the book value is RMB5,382,222.08. The details are as follows:

(2) Land Registration Status

The owner of the land parcel to be appraised is Tianjin City Infrastructure Construction and Investment Group Co., Ltd., and the number of the “Tianjin Real Estate Ownership Certificate” is Fang Di Zheng Jin Zi No. 112051500281. The land parcel to be appraised is located in Balitai Town, Jinnan District, Tianjin, and its boundaries are: the Jingu Water Plant Project Phase III in the east; the wastewater disposal plant in the south; the wastewater disposal plant in the west; the green belt in the north. The land registration status is as follows:

List of Land Registration Status

Title Certificate No.	Fang Di Zheng Jin Zi No. 112051500281					
Land use right holder	Tianjin City Infrastructure Construction and Investment Group Co., Ltd.					
Location	Balitai Town, Jinnan District					
Lot number	1201121070163100000					
Plan	4308-523, 524					
Land Status	Nature of ownership	State-owned	Usage			Land for public facilities
	Type of right of use	Appropriation				
	Acquisition price					
	End date					
	Right-of-use Area	60,000.8 m ²	of which	Exclusive area	60,000.8 m ²	
				Shared area		
Notes						
Code of the land parcel: 120112006001GB00160						

(3) Status of Land Rights

The land ownership of the land parcel to be appraised is owned by the state, and the right owner is Tianjin City Infrastructure Construction and Investment Group Co., Ltd., which is a state-owned allocated land. As of the Valuation Benchmark Date, according to the sale and leaseback contract, the owner of the assets shall be Tianjin Jinfulong Financial Leasing Co., Ltd. In this valuation, in accordance with the “Explanation on the Approval of the Transfer of Assets by Tianjin Infrastructure Construction to Jinnan Sludge Plant” issued by Tianjin Jinfulong Financial Leasing Co., Ltd. provided by the client, in order to support the revitalization of the assets of Tianjin Infrastructure Construction, the transfer of Jinnan Sludge Plant by Tianjin Infrastructure Construction to a third party is approved under the condition that it guarantees the settlement of the business after the expiry of the Sale and Leaseback Contract. Therefore, the impact of this matter on the appraised value is not considered in this valuation. There is no restriction on the right to this economic activity.

(4) Land use status

The land parcel to be appraised is currently used by Tianjin City Infrastructure Construction and Investment Group Co., Ltd. and the actual development extent is “seven connections” outside the red line of the land (roads, electricity, water, sewage, heating, gas, communication) and “six connections and one levelling” within the red line (roads, electricity, water, sewage, gas, communication, site levelling). The existing main structures on the ground are purification workshop, operational room, sludge collection and distribution station and 2 # transformer room, comprehensive treatment workshop and 1 # transformer room, biogas boiler room, biogas compressor room, sewage treatment station and communication room, with a total gross floor area of 28,650.37 square metres. All buildings have not yet applied for ownership certificates, and the plot ratio is 0.48.

2. *Intangible assets – other intangible assets*

Other intangible assets are all kinds of software in use in the project, purchased in 2017, with an original entry value of RMB2,180,403 and a book value of RMB1,944,192.66.

The specific scope of the above-mentioned assets shall be subject to the detailed assessment declaration form filled by the client.

IV. VALUE TYPE

The types of appraised value include market value and types of value other than market value. Value types other than market value generally include (but not limited to) investment value, in-use value, liquidation value, residual value, etc.

Based on the purpose of this valuation, market conditions and the valuation object’s own conditions, market value is selected as the value type for this valuation.

Market value refers to the estimated amount of value of the valuation object in an ordinary and arm’s length transaction as of the valuation benchmark date when the willing buyer and willing seller each act rationally and without any coercion.

V. VALUATION BENCHMARK DATE

The valuation benchmark date is 30 June 2022.

The main factors considered by the client in determining the valuation benchmark date include meeting the time requirements for the implementation of economic behaviour, so as to clearly define the scope of valuation and accurately and efficiently check assets.

The valuation benchmark date is the same as the valuation benchmark date determined in the “Asset Valuation Engagement Contract”.

VI. VALUATION BASIS

(I) Basis of Economic Behaviour

1. “Resolution on the Entrustment of Appraisal on the Value of Assets of Zhangguizhuang Water Recycling Plant and Jinnan Sludge Plant” (Asset (Investment) Management Department 11 October 2022);
2. “Resolution of the General Manager’s Office Meeting” (2022 (57th No. 2), Tianjin Infrastructure Construction, 11 October 2022).

(II) Basis of laws and regulations

1. Asset Appraisal Law of the People’s Republic of China (adopted at the 21st meeting of the Standing Committee of the Twelfth National People’s Congress on 2 July 2016);
2. Law of the People’s Republic of China on State-owned Assets in Enterprises (adopted at the 5th Meeting of the Standing Committee of the Eleventh National People’s Congress on 28 October 2008);
3. The Civil Code of the People’s Republic of China (adopted at the 3rd session of the 13th National People’s Congress on 28 May 2020 and became effective on 1 January 2021);
4. Enterprise Income Tax Law of the People’s Republic of China (amended at the 7th meeting of the Standing Committee of the 13th National People’s Congress on 29 December 2018);
5. Regulations on the Implementation of the Enterprise Income Tax Law of the People’s Republic of China (promulgated by State Council Order No. 512 and last modified by State Council Order No. 714);
6. Urban Real Estate Administration Law of the People’s Republic of China (adopted at the 12th meeting of the Standing Committee of the Thirteenth National People’s Congress on 26 August 2019 and became effective on 1 January 2020);
7. Land Administration Law of the People’s Republic of China (adopted at the 12th meeting of the Standing Committee of the 13th National People’s Congress on 26 August 2019 and implemented on 1 January 2020);

8. Regulations on Land Administration of Tianjin (amended by the Standing Committee of Tianjin Municipal People's Congress on 29 November 2021 and became effective on 1 January 2022);
9. Measures for the Administration of State-owned Assets Evaluation (promulgated by State Council Order No. 91 and last modified by State Council Order No. 732);
10. Detailed Rules for the Implementation of the Measures for the Administration of State-owned Assets Evaluation (Guo Zi Ban Fa [1992] No. 36);
11. Interim Regulations on Supervision and Administration of State-owned Assets of Enterprises (promulgated by State Council Order No. 378 and last modified by State Council Order No. 709);
12. Opinions on Reforming the Administrative Management of State-owned Assets Evaluation and Strengthening the Supervision and Management of Assets Evaluation (Guo Ban Fa [2001] No. 102);
13. Interim Measures for the Administration of Evaluation of State-owned Assets of Enterprises (Order No. 12 of the SASAC of the State Council);
14. Provisions on Several Issues Concerning the Evaluation and Management of State-Owned Assets (Ministry of Finance Order No. 14);
15. Measures for the Supervision and Administration of Transactions of State-owned Assets of Enterprises (Order No. 32 of the Ministry of Finance of the SASAC of the State Council);
16. Notice on Printing and Distributing the "Guidelines for the Filing of State-owned Assets Evaluation Projects of Enterprises" (Guo Zi Fa Chan Quan [2013] No. 64);
17. Measures for the Financial Supervision and Administration of the Asset Evaluation Industry (Order No. 97 of the Ministry of Finance);
18. Notice on Strengthening the Administration of Valuation of State-owned Assets of Enterprises (Guo Zi Wei Chan Quan [2006] No. 274);
19. Notice on Relevant Matters Concerning the Review of Valuation Report of State-owned Assets of Enterprises (Guo Zi Chan Quan [2009] No. 941);
20. Interim Regulations on Value-added Tax of the People's Republic of China (promulgated by State Council Order No. 134 and last modified by State Council Order No. 691);

21. Detailed Rules for the Implementation of the Interim Regulations of the People's Republic of China on Value-Added Tax (Order No. 50 of the Ministry of Finance and the State Administration of Taxation, last modified by Order No. 65 of the Ministry of Finance and the State Administration of Taxation);
22. Notice on Comprehensively Promoting the Pilot Programme of the Collection of Value-added Tax in Lieu of Business Tax (Cai Shui [2016] No. 36);
23. Announcement on Relevant Policies for Deepening the VAT Reform (Announcement No. 39 of 2019 of the Ministry of Finance, the General Administration of Taxation and the General Administration of Customs);
24. Administrative Measures for Assessment of State-owned Assets of Enterprises under the Supervision of Tianjin SASAC (Jin Guo Zi [2018] No. 5).

(III) Basis for evaluation criteria

1. Basic Standards for Asset Valuation (Cai Zi [2017] No. 43);
2. Code of Ethics for Asset Valuation (Zhong Ping Xie [2017] No. 30);
3. Practising Standards for Asset Valuation – Asset Valuation Procedures (Zhong Ping Xie [2018] No. 36);
4. Practising Standards for Asset Valuation – Asset Valuation Report (Zhong Ping Xie [2018] No. 35);
5. Practising Standards for Asset Valuation – Asset Valuation Methods (Zhong Ping Xie [2019] No. 35);
6. Practising Standards for Asset Valuation – Asset Valuation Engagement Contract (Zhong Ping Xie [2017] No. 33);
7. Practising Standards for Asset Valuation – Real Estate (Zhong Ping Xie [2017] No. 38);
8. Practising Standards for Asset Valuation – Intangible Assets (Zhong Ping Xie [2017] No. 37);
9. Practising Standards for Asset Valuation – Machinery and Equipment (Zhong Ping Xie [2017] No. 39);
10. Practising Standards for Asset Valuation – Asset Valuation Files (Zhong Ping Xie [2018] No. 37);

11. Guidelines for Valuation Report of State-owned Assets of Enterprises (Zhong Ping Xie [2017] No. 42);
12. Guidelines for Business Quality Control of Asset Valuation Institutions (Zhong Ping Xie [2017] No. 46);
13. Guiding Opinions on Types of Value in Asset Valuation (Zhong Ping Xie [2017] No. 47);
14. Guiding Opinions on Legal Ownership of Asset Valuation Targets (Zhong Ping Xie [2017] No. 48);
15. Terms of Asset Valuation Standards 2020 (Zhong Ping Xie [2020] No. 31);
16. Asset Evaluation Expert Guidelines No. 8 – Verification and Validation in Asset Valuation (Zhong Ping Xie [2019] No. 39).

(IV) Ownership basis

1. Business Licence of the client and the appraised entity;
2. Registration Certificate of Property Rights of State-funded Enterprises of the People's Republic of China;
3. Tianjin Real Estate Title Certificate;
4. Final Account Report on the Construction of Jinnan Sludge Disposal Plant;
5. Corporate financial accounting vouchers.

(V) Pricing basis

1. On-site inspection records;
2. Valuation-related information obtained from the Valuer's on-site inspection and market research;
3. The Ex-factory Price Index for Industrial Producers by Sector published by the National Bureau of Statistics;
4. Price information of electromechanical products (<http://www.mepprice.com>);
5. Manual of Data and Parameters Commonly Used in Asset Valuation 2011;
6. Open transaction cases;

7. The loan prime rate published by the National Interbank Funding Centre as authorised by the People's Bank of China.

(VI) Other Reference Basis

1. Asset Valuation Application Form provided by the client;
2. Asset Valuation Engagement Contract.

VII. VALUATION METHODOLOGY

(I) Selection of Valuation Methodology

In accordance with the Practising Standards for Asset Valuation – Asset Valuation Methods (Zhong Ping Xie [2019] No. 35), in performing asset valuation business, the asset valuer shall analyse the applicability of the three basic asset valuation approaches, namely the market approach, the income approach and the cost approach, based on the characteristics of the valuation target, the type of value, the collection of information and other relevant conditions, and select the valuation approach appropriately.

After careful analysis of the information obtained and on-site inspection, the valuers are of the view that:

The valuation target is a project asset group consisting of individual assets. No similar transaction cases can be referred to and the market approach cannot be adopted for valuation. Although the valuation target is a portfolio of assets that can obtain income, the project is an infrastructure project funded and constructed by the client on behalf of the government, and is not responsible for the specific operation of the project. The financial accounting has not been independently calculated according to the project, and it is temporarily unable to reasonably predict the data and parameters related to its income. Therefore, the income approach is not suitable for this valuation. As the assets of the valuation target are clear and each asset can be appraised separately by reasonable methods, the cost method is adopted for this valuation.

(II) Determination of asset valuation methodology and parameters

1. Inventories

According to the declaration schedule of the appraised assets provided by the enterprise, verify the relevant accounting vouchers, stock up the inventories, conduct on-site inspection of the storage of the inventories, understand the storage and internal control system of the warehouses, and select appropriate valuation standards and methods based on the characteristics of the assets to be appraised.

For the turnover materials in the warehouse, the market value of the turnover materials in the warehouse is determined by the verified quantity with reference to the recent market purchase price on the valuation benchmark date. For equipment that cannot be found at the prevailing market price, the market price of alternative products with similar functions will be selected and adjusted accordingly as the purchase price of the equipment, or the purchase price will be adjusted by using the ex-factory price index of industrial producers in the sub-industry published by the National Bureau of Statistics

That is, the appraised value = unit purchase price (tax inclusive) × actual quantity

For the used inventory turnover materials, the appraised value is calculated by calculating the newness rate

That is, the appraised value = unit purchase price (tax inclusive) × actual quantity × life-determined residue ratio

Life-determined residue ratio = (economic life-used life)/economic life × 100%

2. *Housing and Buildings*

In accordance with Article 16 of the Professional Standards for Asset Valuation – Real Estate, when performing real estate valuation business, the three basic asset valuation approaches, namely the market approach, the income approach and the cost approach, and the applicability of derivative approaches, such as the hypothetical development approach and the benchmark land price correction approach, shall be analysed based on the purpose of valuation, the valuation target, the type of value and the information collected, in order to select the valuation approach.

After careful analysis of the information obtained by the valuers and on-site inspection, it is difficult for the valuers to select the reference objects and there is a lack of public market information, and the market approach is not adopted; The income approach is not adopted when there are no comparable properties in the market or there is no effective leasing market or income information is difficult to obtain. The appraised value of real estate meeting the above conditions is determined by cost method.

The replacement cost method refers to a valuation method that first estimates the full replacement cost of the appraised assets, then estimates various depreciation factors existing in the appraised assets, and deducts them from the full replacement cost to obtain the value of the appraised assets.

Basic calculation formula: Appraised value = full replacement cost × newness rate

(1) *Determination of full replacement cost*

Full replacement cost = construction and installation engineering cost + preliminary expenses and other expenses + administrative expenses + capital cost

① Construction and installation engineering fee

In this valuation, the full replacement price is determined using the budget and final account adjustment method.

The technical idea of determining the full replacement price in the budget and final account adjustment method is: according to the relevant final account information of the building provided by the enterprise and the quota standard of the location of the building, combined with the engineering quantity in the final account of the building, the basic price fixed direct cost of each project and the cost of the construction installation project are calculated. Then, according to the market research and the preliminary construction cost and other cost standards provided by the entrusting unit, the pre-construction cost and other cost of the building are calculated, and the capital cost is added to calculate the full replacement cost of the appraised building.

② Preliminary expenses and other expenses and administrative expenses

Preliminary expenses and other expenses include survey and design fees, budget preparation fees, project supervision fees, bidding agency service fees, feasibility study fees, construction unit management fees and other expenses.

The preliminary and other expenses and management expenses of the appraised buildings are determined according to the estimated indicators of investment in construction projects where the buildings are located and based on the asset scale on the valuation benchmark date declared by the enterprise.

③ The capital cost is calculated using the LPR for the construction period published by the People's Bank of China as at the valuation benchmark date. The designated investment is evenly invested during the construction period.

(2) *Determination of newness rate*

In this valuation, the newness rate of buildings is determined mainly by using the useful life method and the observation method.

① Useful life method

The useful life method comprehensively considers the remaining useful life of a building based on its useful life, service condition and maintenance condition, and finally determines its newness rate.

$$\text{The newness rate under the useful life approach} = \frac{(\text{Remaining useful life})}{(\text{Used life} + \text{remaining useful life})} \times 100\%$$

② Observation method

The observation method determines the newness rate by on-site observation and understanding of the valuers based on the construction characteristics, design level, construction quality, usage and maintenance of the valuation target and the proportion of each part in the valuation target.

③ Integrated newness rate

Integrated newness rate = newness rate under the service life approach × 40% + newness rate under the observation approach × 60%

④ adopts a reasonable method to determine the newness rate in the following circumstances:

- A. For buildings that can be basically used normally and safely, the newness rate should generally be no less than 30%;
- B. If there is a large difference between the newness rate calculated by the observation method and the useful life method, the valuers, after analysing the reasons, shall make a relatively reasonable one of the two based on their experience;
- C. For items that cannot be observed and identified due to conditions constraints, the newness rate is generally determined by the service life method.

3. *Equipment*

This valuation of fixed assets of equipment is based on the assumption that the assets are continued to be used in accordance with the transfer location, and the cost method is adopted for valuation. The reasons are as follows: Firstly, for the income approach, the appraised equipment does not have independent operation capacity or independent profitability, and therefore it is not appropriate to adopt the income approach for valuation. Secondly, the market approach makes it extremely difficult to select the reference objects, and due to the lack of public market information, the market approach is not adopted for the valuation; Thirdly, as the replacement cost information and newness rate of the appraised equipment can be obtained, the cost approach is adopted for the valuation.

The cost approach is a method to determine the appraised value of the equipment by deducting the physical depreciation, functional depreciation and economic depreciation of the appraised assets, or on the basis of determining the comprehensive newness rate, the total cost required for the re-acquisition or construction of the appraised assets in a new state under the current conditions. The basic calculation formula adopted in this valuation is:

$$\text{Appraised value} = \text{replacement value} \times \text{newness rate}$$

(1) *Determination of full replacement cost of equipment*

① *Determination of full replacement cost of machinery equipment*

For equipment that can check the prevailing market price, the full replacement price is determined based on the analysis of the prevailing market price, taking into account its transportation and miscellaneous fees, installation and commissioning fees, upfront and other expenses and capital costs and other reasonable expenses; for equipment that cannot find the prevailing market price, the full replacement price is determined based on the market price of alternative products with similar functions and adjusted accordingly as the purchase price of the equipment, plus transportation and miscellaneous fees, installation and commissioning fees, upfront and other expenses and capital costs and other reasonable expenses, or the purchase price is determined based on the adjustment of the ex-factory price index for industrial production in the industry published by the National Bureau of Statistics, plus other reasonable expenses such as transportation and miscellaneous fees, installation and commissioning fees, upfront and other expenses and capital costs. The formula for determining the full replacement price is as follows:

Full replacement price = equipment purchase price + transportation and miscellaneous fees + installation and commissioning fees + other reasonable expenses

Determination of major pricing parameters

A. Equipment purchase price

In determining the purchase price of the equipment, the prices are mainly based on the prices quoted by the equipment manufacturers, the recent transaction prices of similar machinery and equipment purchased by the company and the electromechanical product price information website (www.mepprice.com).

B. Equipment transportation and miscellaneous fee rate

Transportation and miscellaneous expenses of equipment mainly include freight charges, loading and unloading fees, insurance fees, etc. In the appraisal, a large number of methods (often present almost the same pattern in a large number of random events) are generally calculated based on a certain ratio of the value, weight, volume and distance of the equipment. The transportation and miscellaneous rates adopted in the assessment are as follows:

Table of equipment transportation and miscellaneous expenses rate

Production site	Rate (based on equipment purchase price)
Local production	1%-2.5%
Transportation distance 100-1000 km	1.5%-3.5%
Transportation distance 1000-2000 km	2%-5.5%
Transportation distance 2000-2800 km	2.5%-6.5%
Transport distance over 2800 km	3%-7.5%

In the valuation, the specific rate is selected according to the unit price, the volume and the weight of the equipment and the traffic conditions in the area. The equipment with high unit price, small size, light weight and located in an area with convenient transportation takes the lower limit, and vice versa the upper limit applies. If the shipping fee is already included in the quotation, it will not be recalculated.

C. Equipment installation and commissioning fee

Which is determined based on the fee rate standards as stipulated in the 2011 edition of Commonly Used Data and Parameter Manual for Asset Evaluation.

D. Preliminary and other expenses

The preliminary and other expenses shall be considered if there are subsequent expenses such as foundation and installation and commissioning required for the equipment; No upfront and other expenses will be taken into account if no upfront expenses such as foundation and installation and commissioning are required.

E. Capital Costs

Based on the consideration of the payment of capital cost over half a year during the reasonable construction period of the equipment, if the payment of capital cost is not considered for less than half a year, it is calculated by using the LPR published by the People's Bank of China applicable on the valuation benchmark date to set the investment evenly during the construction period.

(2) Electronic (office) equipment

For electronic (office) equipment whose current market price can be found, the full replacement price is determined directly based on the current market price selected by the analysis; if the current market price cannot be found, the market price of an alternative product with similar functions is selected and adjusted accordingly as its replacement full price.

For electronic (office) equipment that has been in service for an extended period, the market recovery value of second-hand electronic (office) equipment is used to determine the assessment value.

① Determination of newness rate

The newness rate is an indicator that reflects the newness of assets.

A. Comprehensive newness rate is adopted. Comprehensive newness rate = newness rate of service life × weighting 40% + surveyed newness rate × weighting 60%.

Life-determined residue ratio = (economic life-used life)/economic life×100%

For aged equipment or equipment with overhaul cycle, the remaining useful life method is used

Life-determined residue ratio = remaining useful life/(used life + remaining useful life)×100%

The newness rate of the survey is the evaluation of the main value components after the evaluators conduct on-site surveys on the commissioned equipment to understand its working environment, appearance and integrity, technical status, utilization rate and load rate, maintenance and technical transformation, etc. It is a way to weight and score the condition of each component to determine the newness rate of the overall equipment.

B. For electronic (office) equipment, the newness rate is mainly determined by the service life method.

The life approach is calculated as:

Newness rate under the useful life approach = (economic life – used life)/economic life×100%

4. *Intangible assets*

(1) *Land use rights*

① Selection of Valuation Approach

The land use of the subject of valuation is for public facilities, and the price of major types of use can be determined with reference to industrial land, the price of industrial land for industrial and mining can be assessed, and the market comparison approach should be selected and at least supplemented by another appropriate valuation method; If there is no market comparable case, the cost approximation method and the public land price coefficient correction method can be selected as appropriate; For the industrial land for leased industrial mining, the income reduction method is optional; For industrial land invested in and to be constructed, residual method is optional; For industrial land located in the central urban area, the cost approach method is not applicable. The selection of valuation methods should take into account the development of the local land market, the specific characteristics of the valuation target and the valuation purpose, etc., and select appropriate valuation methods.

The land parcel to be appraised is within the coverage of the benchmark land price in Tianjin, and the benchmark land price will be implemented on 1 March 2022 with availability. Therefore, the benchmark land price coefficient correction method in the public land price coefficient correction method can be adopted in this valuation.

In addition, through on-site investigation, the area where the parcel of land to be appraised is located can collect land of the same purpose or similar land that has been sold in the form of public transfer in the past three years. The land price calculated by comparison can reflect the recent market conditions, and the market comparison method can be used.

The land use right of the land parcel to be appraised is held and used by Tianjin City Infrastructure Construction and Investment Group Co., Ltd.. Under normal business operation, it is impossible to distinguish the proportion of contribution and cost sharing of different production elements invested by the enterprise for production. The overall income of the Company is difficult to be accurately allocated to the real estate land. Therefore, it is impossible to adopt the income reduction method and the residual method for valuation.

In conclusion, the benchmark land price coefficient correction method and the market comparison method are adopted in this valuation to determine the appraised price.

② Valuation technique route

- A. The benchmark land price coefficient correction method is a method to estimate the objective price of the land parcel to be appraised by analyzing the factors affecting the land price of the land parcel to be appraised, using the land price correction coefficient of the land parcel to revise the benchmark land price of the land of the same type of use or the same area published in various cities and towns. The calculation formula is as follows:

$$P_j = P_0 \times K_{i1} \times K_{i2} \times \cdots \times K_{in} \times K_{j1} \times K_{j2} \times \cdots \times K_{jn} \pm \Delta P$$

Including: P_j – unit price of land parcel after correction of regional factors, individual factors, term and valuation date

P_0 – the land grade (area) benchmark land price of the land parcel

K_{in} – Regional factor correction coefficient of the land grade (area) where the land parcel is located

K_{jn} – individual factors, duration and correction coefficient of land parcel on the date of valuation

ΔP – land development level correction value

- B. Market comparison method refers to the method of comparing the land price of the land parcel to be appraised on the valuation date based on the principle of substitution, comparing the land parcel to be appraised with similar land transaction cases that have been transacted in the near recent time, and adjusting the land price of the land parcel to be appraised on the valuation date based on the known price of the latter with reference to the differences in the transaction conditions, date, region and individual factors of the land parcel. The calculation formula is as follows:

$$P = P_B \times A \times B \times C \times D \times E$$

Where: P – price of the land parcel to be appraised

P_B – Price of comparable example

A – the transaction index of the land parcel to be appraised divided by the transaction index of the land parcel of the comparable cases

B – Land price index of the land parcel to be appraised as at the valuation date divided by the land price index of the land parcel of the comparable land parcel as at the transaction date

C – Regional factor index of the land parcel to be appraised divided by regional factor index of the comparable land parcel

D – Individual factor condition index of the land parcel to be appraised divided by individual factor condition index of the land to be appraised

E – correction index of the useful life of the land parcel to be appraised divided by the correction index of the useful life of the comparable case

(2) *Other intangible assets*

Based on the understanding of the personnel of the appraised entity and the review of relevant information, such software is customised for the operation and equipment operation of Jinnan Sludge Plant, and similar cases are not available in the market. Where an enterprise can provide outsourcing software contract, the replacement cost shall be determined based on the contract price; Where some software is unable to provide a contract, the replacement cost is determined with reference to the relationship between the enterprise's original recorded value and the contract price. The information available to the personnel of the appraised entity is limited, and it is impossible to determine whether such software can be upgraded, used for long-term or permanent purposes. Therefore, this valuation considers the depreciation rate of such software in combination with the useful life.

Appraised value of software = replacement cost * (1 – depreciation rate)

VIII. IMPLEMENTATION PROCESS AND STATUS OF THE VALUATION PROCESS**(1) Acceptance of entrustment**

After discussion and communication with the client, we understood the basic information of the assets to be appraised, clarified the valuation purpose, valuation target and scope, valuation benchmark date and other basic matters of the valuation business. After comprehensive analysis of professional competence and independence and evaluation of business risks, we determined to accept the engagement and signed the asset valuation engagement contract. Based on the specific circumstances, the type of valuation is determined, the valuation work plan is formulated and the valuation team is organised.

(2) On-site investigation and data collection

The Holders were instructed to check the assets and prepare the valuation information. On this basis, an on-site investigation was conducted on the valuation target to collect the information required for the asset valuation business to understand the current situation and surrounding environment of the valuation target. The data used in asset valuation activities are verified and verified in accordance with the law.

(3) Assessment and estimation

Analyzing, summarizing and sorting out the collected appraisal data according to the specific circumstances of the asset appraisal business to form the basis for appraisal estimates and compilation of appraisal reports; According to the evaluation purpose, evaluation object, value type, data collection and other relevant conditions, the evaluation method shall be selected according to the asset evaluation practice standards. According to the evaluation method adopted, selecting the corresponding formulas and parameters for analysis, calculation and judgment, analyzing and judging the evaluation assumptions and restrictive conditions that may affect the evaluation business and evaluation conclusion to form the measurement results and conduct comprehensive analysis on the measurement results, and form the evaluation in conclusion.

(4) Report issuance

After the assessment and estimation form the valuation conclusion, the project leader prepares the preliminary asset valuation report. The Company conducts internal review on the preliminary asset valuation report in accordance with laws, administrative regulations, asset valuation standards and internal quality control system, and issues a formal asset valuation report after necessary communication with the client and other relevant parties on the relevant contents of the Asset Valuation Report.

IX. VALUATION ASSUMPTIONS

The major asset valuation assumptions used in this Asset Valuation Report include:

(1) Basic assumptions

1. Transaction assumption. The transaction assumption assumes that all assets to be appraised are in the process of transaction and the valuer carries out the valuation based on the simulated market such as the transaction conditions of the assets to be appraised.
2. Open market assumption. The open market assumption assumes that the assets to be appraised are traded in the open market to realise their market value. The market value of assets is subject to market mechanism and determined by market conditions rather than individual transactions. The open market refers to a fully developed and well-established market condition, which is a competitive market with voluntary buyers and sellers. In this market, buyers and sellers have equal status and have the opportunity and time to obtain sufficient market information. The transactions between buyers and sellers are conducted on a voluntary and rational basis, rather than on a mandatory or unrestricted basis.
3. Continuous use assumption. It is assumed that the assets to be appraised in use will continue to be used in accordance with their current usage and manner after the change of ownership or the occurrence of asset business.

(2) Specific assumptions

1. This valuation is based on the basic assumptions for the specific valuation purpose stated in this Asset Valuation Report;
2. The appraised assets in this valuation are based on the actual stock on the valuation benchmark date, and the current market price of the relevant assets leased is based on the domestic effective price on the valuation benchmark date;
3. This valuation assumes that there will be no unforeseeable material changes in the external economic environment after the valuation benchmark date;
4. This valuation is based on the assumption that the relevant information provided by the client is true, accurate and complete, and there are no litigations, disputes and outstanding matters that will have a material impact on the valuation results in addition to the information provided;

5. This valuation does not take into account the impact of the possible mortgage and guarantee on the appraised value of the underlying assets of the client, nor the impact of changes in national macroeconomic policies and natural forces and other force majeure on the asset price, unless otherwise stated;
6. The scope of valuation is only based on the valuation declaration form provided by the client.

In the event of any inconsistency with the aforesaid assumptions, the valuation conclusion in this valuation report will generally become invalid.

X. VALUATION CONCLUSION

In accordance with the relevant laws, regulations, asset valuation standards and asset valuation principles, we adopted the cost approach and conducted the valuation in accordance with the necessary valuation procedures. The valuation conclusion is that as at 30 June 2022, being the valuation benchmark date, the appraised value of the relevant assets of Jinnan Sludge Disposal Plant was RMB471,825,900 (which is RMB four hundred and seventy-one million, eight hundred and twenty-five thousand, nine hundred and is accurate to a hundred), representing a decrease of RMB17,173,200 or a decreasing rate of 3.51% as compared with the book value of RMB488,999,100.

The valuation conclusion shall be valid for one year from the valuation benchmark date, i.e. from 30 June 2022 to 29 June 2023.

The conclusion of this valuation is based on the aforesaid valuation assumptions.

XI. DESCRIPTION OF SPECIAL MATTERS

(1) Important use of expert work and relevant reports;

Nil.

(2) Incomplete or defective ownership information;

The buildings included in the scope of this valuation have not yet obtained the ownership certificates. This valuation is based on the actual area of each building recorded in the Planning, Acceptance and Measurement Report on the Jingu Sludge Disposal Plant Project (Circular Economy Demonstration Project) issued by Tianjin Institute of Surveying and Mapping Co., Ltd. on 1 September 2022. If there is any inconsistency with the gross floor area of the ownership certificates to be obtained in the future, the actual area stated in the certificate shall prevail. This valuation does not take into account the relevant taxes that may be payable for the building ownership certificates.

(3) Restrictions of the valuation process;

Not discovered.

(4) Incomplete valuation information;

Not discovered.

(5) Legal, economic and other outstanding matters as at the valuation benchmark date;

Not discovered.

(6) Nature, amount and relationship with the subject of valuation of guarantees, leases and contingent liabilities (contingent assets);

Based on the understanding of the valuers, as at the valuation benchmark date, all assets within the scope of this valuation are subject to sale-leaseback. According to the sale and leaseback contract, the ownership of the assets shall belong to Tianjin Jinfulong Financial Leasing Co., Ltd. (Party A) and Tianjin City Infrastructure Construction and Investment Group Co., Ltd. (Party B) shall only have the right to use the leased assets during the lease term from 28 April 2022 to 27 April 2023. If the leased assets involve concession or operation charges, the concession or operation right of the leased assets shall remain with Party B. Party B shall not sell, transfer, sublease, mortgage, pledge the leased assets to third parties or take any other actions that infringe the ownership of the leased assets during the lease term without the written consent of Party A. Tianjin Jinfulong Financial Leasing Co., Ltd. issued the “Explanation on the approval of the transfer of assets by Tianjin Infrastructure Construction to Jinnan Sludge Plant”. In order to support Tianjin Infrastructure Construction to revitalise its assets, Tianjin Jinfulong Financial Leasing Co., Ltd. agreed to transfer Jinnan Sludge Disposal Plant to a third party by Tianjin Infrastructure Construction if it guaranteed to settle the business after the expiry of the sale and leaseback contract. Therefore, the impact of this matter on the appraised value has not been taken into account in this valuation.

This valuation conclusion does not take into account the impact of the unpaid relevant liabilities of the appraised assets and the possible mortgage and guarantee on the appraised value. The relevant liabilities of the declared assets and future disputes related to the ownership of the declared assets shall be borne by Tianjin City Infrastructure Construction and Investment Group Co., Ltd., which is unrelated to the valuation agency.

(7) Material subsequent events;

Not discovered.

(8) Defects that may have a significant impact on the valuation conclusion in the economic behaviour corresponding to this asset valuation;

Not discovered.

(9) other matters that need to be explained.

1. The market value of the appraised assets is the value including value-added tax.
2. This valuation does not take into account the impact of relevant taxes and fees on the appraised value during the ownership transaction.
3. Due to the limitations of conditions, the valuers mainly adopted the on-site visual inspection method for buildings in this valuation, and did not conduct comprehensive technical inspection on buildings with the help of professional instruments; for the hidden parts that cannot be observed, the specific situation is based on the introduction of the appraised entity and the experience and judgement of the valuers.

XII. RESTRICTIONS ON THE USE OF ASSET VALUATION REPORT

- (1) Scope of use of the valuation report: This valuation report can only be used for the purpose and use of the valuation report; if all or part of the content of the valuation report is extracted, quoted or disclosed in the public media, the valuation agency shall review the relevant content, unless otherwise provided by laws and regulations and agreed by the relevant parties;
- (2) If the client or other users of the Asset Valuation Report fail to use the Asset Valuation Report in accordance with the laws, administrative regulations and the scope of use specified in the Asset Valuation Report, the asset valuation agency and its asset valuation professionals shall not be liable;
- (3) Except for the client, other users of the Asset Valuation Report as agreed in the asset valuation engagement contract and users of the Asset Valuation Report as stipulated by laws and administrative regulations, no other institution or individual shall be a user of the Asset Valuation Report;
- (4) Users of the Asset Valuation Report shall correctly understand and use the valuation conclusion. The valuation conclusion is not equivalent to the realisable price of the valuation target, and the valuation conclusion shall not be deemed as a guarantee for the realisable price of the valuation target;

- (5) If the specific economic behaviour of this valuation report needs to be filed with the state-owned assets administration department and the competent enterprise department, this valuation report can only be used after filing with the state-owned assets administration department and the competent enterprise department.

XIII. DATE OF ASSET VALUATION REPORT

The date of the Asset Valuation Report is 8 December 2022.

Asset appraiser:

Asset appraiser:

China Tong Cheng Assets Appraisal Co., Ltd. (seal)

8 December 2022

ANNEX

- I. Economic Behaviour Documents
- II. Business Licence of the Principal and the Appraised Entity
- III. Property Ownership Registration Certificate of the Principal and the Appraised Entity
- IV. Tianjin Real Estate Title Certificate
- V. Construction Land Planning Permit
- VI. Construction Works Planning Permit
- VII. Construction Work Commencement Permit
- VIII. Planning, Acceptance and Measurement Report of Jingu Sludge Disposal Plant Project (Circular Economy Demonstration Project)
- IX. The Statement on the Approval of the Transfer of Assets by Chengtou Group to Jinnan Sludge Disposal Plant
- X. Letter of Commitment from the Client and the Appraised Unit
- XI. Letter of Commitment from Signed Asset Appraiser
- XII. Announcement on Filing by Asset Valuation Agency
- XIII. Legal Person Business License of The Evaluation Agency
- XIV. Qualification Certificate of The Asset Appraiser Responsible for The Valuation
- XV. Asset Valuation Engagement Contract
- XVI. Some Shooting Information of The Valuation Target

Asset Valuer's Undertaking Letter

Tianjin City Infrastructure Construction and Investment Group Co., Ltd.:

As commissioned by the Company, we have conducted a valuation of the relevant assets of Jinnan Sludge Disposal Plant involved in the proposed asset transfer of the Company with 30 June 2022 as the benchmark date and prepared the Asset Valuation Report. On the premise that the assumptions disclosed in this report are valid, we undertake as follows:

1. Having the corresponding professional qualifications;
2. The subject and scope of valuation are consistent with the asset valuation engagement contract;
3. Having conducted necessary verification on the valuation subject and the assets involved;
4. Selected valuation methods in accordance with the asset valuation standards;
5. The factors affecting the appraised value have been fully considered;
6. The valuation conclusion is reasonable;
7. The valuation work has not been illegally interfered and conducted independently.

Signature of asset valuer:

8 December 2022

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Interests of the Directors, supervisors and chief executives of the Company

As at the Latest Practicable Date, the Directors, supervisors or chief executives of the Company had an interest or short position in any Shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors, supervisors or chief executives of the Company were taken or deemed to have under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as follows:

Name	Title	The Company/ name of associated corporation	Class of shares	Nature of interest	Number of underlying shares held	Approximate percentage of the relevant class of shares	Approximate percentage of total number of shares
Jing Wanying	Executive Director	The Company	A Shares	Beneficial owner	250,000 (Note i)	0.02032%	0.01592%
Li Yang	Executive Director	The Company	A Shares	Beneficial owner	250,000 (Note ii)	0.02032%	0.01592%

Notes:

- (i) These interests represent A share options granted to Jing Wanying, as beneficial owner, under the A share option incentive scheme adopted by the Company on 23 December 2020.
- (ii) These interests represent A share options granted to Li Yang, as beneficial owner, under the A share option incentive scheme adopted by the Company on 23 December 2020.

Save as disclosed above, none of the Directors and the chief executive of the Company was interested or had any short position in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as at the Latest Practicable Date.

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective close associates were considered to have interest in any business which competes or may compete with the business of the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules as if each of them was a controlling shareholder.

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which had been acquired or disposed of by, or leased to any member of the Group, or were proposed to be acquired or disposed of by, or leased to any member of the Group since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up.

None of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date and which was significant in relation to the business of the Group taken as a whole.

(b) Substantial Shareholders' and other Shareholders' interests

As at the Latest Practicable Date, save as disclosed below, so far as is known to the Directors or chief executives of the Company, no other person had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to section 324 of the SFO, or, who is, 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 member of the Group.

APPENDIX II

GENERAL INFORMATION

Name of shareholder	Capacity	Number and class of securities (Note)	Approximate percentage of the relevant class of securities	Approximate percentage of the total issued share capital of the Company
TMICL	Beneficial owner	715,565,186 A Shares (L)	58.16%	45.57%
Ningbo Development Investment Group Limited Company (寧波開發投資集團有限公司)	Interest of controlled corporation	156,432,000 H Shares (L)	46.01%	9.96%
Ningbo Energy Group Co., Ltd. (寧波能源集團股份有限公司)	Interest of controlled corporation	156,432,000 H Shares (L)	46.01%	9.96%
Ningbo Ningdian Investment Development Co., Ltd. (寧波寧電投資發展有限公司)	Beneficial owner	102,012,000 H Shares (L)	30.00%	6.50%
Ningbo BSLS Trade Co., Ltd. (寧波百思樂斯貿易有限公司)	Beneficial owner	44,834,000 H Shares (L)	13.19%	2.85%
ISIS Asset Management Plc	Investment manager	17,286,000 H Shares (L)	5.08%	1.10%

As at the Latest Practicable Date, so far as is known to the Directors, supervisors or chief executives of the Company, the following Directors are directors or employees of the substantial shareholders set out above:

Name of Director	Name of substantial shareholder entity	Position held in shareholder entity
An Pindong (non-executive Director of the Company)	TMICL	Chairman
Liu Tao (non-executive Director of the Company)	Ningbo Energy Group Co., Ltd. (寧波能源集團股份有限公司)	Manager of the Investment Management Department

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors, supervisors or chief executives of the Company, no other Director was a director or employee of a company which 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.

3. DIRECTORS' SERVICE CONTRACTS

Each of Mr. Xue Tao, Mr. Wang Shanggan and Mr. Tian Liang has entered into a service agreement with the Company under which they agreed to act as an independent non-executive Director of the Company for a term of three years commencing from 9 September 2022 to 8 September 2025. Each of Mr. Xue Tao, Mr. Wang Shanggan and Mr. Tian Liang will receive an annual remuneration of RMB120,000.

Saved as disclosed above, as at the Latest Practicable Date, none of the Directors or supervisors had any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the Group within one year without payment of compensation, other than statutory compensation).

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, to the best of the Directors' knowledge, there has been no material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up.

5. QUALIFICATION OF EXPERT

The following are the qualifications of the experts whose advice and recommendations are contained in this circular:

Name	Qualification
Gram Capital Limited	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
China Tong Cheng Assets Appraisal Co., Ltd.	an independent professional valuer in the PRC

6. CONSENT OF EXPERT

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or opinion (as the case may be) and reference to its letter and name in the form and context in which they appear.

7. INTERESTS OF EXPERT

As at the Latest Practicable Date, each of the above experts had no shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group and had no direct or indirect interest in any assets which had been acquired or disposed of by, or leased to any member of the Group, or were proposed to be acquired or disposed of by, or leased to any member of the Group since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up.

8. OTHER INFORMATION

- (a) The company secretary of the Company is Ms. Mona Y.Y. Cho. Ms. Cho is a practicing solicitor in Hong Kong and graduated from the City University of Hong Kong with a Bachelor of Commerce. Ms. Cho obtained a Bachelor of Laws from Manchester Metropolitan University in the United Kingdom and a Postgraduate Diploma in Law from the University of Hong Kong. Ms. Cho has extensive experience in handling compliance matters in relation to listed companies.
- (b) The registered address of the Company is 12/F, TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC.
- (c) The address of the Company's branch share registrar of H Shares in Hong Kong is located at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

9. DOCUMENTS ON DISPLAY

The following documents will be available on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (<http://www.tjcep.com/>) for a period of 14 days from the date of this circular:

- (a) the conditional assets transfer agreement in relation to Jinnan Sludge Disposal Plant Project entered into between the Company and Tianjin Infrastructure Construction;
- (b) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" of this circular;
- (c) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" of this circular;
- (d) the letter from Gram Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from Gram Capital" of this circular;

- (e) the written consent mentioned in the section headed “Consent of Expert” in this appendix;
- (f) the asset valuation report, the text of which is set out in Appendix I to this circular; and
- (g) this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



Tianjin Capital Environmental Protection Group Company Limited
天津創業環保集團股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1065)

NOTICE OF 2023 FIRST EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2023 first extraordinary general meeting (the “EGM”) of Tianjin Capital Environmental Protection Group Company Limited (the “Company”) will be held at the conference room of the Company on 5/F, TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the People's Republic of China (the “PRC”) on 1 March 2023 at 2:00 p.m. for the purpose of considering the resolution as listed below:

Unless otherwise indicated, capitalized terms used herein shall have the same meanings as those defined in the announcements of the Company dated 1 December 2022, 21 December 2022 and 28 December 2022 (the “Announcements”).

I. AS ORDINARY RESOLUTION:

1. To consider and approve the resolution in relation to the transfer of assets in Jinnan Sludge Plant Project to the Company.

II. AS SPECIAL RESOLUTION:

2. To consider and approve the resolution in relation to the increase of registered capital of the Company and the amendments to the Articles of Association of the Company.

(For details of the above resolutions, please refer to the Announcements of the Company.)

By order of the Board
Ji Guanglin
Chairman

Tianjin, the PRC
13 February 2023

NOTICE OF EXTRAORDINARY GENERAL MEETING

As at the date of this notice, the Board comprises three executive Directors: Mr. Ji Guanglin, Mr. Li Yang and Ms. Jing Wanying; three non-executive Directors: Ms. Peng Yilin, Mr. An Pindong and Mr. Liu Tao; and three independent non-executive Directors: Mr. Xue Tao, Mr. Wang Shanggan and Mr. Tian Liang.

Notes:

- (1) The holders of shares (the “Shareholders”) whose names appear on the register of members at 4:30 p.m. on 24 February 2023 will be entitled to attend the EGM. The holders of H shares of the Company (“H Shares”) are reminded that the register of members of the Company’s H Shares will be closed from 27 February 2023 to 1 March 2023, both days inclusive, during the period no transfer of H Shares will be effected. All transfers, accompanied by the relevant share certificates, must be lodged for registration with the Company’s H Share registrar and transfer office, Hong Kong Registrars Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 24 February 2023. The holder of H Shares and whose name appears on the register of members of the Company’s H Shares at 4:30 p.m. on 24 February 2023 or his/her proxy may attend the EGM by bringing his/her own identity card or passport.
- (2) Each Shareholder having the rights to attend and vote at the EGM is entitled to appoint in written form one or more than one proxies (whether a Shareholder or not) as his/her proxy to attend and vote on his behalf at the EGM. If more than one proxies is appointed by a Shareholder, such proxies shall only exercise his/her voting rights on a poll.
- (3) Shareholders can appoint a proxy by an instrument in writing (i.e. by using the enclosed proxy form). In order to be valid, the proxy form and, if such proxy form is signed by a person under a power of attorney or authority on behalf of the appointer, a notarially certified power of attorney (if any) or other authority (if any) under which it is signed, must be deposited at the Company’s H Share registrar and transfer office, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong, or the Company’s principal office address at TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC as soon as possible but in any event not less than 24 hours before the time scheduled for the holding of the EGM.
- (4) Shareholders or their proxies shall present proofs of their identities upon attending the EGM. Should a proxy be appointed, the proxy shall also present the proxy form.
- (5) The EGM is expected to last for about half a day. The Shareholders and their proxies attending the EGM shall be responsible for their own travelling and accommodation expenses.

Principal office address of the Company: TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC

Postal Code: 300381

Telephone: 86-22-23930128

Facsimile: 86-22-23930126